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2017 FINAL RESULTS

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

HIGHLIGHTS

- Operating profit before impairment allowances amounted to HK\$1,356 million, a decrease of 6% year-on-year.
- Profit before tax was 2% higher than 2016 to HK\$1,709 million.
- Profit attributable to equity owners amounted to HK\$1,565 million, an increase of 10% over that of last year.
- Cost to income ratio was at 49.96%.
- Return on shareholders' equity of 9.89% (9.61% in 2016) and earnings per share of HK\$2.17 (HK\$1.94 per share in 2016).
- Total assets increased by 19% to HK\$163.7 billion.
- Total dividends for the financial year of 2017, including the interim cash dividend of HK\$0.15 per share paid in September 2017, amounted to HK\$0.54 per share (2016 total dividends: HK\$0.54 per share).
- Total dividend payout as a percentage of an adjusted profit attributable to equity owners less the distribution paid on the additional equity instruments will be 38.46%.
- Total capital ratio increased from 16.32% in December 2016 to 17.60% in December 2017, the Tier 1 capital ratio was at 13.30% and the Common Equity Tier 1 capital ratio was at 11.30%.

The board of directors (the “Board”) of Chong Hing Bank Limited (the “Bank” or “Chong Hing Bank”) is pleased to announce the consolidated results of the Bank and its subsidiaries (the “Group”) for the year ended 31 December 2017, together with the comparative figures for the corresponding year in 2016. 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 2017. The 2017 final results have been reviewed by the Audit Committee of the Bank.

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CHAIRMAN'S STATEMENT

In line with its core values of “Exceed Excel”, Chong Hing Bank continued to implement its various optimisation reforms during the year as part of its five-year strategic plan to improve quality and enhance efficiency with the aim of building a solid foundation for the Bank's long-term development. Chong Hing Bank is seeking to further expand its business scope and raise its service quality so as to take advantage of new opportunities presented in the development of both Guangdong and Hong Kong. With the corporate vision of becoming “an integrated commercial bank with cross-border expertise” in sight, the Bank endeavours to become a century-old brand in the minds of people in Hong Kong.

I am pleased to announce that, in 2017, Chong Hing Bank's core business lines and overall financial health remained strong, asset quality was sound and profitability from core business had increased. Operating profit after impairment allowances amounted to HK\$983 million. Profit attributable to equity owners amounted to HK\$1,565 million, an improvement of 10.2% from last year, and earnings per share was HK\$2.17 (2016: HK\$1.94 per share). The Board has considered that it is prudent to preserve the Bank's capital so as to better satisfy the new requirement under “Basel III”. Hence, the Board has recommended the payment of the final cash dividend of HK\$0.39 per share for the year. The total dividend payout for the year as a percentage of this adjusted profit attributable to equity owners less distribution paid on the additional equity instruments will be 38.46% (2016: 35.06%).

The major financial ratios for 2017 are as follows:

- Return on shareholders' equity: 9.89%
- Average liquidity maintenance ratio: 40.73%
- Total capital ratio: 17.60% as of 31 December 2017
- Tier 1 capital ratio: 13.30% as of 31 December 2017
- Loan to deposit ratio: 70.85% as of 31 December 2017

China's “13th Five-Year Plan” further strengthens Hong Kong's role as a global offshore Renminbi business hub and international asset management centre. Driven by innovation as an important pillar of the industry's development strategy, finance and technology will be more interrelated and the fusion between them will be the focus of future financial services in the long run. Chong Hing Bank keeps pace with the times by devoting resources to build a dedicated digital transformation team and upgrade its electronic platforms, as well as participate in various digital and innovative projects. At the same time, by developing financial technology to enhance customer experience, the Bank stands ready for further business development and transformation.

China's economic growth is on a steady track with a year-on-year GDP growth of 6.9%, marking a new benchmark of RMB80 trillion in 2017. Guangzhou is among the top cities in China's provincial development in terms of GDP, and the financial industry is one of Guangzhou's ten pillar industries. In 2017, the Fortune Global Forum was held in Guangzhou, where Fortune 500 companies, multinational corporations, governmental bodies and social celebrities congregated and exchanged views on the structural formulation of the new global economy. The event focused the world's attention on Guangzhou and helped promote innovation and development in the city.

As a core member of the financial sector of the Guangzhou-based Yuexiu Group, Chong Hing Bank has continued to take advantage of the Yuexiu Group's resources in establishing the strategic position of the Guangzhou Branch to oversee its branch network in Mainland China. It also sought to deepen the regional synergies between Guangdong and Hong Kong, as well as expand its Mainland operations to attract high-quality Mainland customers, thereby establishing its unique role in the Pearl River Delta region. With new business opportunities associated with China's Belt and Road Initiative, the Framework Agreement on Deepening Guangdong-Hong Kong-Macao Cooperation in the Development of the Bay Area and the free trade zones in Guangdong, the financial cooperation between Guangdong, Hong Kong and Macau will be strengthened further. Leveraging its advantageous positions in Guangdong and Hong Kong as well as its comprehensive integrated financial services system, Chong Hing Bank will be able to cater to the financial services needs on both sides and better capture cross-border business opportunities following on from the national policies. The Bank will continue to take a prudent and proactive approach towards achieving the vision of becoming "an integrated commercial bank with cross-border expertise".

In 2017, Chong Hing Bank established a customised corporate culture accountability structure and philosophy in line with the "Bank Culture Reform" guidelines issued by the Hong Kong Monetary Authority, bearing in mind the banking industry's specifics and the Bank's strategic proposition. The concept of Core Values, Vision and Mission determines Chong Hing Bank's value orientation and strategic objectives, while the Management Concepts, Enterprise Spirit and Corporate Style of the Bank make up the underlying concept of its corporate culture and formulate the basis for its code of conduct. Chong Hing Bank is committed to implementing its philosophy in its business operation and management, and will endeavour to consolidate its team through high-quality corporate culture, so that it may work together as one to expand its business further.

There are quite a few challenges that Chong Hing Bank has to overcome while facing the fast-changing business environment. I would like to express my gratitude to all the Directors for their valuable guidance and advice on the Bank's sustainable growth; and, on behalf of the Board, I would also like to convey my sincere appreciation to our shareholders, customers and business partners for their long-term support and trust. Finally, I sincerely appreciate the Bank's management team and staff members of all levels for their continuous collaborations and persistent dedication, which is instrumental in moving Chong Hing Bank forward on its path of pursuing excellence.

Zhang Zhaoxing
Chairman

Hong Kong, 29 March 2018

CHIEF EXECUTIVE'S STATEMENT

GLOBAL ECONOMY

In 2017, the global economy experienced a steady recovery. With continuous economic expansion, and driven by the growth in consumer spending, business investment and exports, the US gross domestic product (GDP) recorded a year-on-year increase of 2.3%. The US Federal Reserve Board (FRB) announced its plan of balance sheet reduction in September, marking a step forward in the normalisation of monetary policy. Concurrently, the FRB announced its third rate hike for 2017 at the rate-fixing meeting held in December. This was the fifth rate hike since the start of the new round of the US-initiated rate hike cycle in December 2015. Furthermore, the US Congress passed the first massive tax reform bill in thirty years, slashing the top corporate tax rate from 35% to 21%. This move may have an impact on global capital flows. Despite the economic uncertainties brought on by the Brexit issue, the Eurozone maintained robust economic growth, with a 2.5% year-on-year increase of GDP for the year. The European Central Bank began a reduction in its monthly asset purchases at the beginning of 2018.

Asian economies delivered a strong performance throughout the year. The Japanese economy has also seen significant improvement. Nevertheless, as the Bank of Japan continued an accommodative monetary policy and maintained its deposit interest rate at -0.1%, it was expected that the pace of economic recovery would continue to be moderate. In China, the economy stabilised with an improved outlook, with an economic growth of 6.9% for the year due to higher corporate earnings and a further optimised economic structure. According to the report of the 19th National Congress of the Communist Party of China, China's economy has been transitioning from rapid growth to high-quality development. China is at a pivotal stage of transforming its growth model, improving its economic structure and fostering new drivers of growth. Core cities in the Pearl River Delta region achieved a satisfactory economic performance as a whole. Instilled with a new growth momentum and steady improvement in both quality and efficiency, Guangzhou recorded a year-on-year GDP growth of 7% for the year. Shenzhen recorded a year-on-year GDP growth of 8.8% for the year, with emerging industries maintaining sound growth. The People's Bank of China implemented a steady, neutral monetary policy, which guided the "deleveraging" process in the banking system. The China Banking Regulatory Commission gradually introduced a series of guiding opinions for "strengthening regulation", "resolving chaos" and "preventing risks", aiming to enhance risk management in the financial system. The CNY/USD exchange rate resumed its uptrend in 2017, with the Renminbi onshore price (CNY) and offshore price (CNH) appreciating by a total of 6.71% and 6.53% respectively during the year, the highest increases since 2008.

Riding on the stable economic development in China and the favourable external economic environment, Hong Kong's economy is moving ahead strongly with a GDP growth of 3.8% in real terms for 2017. Benefiting from a broad-based upturn in the global economic and trading environment, Hong Kong's total exports and trade recorded increases of 8% and 8.4% respectively for the year. Under an accommodative monetary environment, major banks in Hong Kong did not follow the US rate hikes. The total money supply (M3) at the end of December increased by 10% as compared with the same period last year. With rising credit demand, total loans and

advances from authorised institutions at the end of December achieved a year-on-year growth of 16.1%. During the year, the booming Hong Kong property market has contributed to a 21-month continuous growth in the private domestic housing price index as of December, the most persistent growth ever recorded. The number of property registrations in the entire market for the year increased by 14.8% to 83,815 as compared with the previous year, reaching a five-year high. Fuelled by a favourable global economy and capital inflows from China and foreign countries, the Hong Kong stock market surged for eight consecutive months from January 2017 and broke through the 30,000 mark in November, hitting a ten-year high. The Hang Seng Index ended the year at 29,919 points, with an accumulated increase of 36% for the year. The Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect also achieved record high turnovers.

RESULTS ANNOUNCEMENT AND PROFIT ANALYSIS

The results for the financial year of 2017 of the Bank, on a consolidated basis, are summarised below:

Key Financial Data	31 December (12 months)		Variance %
	2017 HK\$'000	2016 HK\$'000	
1. Operating profit after impairment allowances	983,413	1,475,871	-33.37
2. Profit attributable to equity owners	1,564,867	1,419,704	+10.22
3. Net interest income	2,317,128	2,044,800	+13.32
4. Net fee and commission income	327,471	259,584	+26.15
5. Net (loss) income from trading and investments	(93,938)	230,059	-140.83
6. Other operating income	158,895	139,853	+13.62
7. Operating expenses	1,353,633	1,227,552	+10.27
8. Net (charge) reversal of impairment allowances on loans and advances	(371,591)	40,198	-1,024.40
	As of 31 December 2017 HK\$'000	As of 31 December 2016 HK\$'000	Variance %
9. Total loans and advances to customers	86,698,372	70,689,155	+22.65
10. Total customer deposits	118,758,674	102,880,629	+15.43
11. Investments in securities	39,153,501	29,727,952	+31.71
12. Total assets	163,747,114	137,772,051	+18.85

**31 December
(12 months)**

Key Financial Data

	2017	2016	Variance
	HK\$'000	HK\$'000	%
13. Return on shareholders' equity ⁽¹⁾	9.89%	9.61%	+0.28
14. Earnings per share ⁽²⁾	HK\$2.17	HK\$1.94	+11.86
15. Net interest margin	1.52%	1.66%	-0.14
16. Cost to income ratio	49.96%	45.90%	+4.06
17. Average liquidity maintenance ratio	40.73%	40.59%	+0.14
	As of	As of	
	31 December	31 December	
	2017	2016	Variance
	HK\$'000	HK\$'000	%
18. Impaired loan ratio	0.46%	0.07%	+0.39
19. Non-performing loan ratio	0.56%	0.64%	-0.08
20. Provision coverage of impaired loans and advances	181.87%	602.98%	-421.11
21. Loan to deposit ratio	70.85%	67.40%	+3.45
22. Net asset value per share (excluding additional equity instruments and before the final dividend)	HK\$23.18	HK\$20.85	+11.18
23. Total capital ratio	17.60%	16.32%	+1.28
24. Tier 1 capital ratio	13.30%	14.16%	-0.86
25. Common Equity Tier 1 capital ratio	11.30%	11.81%	-0.51

Notes:

- (1) Return on shareholders' equity took into consideration the coupon of the additional equity instruments relevant for the period.
- (2) Earnings per share was calculated after deducting the distribution paid on the additional equity instruments in the year.

ANALYSIS OF KEY FINANCIAL DATA

In 2017, profit attributable to equity owners of the Bank increased by 10.2% year-on-year to HK\$1,565 million.

Net interest income increased by 13.3% to HK\$2,317 million. The improvement in net interest income was achieved mainly through the growth of loans and advances and investment in debt securities. The increase in interest expenses was mainly attributable to the increase in deposits from customers. Net interest margin at 1.52% was 14 basis points less than the same period last year. After excluding penalty cost factor, year over year net interest margin dropped 7 basis points.

Net fee and commission income improved by 26.2% to HK\$327 million, which was mainly attributable to a 33.1% increase in commission income arising from securities dealings as the stock market turnover was much higher than the same period last year.

Net loss from trading and investments at HK\$94 million was due to the RMB appreciation resulting in a translation loss of HK\$195 million. The increase in net gains on disposal of the available-for-sale debt securities of HK\$97 million partly offset the RMB translation loss.

The Bank strived for operation enhancement and at the same time invested in talents and systems to support business growth and expansion into the Mainland.

To optimise the use of resources, certain assets that were not considered essential to the core business lines had been sold, and a net gain of HK\$657 million was recorded in 2017.

Total loans and advances to customers increased by HK\$16 billion to HK\$86.7 billion, with noticeable growth in term loans and syndication loans. With careful management on the exposure of credit risk, asset quality of loans and advances continued to be good with impaired loan ratio at 0.46%, non-performing loan ratio at 0.56% and provision coverage of impaired loans and advances at 182%.

Total customer deposits increased by 15.4% to HK\$118.8 billion. The Bank continued to maintain a stable deposit base, allowing the Bank to balance loan growth and investment in debt securities, as well as wealth management and cross-border financial business needs.

Total assets increased by 18.9% to HK\$163.7 billion. As at 31 December 2017, 87.7% of the Bank's assets was based in Hong Kong.

As a result of proactive management of assets and liabilities, the Bank's liquidity remained stable, the loan to deposit ratio was 70.85%, and the liquidity maintenance ratio was an average of 40.73%.

Total capital ratio was at 17.60%, the Tier 1 capital ratio was at 13.30% and the Common Equity Tier 1 capital ratio was at 11.30%.

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

DIVIDEND

To properly balance sharing of success with preserving capital for future growth, the Board has recommended the payment of the final cash dividend of HK\$0.39 per share for the financial year of 2017 (2016 final cash dividend: HK\$0.39 per share) to the shareholders whose names appear on the register of members of the Bank on Tuesday, 29 May 2018. Total dividends for the financial year of 2017, including the interim cash dividend of HK\$0.15 per share paid on 25 September 2017 (2016 interim cash dividend: HK\$0.15 per share), amounted to HK\$0.54 per share (2016 total dividends: HK\$0.54 per share).

ISSUANCE OF TIER 2 SUBORDINATED NOTES

To raise funds for Basel III-compliant Tier 2 capital, the Bank settled and closed a US\$382,903,000 Tier 2 Subordinated Notes (the “New Notes”) offering on 26 July 2017. The New Notes are 10-year non-call 5-year fixed rate notes, with a fixed coupon rate of 3.876% per annum, payable semi-annually for the first five years; the interest rate will be reset on 26 July 2022.

The aggregate principal amount of the New Notes is US\$382,903,000. This includes US\$22,903,000 of “New Exchange Notes” (being the New Notes issued pursuant to the exchange offer by the Bank to the holders of its US\$225 million 6.000% Subordinated Notes due 2020) and US\$360 million of “New Money Notes”. The final deal size is the largest ever international bond offering transaction by the Bank and is also the first Basel III-compliant transaction by the Bank. In line with the Bank’s prudent and stable development approach, the proceeds from the offering will be used to strengthen the Bank’s capital base and fund the growth of its operations and development. The New Notes have been listed on the Stock Exchange of Hong Kong under Stock Code of 05249 on 27 July 2017.

BUSINESS REVIEW

Corporate Banking

By strengthening its capability in offering professional services and facilitating customer-oriented product innovation, Chong Hing Bank is committed to providing a one-stop banking services platform for our corporate customers in Hong Kong and the Mainland. The Bank also fully supports Hong Kong Mortgage Corporation Limited’s “SME Financing Guarantee Scheme” in addition to participating in the Hong Kong Government’s “SME Loan Guarantee Scheme” to foster the development of SMEs.

In recent years, the Bank has strived to develop its loan syndication business, which recorded a satisfactory performance. In 2017, the Bank completed 42 syndicated loans and acted as the lead arranger for six of them. Moreover, the Bank proceeded to book-run its first ever syndicated loan with another bank in the region’s loan syndication market. This is a milestone in loan syndication business for the Bank. By virtue of its syndicated and bilateral loans, the Bank was able to maintain growth in total corporate loans in 2017, while non-interest income from business also improved as compared with the same period in 2016.

Being an integrated commercial bank offering cross-border expertise and leveraging on its competitive edge in network interaction between Hong Kong and Mainland China, the Bank provides various cross-border financial products and services to accommodate customers' funding requirements in Hong Kong and Mainland China, and effectively manages their interest rate and exchange risks through its treasury product portfolio.

Personal Banking

The Bank provides its personal banking customers with various personal financial management services, including deposits, mortgage loans, consumer finance, wealth management and private banking, etc. Apart from enhancing communication with existing customers, our personal banking team continues to expand its customer base in financial management, focusing its attention on product development and improving service quality, and promoting its products through a variety of activities. The team will remain committed to delivering quality banking services and products for Hong Kong and cross-border personal customers in Guangdong and Hong Kong.

The personal banking business continued to maintain stable business growth in 2017:

- As the investment market was strong during the year, a certain amount of customers' deposits was channelled into securities and related investment products. Through a series of promotional activities and efforts to expand the customer base, total deposits in personal customers recorded a steady growth of 6.98%. Advances to personal banking customers steadily grew by 4.14% without compromising loan quality, while the loan quality stayed at a healthy level. In addition, the Bank recruited a good number of quality customers during the year, creating a solid foundation for further business expansion.
- The Bank proactively promoted the development of its wealth management business, with the sales of investment products maintaining a strong growth momentum. Coupled with heightened investment sentiment in the market, the commission income grew more than 64% year-on-year, marking a strong double-digit growth for three consecutive years. The Bank launched a number of new services during the year, including the "Online Fund Search" tool and the enhanced foreign currency trading channels to improve customer experience and optimise transaction procedures. On the sales of life insurance products, the Bank adjusted its marketing strategies and offered diverse products to suit different customers. The Bank will continually drive its online trading platform development and expand its working partners of wealth management products in order to meet Hong Kong and cross-border customers' wealth management needs.
- In the area of credit card business, the Bank launched various customer reward programmes and market promotions to attract new customers and improve the credit card utilisation rate. The Bank also devoted efforts to developing its merchant-acquiring business. Meanwhile, commission income from the merchant-acquiring business increased by over 43% year-on-year.

Financial Markets Business

With regard to its treasury business, the Bank optimised the balance sheet by effectively utilising various financial instruments while strictly complying with the established risk controls. At the same time, the Bank adjusted its investment management strategies to successfully enhance asset quality and return on investment. Despite the narrowing spread in 2017, the returns on the Bank's bond and credits portfolio recorded positive results.

Mainland Operations

Mainland business is the Bank's strategic priority. The Bank endeavoured to accelerate its business development, optimise organisational structure, strengthen risk controls as well as drive the development of the information system and the personnel team in order to lay a solid foundation and platform for sustainable and efficient operations.

Business Development

In 2017, the Mainland branches and sub-branches have been growing steadily in their scale of operation, while core businesses are also seeing healthy growth. Profitability rose steadily and asset quality remained sound. The customer base has expanded and the product range remained comprehensive.

The Bank's loan business has seen a new breakthrough. As the government's public finance deposits increased steadily, new sources of funds were secured, and qualifications were granted for government agency business.

The Mainland branches and sub-branches continued to focus on serving the real economy. In response to the national strategies on industrial upgrading and supply-side structural reform, they focused on supporting high quality manufacturers and service enterprises in China. With the implementation of the Belt and Road Initiative and the Guangdong-Hong Kong-Macao Greater Bay Area Initiative, the Bank leveraged on opportunities in various businesses to build up a comprehensive cross-border and regional financial service system, while proactively optimising product structures and enhancing the market competitiveness of the assets business. Mainland branches and sub-branches also joined forces to optimise their loan structure through regulating the deployment of loans.

Furthermore, continuous growth is also seen in the interbank financial business. Interest income surged significantly and the Bank has attained several interbank business qualifications. Both the Guangzhou Branch and the Shenzhen Branch have become bond market members of the National Interbank funding centre. The Guangzhou Branch was also admitted as a foreign currency lending member and RMB/FX spot member of the National Interbank funding centre. These moves served to lay a solid foundation for business development.

The cross-border business continued to grow with more product lines made available for our customers. In addition, we successfully launched onshore guarantees for offshore loans, direct Renminbi cross-border loans and Renminbi cross-border cash pooling, etc.

Infrastructure

In accordance with the requirements of the regulatory bodies in the Mainland and Hong Kong, the Bank persisted in optimising its organisational structure, further enhancing its risk management regime, improving its procedures and workflows, and uplifting the supporting capability of its various systems.

Credit Risk Management – Facing the economic “new normal”, the Bank's Mainland branches and sub-branches strengthened their risk controls and maintained good asset quality with zero non-performing loans. They also established a centralised management mechanism to oversee the whole process of loan granting, covering the pre-approval, in-process and post-approval stages, realising sound risk management. They also strengthened market and liquidity risk management by further solidifying the liquidity control indexing system and preparing a contingency plan for managing liquidity risk in case of risk events.

Information System – In order to continuously improve the customer experience, during the year the Bank upgraded its information infrastructure and proceeded with the development of new Internet banking. To better cater for business development and fulfil regulatory requirements, the Bank accelerated the interfacing between its internal and external systems. In addition, a new interbank foreign currency trading system, bond system and electronics commercial draft system are being developed to strengthen business growth.

Compliance – Compliance control and the crime prevention regime were further heightened in the year, with the establishment of systems covering the Mainland branches, and more frequent and thorough internal checking on compliance in order to prevent violation of regulations and criminal conduct.

Chong Hing Securities Limited

In 2017, the Hong Kong stock market was on a bullish course, with strong turnover that was in line with the robust performance of overseas stock markets. The overall turnover of Chong Hing Securities was 61.3% higher than last year, significantly outperforming the 31.9% year-on-year growth in the overall trading volume of the Hong Kong stock market, whereas its total profit before taxation grew by 102.1%. In 2018, backed by the Stock Connects between Mainland China and Hong Kong, the southbound capital from Mainland China is expected to continue to support the performance of the Hong Kong stock market. The Bank maintains a cautiously optimistic outlook for our stock brokerage business.

Chong Hing Insurance Company Limited

In 2017, notwithstanding the intense competition in the Hong Kong insurance industry and decline in overall underwriting profit, Chong Hing Insurance still recorded a 14% year-on-year increase in investment return as driven by market sentiments.

Affected by several typhoons in 2017, Chong Hing Insurance registered lower profits for its property damage insurance business. Nevertheless, the overall business performance continued to improve.

Chong Hing Insurance will continue to leverage on the bancassurance model to explore new business opportunities, and seek to realise the full potential of its strong business network. The Bank will also explore new business opportunities in order to achieve better performance and results.

Future Development

The Bank continues to invest for its sustainable development. The year 2017 was the foundation year of the Bank's customer resource management and efforts to promote synergy. In addition to establishing the relevant systems and mechanisms, the Bank adopted a two-pronged approach of enhancing synergy with the Yuexiu Group as well as synergy within the Bank, and as a result, initial business connections and the expected outcome were achieved.

The Bank is also committed to building a modern operation platform, accelerating bank restructuring and process improvement, and further enhancing customer experience and cost-effectiveness, including the establishment of a centralised trading service team to strengthen the productivity of branches and customer managers. In order to further consolidate and optimise internal resources, the Bank established a digital transformation team to promote innovation and the transformation to digital banking. In addition, the Bank's centralised treasury receipt and payment system was officially launched during the year, and land security deposit system was also completed by early 2018, signifying a new phase in the expansion of the Bank's business in the Mainland.

The successive launch of various IT systems in 2017 was instrumental in enhancing the Bank's capacity to serve its customers and monitor risks.

CORPORATE CULTURE

During the year, the Bank officially established its corporate culture, which comprises six key elements, namely Core Values, Vision, Mission, Management Concepts, Enterprise Spirit and Corporate Style. The Bank hopes to create an excellent corporate culture by making sustainable and long-term efforts to optimise governance and enhance cohesion. The formulation of the corporate culture is also in response to the “Bank Culture Reform” guidelines issued by the Hong Kong Monetary Authority to all banks in March 2017.

In order to put the new corporate values into practice, the Bank has launched a new performance management system to reward employees whose performances are in line with the corporate culture. The Bank has also established core competencies and related behavioural indicators to make objective assessments and assist our employees in developing career plans.

CORPORATE RESPONSIBILITY

Established in 1948, Chong Hing Bank is dedicated to providing comprehensive banking services for people from all walks of life. The Bank currently operates a network of 39 branches in Hong Kong, three branches and four sub-branches in the Mainland, and one branch in Macau.

Having the community at heart, the Bank gives back to society through active participation in volunteer activities, charitable donations and supporting community and art events held by charity organisations and art groups. It also sponsors projects to show its care for needy groups.

Community Events

- In January, the Bank donated to the “Green Power Hike for a Green Future”, held by Green Power, and the “Charity Cycling Marathon”.
- In May and July, the Bank sponsored the social skill classes for children with special needs held by the Hong Kong Association of the Deaf. Visits to the association were also organised for staff members to participate in a creative light clay workshop with the hearing-impaired children, helping them integrate into society.
- In June, the Bank participated in the “Financial Education Workshop” jointly held by The Hong Kong Association of Banks and The Salvation Army to share tips on financial management with participants.
- In December, the Bank visited the Hong Kong Playground Association’s Tsing Yi Centre to share knowledge on saving money with primary school students in the district.

Through the Bank’s branch network and cooperation with numerous charity organisations such as the Tung Wah Group of Hospitals, Yan Chai Hospital and Médecins Sans Frontières, the Bank organised a variety of community fund-raising activities, including selling raffle tickets and collecting donations from flag bags on flag-selling day. Furthermore, to contribute to public welfare, the Bank inserted promotional leaflets of charity organisations into its bank mailers sent to customers.

Art Events

- In July, the Bank sponsored “Heritage Showtime on LOK KU ROAD”, a local art and cultural event.
- In October, the Bank sponsored “Fine Art Asia”, a fair showcasing a wide range of collectable fine art from Asia and the West.
- In December, the Bank sponsored “Ink Asia”, featuring contemporary ink art.

The Bank seeks to promote and foster the development of art and culture through sponsoring events as well as expositions held by different art groups.

Achievements under Corporate Responsibility

The Bank is committed to giving back to society and protecting the environment in a variety of ways to fulfil our social responsibility. For its achievements in this regard, the Bank gained recognition from various sectors.

- The Bank was granted a “10 Years Plus Caring Company” logo by the Hong Kong Council of Social Service. It was a recognition that the Bank has continuously participated in community events to serve and care for society.
- The Bank’s branch network assisted the Tung Wah Group of Hospitals in selling raffle tickets to raise funds, achieving great success. In 2017, the Bank was awarded the title of “Runner-up in the Commercial and Industrial Institutes and Groups Category in the Charity Raffle Tickets Selling Competition” and received the “Raffle Tickets Selling Award” from the Tung Wah Group of Hospitals.
- In order to help minimise the light nuisance and energy wastage that may be caused by external lighting installations, the Bank realised its pledge to switch off external lights at the pre-set time in response to the “Charter on External Lighting” organised by the Environment Bureau of the Hong Kong SAR Government. Many branches complied with the lighting requirements, and the Bank was presented with the “Platinum Award” for its efforts.
- The Bank was awarded “The Employer of Choice Award” by JobMarket in recognition of its superior talent management strategies and practices.

CORPORATE GOVERNANCE

The Bank fully appreciates that compliance with the relevant statutory and regulatory requirements and maintaining good corporate governance standards are imperative to its sustainable development. The Bank has deployed considerable resources and implemented the relevant measures to ensure that the statutory and regulatory requirements are fully complied with, and that a high standard of corporate governance is maintained.

For details of the Bank’s corporate governance practices, please refer to the section entitled “Corporate Governance Report” of the Bank’s 2017 Annual Report.

AWARDS

The Bank aims to offer quality banking services to its customers. In 2017, it achieved excellent results in different fields and received awards and recognition from different organisations.

In May 2017, the Bank received the “Straight Through Processing (STP) Award” from the Bank of New York Mellon for the ninth consecutive year. This award recognised the Bank’s outstanding performance in payment formatting and a high STP rate of over 95% in fully-automated US dollar payment processing without manual intervention.

The Bank works closely with SMEs with the goal of achieving mutual growth while providing them with diversified banking services. This support has been widely recognised by the industry. In June, the Bank received the “Best SME’s Partner Award” from the Hong Kong General Chamber of Small and Medium Business for the ninth time.

In November, the Bank received the “STP Award” from CitiBank Asia Pacific for the first time as an indication that the rate of fully-automated STP exceeded 97% and as recognition of the Bank’s quality services.

In December, the Bank received for the first time the “Five Stars Honor Award”, the highest award at the “Distinguished Banks of the Year” competition hosted by Hong Kong Life Insurance, indicating that the remarkable performance of the Bank was widely recognised.

OUTLOOK

Hong Kong and the Mainland are connected geographically and many aspects of their developments are complementary. Under China’s Belt and Road Initiative and the Guangdong-Hong Kong-Macao Greater Bay Area Initiative, Hong Kong will be able to further cement our pivotal role as a hub for infrastructure financing, trading and investment.

The Bank will seize the opportunities brought about by the closer integration of Hong Kong with the Mainland, in particular the regional linkage, and target cross-border financial services as its core development direction. The branches in Hong Kong and the branch and sub-branch network throughout the core Pearl River Delta region of the Bank have established a platform for the provision of cross-border services. Leveraging on its diversified cross-border banking products, and being equipped with a customer-oriented and innovative mindset, the Bank created a solid business foundation for cross-border business. The Bank will continue to provide quality banking services to customers from both Hong Kong and the Mainland through deepening synergy with the business of the Yuexiu Group, and fulfil its vision of becoming “an integrated commercial bank with cross-border expertise”.

Having our roots in Hong Kong for decades, Chong Hing Bank has established a remarkable brand, assembled a professional management team and developed loyal customers. The Bank will adhere to its solid and prudent operating principles, continuously exploit and seize opportunities in various fields, drive its sustainable and healthy development and endeavour to achieve satisfactory results in order to accomplish its corporate mission: “To benefit Customers, Employees, Shareholders and Community”.

APPRECIATION

In 2017, with the hard work of all staff members of Chong Hing Bank, the efficiency of both the management and operations of the Bank received a boost while its core competence gained constant enhancement. I would like to thank all the Directors on the Board for their wise counsel and support. I would also like to express my gratitude to the management team and all our staff members for their tireless contributions. I also take this opportunity to convey my appreciation to our shareholders and customers for their long-standing support and trust. Chong Hing Bank was established in 1948, and is currently marking its 70th year with a solid foundation and a progressive spirit. Looking forward, the Bank will proactively grasp the opportunity to achieve quality, sustained growth and accomplish outstanding results on our path to excellence.

Zong Jianxin

Chief Executive

Hong Kong, 29 March 2018

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2017

	2017 HK\$'000	2016 HK\$'000	Variance %
Interest income	3,800,391	3,001,170	+26.63
Interest expense	(1,483,263)	(956,370)	+55.09
Net interest income	2,317,128	2,044,800	+13.32
Fee and commission income	424,545	344,494	+23.24
Fee and commission expenses	(97,074)	(84,910)	+14.33
Net fee and commission income	327,471	259,584	+26.15
Net (loss) income from trading and investments	(93,938)	230,059	-140.83
Other operating income	158,895	139,853	+13.62
Operating expenses	(1,353,633)	(1,227,552)	+10.27
Operating profit before impairment allowances	1,355,923	1,446,744	-6.28
Net (charge) reversal of impairment allowances on loans and advances	(371,591)	40,198	-1,024.40
Impairment loss on investments in securities	(919)	(11,071)	-91.70
Operating profit after impairment allowances	983,413	1,475,871	-33.37
Net gains on disposal of assets held for sale	2,878	–	–
Net gains on disposal of property and equipment	654,619	24,757	+2,544.18
Net gains on disposal of other investments	–	160,729	-100.00
Net gains on disposal of and fair value adjustments on investment properties	12,632	2,026	+523.49
Impairment loss on goodwill	–	(11,000)	-100.00
Share of profits of associates	55,723	31,617	+76.24
Profit before taxation	1,709,265	1,684,000	+1.50
Taxation	(144,398)	(264,296)	-45.37
Profit for the year			
– Attributable to equity owners of the Bank	1,564,867	1,419,704	+10.22
Earnings per share – basic and diluted	HK\$2.17	HK\$1.94	+11.86

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*for the year ended 31 December 2017*

	2017 HK\$'000	2016 <i>HK\$'000</i>
Profit for the year	<u>1,564,867</u>	<u>1,419,704</u>
Other comprehensive income		
Items that may not be reclassified subsequently to profit or loss:		
Surplus on transfer of land and buildings to investment properties	–	16,229
Surplus on remeasurement of retirement benefit	5,647	–
Income tax effect relating to retirement benefit	(932)	–
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation	249,271	(168,225)
Fair value gains of available-for-sale securities arising during the year	354,316	202,037
Amount reclassified to the profit or loss upon impairment of available-for-sale securities	290	11,071
Amount reclassified to the profit or loss upon disposal of available-for-sale securities	(113,937)	(178,309)
Income tax effect relating to disposal of available-for-sale securities	18,800	29,421
Income tax effect relating to fair value change of available-for-sale securities	(58,419)	(35,869)
Share of other comprehensive income of associates	<u>4,647</u>	<u>497</u>
Other comprehensive income for the year (net of tax)	<u>459,683</u>	<u>(123,148)</u>
Total comprehensive income for the year	<u><u>2,024,550</u></u>	<u><u>1,296,556</u></u>
Total comprehensive income attributable to:		
Equity owners of the Bank	<u><u>2,024,550</u></u>	<u><u>1,296,556</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 31 December 2017

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	Variance <i>%</i>
Assets			
Cash and short-term funds	25,164,641	30,521,281	-17.55
Placements with banks maturing between one to twelve months	6,359,004	1,616,540	+293.37
Derivative financial instruments	556,793	424,845	+31.06
Investments in securities	39,153,501	29,727,952	+31.71
Advances and other accounts	90,949,787	74,081,605	+22.77
Tax recoverable	–	3,128	-100.00
Assets held for sale	–	2	-100.00
Interests in associates	301,337	262,565	+14.77
Investment properties	298,765	282,927	+5.60
Property and equipment	590,746	633,604	-6.76
Prepaid lease payments for land	2,134	2,201	-3.04
Deferred tax assets	–	4,672	-100.00
Intangible assets	370,406	210,729	+75.77
Total assets	163,747,114	137,772,051	+18.85
Liabilities			
Deposits and balances of banks	3,051,932	2,696,681	+13.17
Financial assets sold under repurchase agreements	12,002,989	9,845,753	+21.91
Deposits from customers	118,758,674	102,880,629	+15.43
Derivative financial instruments	882,279	553,614	+59.37
Other accounts and accruals	1,577,588	1,243,889	+26.83
Current tax liabilities	434,818	356,298	+22.04
Certificates of deposit	3,217,451	812,329	+296.08
Debt securities issued	1,796,069	1,663,774	+7.95
Loan capital	4,541,380	1,792,267	+153.39
Deferred tax liabilities	50,136	13,245	+278.53
Total liabilities	146,313,316	121,858,479	+20.07
Equity attributable to owners of the Bank			
Share capital	5,435,904	5,435,904	–
Additional equity instruments	2,312,030	2,312,030	–
Reserves	9,685,864	8,165,638	+18.62
Total equity	17,433,798	15,913,572	+9.55
Total liabilities and equity	163,747,114	137,772,051	+18.85

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2017

	Share capital <i>HK\$'000</i>	Additional equity instruments <i>HK\$'000</i>	Goodwill <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Land and building revaluation reserve <i>HK\$'000</i>	General reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Regulatory reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2017	5,435,904	2,312,030	(182)	169,620	174,247	1,388,500	(183,255)	739,000	5,877,708	15,913,572
Profit for the year	-	-	-	-	-	-	-	-	1,564,867	1,564,867
Exchange differences arising on translation	-	-	-	-	-	-	249,271	-	-	249,271
Surplus on remeasurement of retirement benefits	-	-	-	-	-	-	-	-	5,647	5,647
Income tax effect relating to retirement benefits	-	-	-	-	-	-	-	-	(932)	(932)
Fair value gains of available-for-sale securities arising during the year	-	-	-	354,316	-	-	-	-	-	354,316
Amount reclassified to the profit or loss upon impairment of available-for-sale securities	-	-	-	290	-	-	-	-	-	290
Amount reclassified to the profit or loss upon disposal of available-for-sale securities	-	-	-	(113,937)	-	-	-	-	-	(113,937)
Income tax effect relating to disposal of available-for- sale securities	-	-	-	18,800	-	-	-	-	-	18,800
Income tax effect relating to fair value change of available-for-sale securities	-	-	-	(58,419)	-	-	-	-	-	(58,419)
Share of other comprehensive income of associates	-	-	-	4,647	-	-	-	-	-	4,647
Other comprehensive income	-	-	-	205,697	-	-	249,271	-	4,715	459,683
Total comprehensive income for the year	-	-	-	205,697	-	-	249,271	-	1,569,582	2,024,550
Distribution payment for additional equity instruments	-	(151,974)	-	-	-	-	-	-	-	(151,974)
Transfer from retained profits	-	151,974	-	-	-	-	-	-	(151,974)	-
Interim dividend paid	-	-	-	-	-	-	-	-	(97,875)	(97,875)
Final dividend paid	-	-	-	-	-	-	-	-	(254,475)	(254,475)
Earmark of retained profits as regulatory reserve	-	-	-	-	-	-	-	77,000	(77,000)	-
At 31 December 2017	<u>5,435,904</u>	<u>2,312,030</u>	<u>(182)</u>	<u>375,317</u>	<u>174,247</u>	<u>1,388,500</u>	<u>66,016</u>	<u>816,000</u>	<u>6,865,966</u>	<u>17,433,798</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2017

	Share capital HK\$'000	Additional equity instruments HK\$'000	Goodwill HK\$'000	Investment revaluation reserve HK\$'000	Land and building revaluation reserve HK\$'000	General reserve HK\$'000	Translation reserve HK\$'000	Regulatory reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2016	5,435,904	2,312,030	(182)	140,772	158,018	1,388,500	(15,030)	663,000	5,024,729	15,107,741
Profit for the year	-	-	-	-	-	-	-	-	1,419,704	1,419,704
Exchange differences arising on translation	-	-	-	-	-	-	(168,225)	-	-	(168,225)
Surplus on transfer of land and buildings to investment properties	-	-	-	-	16,229	-	-	-	-	16,229
Fair value gains of available-for-sale securities arising during the year	-	-	-	202,037	-	-	-	-	-	202,037
Amount reclassified to the profit or loss upon impairment of available-for-sale securities	-	-	-	11,071	-	-	-	-	-	11,071
Amount reclassified to the profit or loss upon disposal of available-for-sale securities	-	-	-	(178,309)	-	-	-	-	-	(178,309)
Income tax effect relating to disposal of available-for-sale securities	-	-	-	29,421	-	-	-	-	-	29,421
Income tax effect relating to fair value change of available-for-sale securities	-	-	-	(35,869)	-	-	-	-	-	(35,869)
Share of other comprehensive income of associates	-	-	-	497	-	-	-	-	-	497
Other comprehensive income	-	-	-	28,848	16,229	-	(168,225)	-	-	(123,148)
Total comprehensive income for the year	-	-	-	28,848	16,229	-	(168,225)	-	1,419,704	1,296,556
Distribution payment for additional equity instruments	-	(151,425)	-	-	-	-	-	-	-	(151,425)
Transfer from retained profits	-	151,425	-	-	-	-	-	-	(151,425)	-
Interim dividend paid	-	-	-	-	-	-	-	-	(97,875)	(97,875)
Final dividend paid	-	-	-	-	-	-	-	-	(241,425)	(241,425)
Earmark of retained profits as regulatory reserve	-	-	-	-	-	-	-	76,000	(76,000)	-
At 31 December 2016	<u>5,435,904</u>	<u>2,312,030</u>	<u>(182)</u>	<u>169,620</u>	<u>174,247</u>	<u>1,388,500</u>	<u>(183,255)</u>	<u>739,000</u>	<u>5,877,708</u>	<u>15,913,572</u>

The retained profits of the Group included retained profits of HK\$171,372,000 (2016: retained profits of HK\$130,859,000) retained by the associates of the Group.

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2017

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
OPERATING ACTIVITIES		
Profit before taxation	1,709,265	1,684,000
Adjustments for:		
Net interest income	(2,317,128)	(2,044,800)
Net charge (reversal) of impairment allowances on loans and advances	371,591	(40,198)
Net gains on disposal of assets held for sale	(2,878)	—
Net gains on disposal of property and equipment	(654,619)	(24,757)
Net gains on disposal of available-for-sale securities	(113,937)	(178,309)
Net gains on disposal of and fair value adjustments on investment properties	(12,632)	(2,026)
Share of profits of associates	(55,723)	(31,617)
Net gains on fair value hedge	(1,423)	(6,989)
Dividend received from investments	(8,211)	(11,790)
Depreciation	79,969	58,447
Release of prepaid lease payments for land	66	66
Impairment loss on goodwill	—	11,000
Impairment loss on loan and receivable securities	629	—
Impairment loss on available-for-sale securities	290	11,071
Exchange adjustments	376,428	(241,943)
Operating cash flows before movements in operating assets and liabilities	(628,313)	(817,845)
(Increase) decrease in operating assets:		
Money at call and short notice with original maturity over three months	232,620	929,473
Exchange fund bills with original maturity over three months	(256,978)	152,457
Placements with banks with original maturity over three months	(1,405,100)	5,994,434
Financial assets at fair value through profit or loss	(24)	30
Advances to customers	(15,951,609)	(7,030,729)
Advances to banks	388,427	(496,256)
Other accounts	(1,511,532)	(1,152,637)
Increase (decrease) in operating liabilities:		
Deposits and balances of banks	355,251	(3,031,632)
Financial assets sold under repurchase agreements	2,157,236	6,523,070
Deposits from customers	15,878,045	3,488,265
Certificates of deposit	2,405,122	460,367
Derivative financial instruments	312,004	181,489
Other accounts and accruals	39,940	133,848
Cash generated from operations	2,015,089	5,334,334
Hong Kong profits tax paid	(31,741)	(12,199)
Overseas tax paid	(30,857)	(31,087)
Interest received	2,691,838	2,104,067
Interest paid	(1,073,550)	(899,264)
NET CASH GENERATED FROM OPERATING ACTIVITIES	3,570,779	6,495,851

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
INVESTING ACTIVITIES		
Interest received from available-for-sale securities and held-to-maturity securities	891,566	828,537
Dividends received on investments	8,211	11,790
Dividends received from associates	19,890	17,450
Purchase of held-to-maturity securities	(19,263)	–
Purchase of available-for-sale securities	(18,997,483)	(15,883,224)
Purchase of loan and receivable securities	(63,432)	–
Purchase of property and equipment	(133,276)	(82,389)
Purchase of intangible assets	(155,509)	(166,941)
Proceeds from redemption of held-to-maturity securities	1,933,433	3,093,664
Proceeds from sale and redemption of available-for-sale securities	7,992,916	14,502,715
Proceeds from disposal of assets held for sale	2,880	–
Proceeds from disposal of property and equipment	753,801	33,166
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES	<u>(7,766,266)</u>	<u>2,354,768</u>
FINANCING ACTIVITIES		
Net proceeds from issue of loan capital	2,816,997	–
Net proceeds from issue of debt securities	–	1,740,244
Interest paid on loan capital	(102,471)	(67,769)
Interest paid on debt securities issued	(58,349)	(1,188)
Dividends paid to ordinary shareholders	(352,350)	(339,300)
Distribution paid on additional equity instruments	(151,974)	(151,425)
NET CASH GENERATED FROM FINANCING ACTIVITIES	<u>2,151,853</u>	<u>1,180,562</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(2,043,634)</u>	<u>10,031,181</u>
CASH AND CASH EQUIVALENTS AT 1 JANUARY	<u>29,053,408</u>	<u>19,022,227</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	<u><u>27,009,774</u></u>	<u><u>29,053,408</u></u>
Represented by:		
Cash and balances with central bank and banks	9,593,548	4,009,869
Money at call and short notice with original maturity of three months or less	11,170,870	23,182,828
Exchange fund bills with original maturity of three months or less	2,097,187	1,049,906
Placements with banks maturing between one to twelve months with original maturity of less than three months	4,148,169	810,805
	<u><u>27,009,774</u></u>	<u><u>29,053,408</u></u>

FINANCIAL REVIEW

for the year ended 31 December 2017

GENERAL

The financial information relating to the years ended 31 December 2017 and 2016 included in this announcement of 2017 final results do not constitute the Group's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Bank has delivered the financial statements for the year ended 31 December 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31 December 2017 in due course.

The Bank's auditor has reported on the financial statements of the Group for both years. The independent auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

The Bank is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Bank is engaged in the provision of banking and related financial services. The address of the registered office of the Bank is Ground Floor, Chong Hing Bank Centre, 24 Des Voeux Road Central, Hong Kong.

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

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2017 and are relevant to the Group:

- The amendments to Hong Kong Accounting Standard ("HKAS") 12 "Income taxes" are on the recognition of deferred tax assets for unrealised losses and clarify how to account for deferred tax assets related to debt instruments measured at fair value.
- The amendments to HKAS 7 "Statement of cash flows" introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

There are also amendments to a standard effective for the accounting period beginning on or after 1 January 2017 but do not have material financial impact. Therefore, these amendments are not analysed in details.

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 2017, and have not been applied in preparing these consolidated financial information. 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

Nature of change

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

The Group's debt instruments that are currently classified as held-to-maturity/loans and receivables which will continue to be measured at amortised cost under HKFRS 9, except for certain debt instruments will be reclassified to financial assets at fair value through other comprehensive income ("FVOCI"), the related fair value gains of HK\$41,109,000 will be recognised in the opening balance of equity on 1 January 2018.

The Group has assessed that for debt instruments that are currently classified as available-for-sale ("AFS") will satisfy the conditions for classification as FVOCI and hence there will be no change to the accounting for these assets.

For equity instruments that are currently classified as AFS, the Group irrevocably elects to designate these securities as FVOCI, the gains or losses realised on the sale of such securities will no longer be transferred to profit or loss on sale, but instead reclassified below the line from the FVOCI reserve to retained earnings. For equity instruments currently measured at fair value through profit or loss, which will continue to be measured on the same basis under HKFRS 9.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. HKFRS 9 provides a choice of accounting policy to be remained with HKAS 39 hedge accounting.

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under HKAS 39. The impact of the changes to the recognition and measurement of overall credit loss impairment for the Group on initial application of HKFRS 9 is estimated to result in a reduction in the retained earnings of less than 2% as at 1 January 2018. The overall credit loss impairment under HKFRS 9 mainly consist of the estimated impairment allowance for its advances to customers measured at amortised cost.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Date of adoption

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

HKFRS 16 Leases

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group's operating leases.

However, the Group has not yet assessed what adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Date of adoption

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

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

SEGMENT INFORMATION

(a) Operating segments

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

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

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

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

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

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

The operating segment information allocation basis was changed for better assessment of the segment's performance for the year ended 31 December 2017. Comparative figures have not been restated as it is impractical to reallocate.

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

Operating segment revenues and results

	Corporate and personal banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	2,604,867	1,183,701	8,429	3,394	-	3,800,391
Interest expense to external customers	(1,228,746)	(254,392)	(125)	-	-	(1,483,263)
Inter-segment interest income (Note 1)	515,731	-	-	-	(515,731)	-
Inter-segment interest expense (Note 1)	-	(515,731)	-	-	515,731	-
Net interest income	1,891,852	413,578	8,304	3,394	-	2,317,128
Fee and commission income	281,089	-	143,456	-	-	424,545
Fee and commission expenses	(96,870)	-	(204)	-	-	(97,074)
Net income (loss) from trading and investments	64,333	12,658	2,560	(173,489)	-	(93,938)
Other operating income	122,263	543	718	35,371	-	158,895
Segment revenue						
Total operating income	2,262,667	426,779	154,834	(134,724)	-	2,709,556
Comprising:						
– Segment revenue from external customers	1,746,936	942,510	154,834	(134,724)		
– Inter-segment transactions	515,731	(515,731)	-	-		
Operating expenses (Note 2)	(1,057,535)	(97,187)	(96,576)	(64,869)	-	(1,316,167)
Net charge of impairment allowances on loans and advances	(371,591)	-	-	-	-	(371,591)
Net gains on disposal of asset held for sale	-	-	-	2,878	-	2,878
Net (losses) gains on disposal of property and equipment	(19)	-	30,350	624,288	-	654,619
Net gains on disposal of and fair value adjustments on investment properties	-	-	-	12,632	-	12,632
Impairment loss on available-for-sale securities	-	-	-	(290)	-	(290)
Impairment loss on loan and receivable securities	(629)	-	-	-	-	(629)
Segment profit	832,893	329,592	88,608	439,915	-	1,691,008
Unallocated corporate expenses						(37,466)
Share of profits of associates						55,723
Profit before taxation						1,709,265

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.

Operating segment assets and liabilities as at 31 December 2017

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

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

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

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

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

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

(ii) Operating segment information for the year ended 31 December 2016 is presented below:

Operating segment revenues and results

	Corporate and personal banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	1,781,977	1,212,094	5,843	1,256	–	3,001,170
Interest expense to external customers	(686,345)	(270,025)	–	–	–	(956,370)
Inter-segment interest income (Note 1)	357,719	–	–	–	(357,719)	–
Inter-segment interest expense (Note 1)	–	(357,719)	–	–	357,719	–
Net interest income	1,453,351	584,350	5,843	1,256	–	2,044,800
Fee and commission income	235,260	–	109,234	–	–	344,494
Fee and commission expenses	(84,862)	–	(48)	–	–	(84,910)
Net income from trading and investments	949	102,850	–	126,260	–	230,059
Other operating income	118,329	–	–	21,524	–	139,853
Segment revenue						
Total operating income	1,723,027	687,200	115,029	149,040	–	2,674,296
Comprising:						
– Segment revenue from external customers	1,365,308	1,044,919	115,029	149,040		
– Inter-segment transactions	357,719	(357,719)	–	–		
Operating expenses (Note 2)	(721,421)	(59,991)	(67,835)	(24,954)	–	(874,201)
Net reversal of impairment allowances on loans and advances	40,198	–	–	–	–	40,198
Net (losses) gains on disposal of property and equipment	(67)	–	2	24,822	–	24,757
Net gains on disposal of other investments	–	46,337	–	114,392	–	160,729
Net gains on disposal of and fair value adjustments on investment properties	–	–	–	2,026	–	2,026
Impairment loss on available-for-sale securities	–	–	–	(11,071)	–	(11,071)
Impairment loss on goodwill	–	–	–	(11,000)	–	(11,000)
Segment profit	<u>1,041,737</u>	<u>673,546</u>	<u>47,196</u>	<u>243,255</u>	<u>–</u>	2,005,734
Unallocated corporate expenses						(353,351)
Share of profits of associates						<u>31,617</u>
Profit before taxation						<u><u>1,684,000</u></u>

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.

Operating segment assets and liabilities as at 31 December 2016

	Corporate and personal banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Consolidated HK\$'000
Assets					
Segment assets	77,287,514	59,003,434	288,494	454,148	137,033,590
Interests in associates					262,565
Unallocated corporate assets					475,896
					<u>137,772,051</u>
Liabilities					
Segment liabilities	103,641,993	17,452,642	139,485	119,599	121,353,719
Unallocated corporate liabilities					504,760
					<u>121,858,479</u>

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

	Corporate and personal banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital expenditure during the year	48,920	2,826	2,066	22	199,678	253,512
Depreciation	42,373	1,536	1,913	504	16,303	62,629
Release of prepaid lease payments for land	66	–	–	–	–	66

(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:

	2017						
	Total operating income <i>HK\$'000</i>	Profit before taxation <i>HK\$'000</i>	Capital expenditure during the year <i>HK\$'000</i>	Total assets <i>HK\$'000</i>	Total liabilities <i>HK\$'000</i>	Total contingent liabilities and commitments <i>HK\$'000</i>	Non- current assets <i>HK\$'000</i>
Hong Kong	2,308,139	1,567,409	223,707	143,575,786	129,936,255	26,237,373	1,367,414
Macau and Mainland China	401,417	141,856	69,246	20,171,328	16,377,061	12,071,618	195,974
Total	<u>2,709,556</u>	<u>1,709,265</u>	<u>292,953</u>	<u>163,747,114</u>	<u>146,313,316</u>	<u>38,308,991</u>	<u>1,563,388</u>
	2016						
	Total operating income <i>HK\$'000</i>	Profit before taxation <i>HK\$'000</i>	Capital expenditure during the year <i>HK\$'000</i>	Total assets <i>HK\$'000</i>	Total liabilities <i>HK\$'000</i>	Total contingent liabilities and commitments <i>HK\$'000</i>	Non- current assets <i>HK\$'000</i>
Hong Kong	2,414,138	1,583,927	222,423	118,135,827	108,326,735	21,852,799	1,283,254
Macau and Mainland China	260,158	100,073	31,089	19,636,224	13,531,744	3,735,358	108,706
Total	<u>2,674,296</u>	<u>1,684,000</u>	<u>253,512</u>	<u>137,772,051</u>	<u>121,858,479</u>	<u>25,588,157</u>	<u>1,391,960</u>

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

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

NET INTEREST INCOME

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Interest income		
Balances and placements with central bank and banks	523,975	294,803
Investments in securities	977,210	910,983
Loans and advances	2,299,206	1,780,671
Interest rate swaps	–	14,713
	<u>3,800,391</u>	<u>3,001,170</u>
Interest expense		
Deposits and balances of banks	(125,068)	(75,103)
Deposits from customers	(989,745)	(686,118)
Financial assets sold under repurchase agreements	(162,557)	(66,275)
Certificates of deposit	(20,243)	(6,668)
Debt securities issued	(63,161)	(38,961)
Loan capital in issue	(122,489)	(71,018)
Interest rate swaps	–	(12,227)
	<u>(1,483,263)</u>	<u>(956,370)</u>
Net interest income	<u><u>2,317,128</u></u>	<u><u>2,044,800</u></u>
Included within interest income		
Interest income on impaired loans and advances	<u><u>1,701</u></u>	<u><u>704</u></u>

Included within interest income and interest expense are HK\$3,800,391,000 (2016: HK\$2,986,457,000) and HK\$1,483,263,000 (2016: HK\$944,143,000) 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\$977,210,000 (2016: HK\$910,983,000).

NET FEE AND COMMISSION INCOME

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Fee and commission income		
Securities dealings	145,356	109,234
Credit lines	48,282	26,972
Trade finance	16,261	13,962
Credit card services	101,567	91,610
Agency services	85,780	85,780
Others	27,299	16,936
Total fee and commission income	424,545	344,494
Less: Fee and commission expenses	(97,074)	(84,910)
Net fee and commission income	<u>327,471</u>	<u>259,584</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	172,967	139,879
– Fee expenses	(92,218)	(83,138)
	<u>80,749</u>	<u>56,741</u>

NET (LOSS) INCOME FROM TRADING AND INVESTMENTS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Foreign exchange	(216,314)	201,704
Net gains from financial assets designated at fair value	964	919
Net gains on financial instruments at fair value through profit or loss	6,052	2,867
Net gains (losses) on fair value hedge:		
– Net losses on hedged items attributable to the hedged risk	(113,864)	(312,858)
– Net gains on hedging instruments	115,287	319,847
Net gains on disposal of available-for-sale securities		
– Debt securities	106,435	17,580
– Equity securities	7,502	–
	<u>(93,938)</u>	<u>230,059</u>

“Net (loss) income from trading and investments – 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 liquidity management and funding activities. It involves swapping a currency (“original currency”) into another currency (“swap currency”) at the spot exchange rate for short-term placement and simultaneously entering into a forward contract to convert the funds back to the original currency on maturity of the placement. The exchange difference between the spot and forward contracts is recognised as a gain or loss in “net (loss) income from trading and investments – foreign exchange”, while the corresponding interest differential between the surplus funds in the original currency and swap currency is reflected in net interest income.

“Net (loss) income from trading and investments – foreign exchange” also includes certain translation gains and losses reported in accordance with Hong Kong Accounting Standard 21 “The Effects of Changes in Foreign Exchange Rates” in relation to the Group’s Mainland Operation. There were translation losses of approximately HK\$56 million (2016: gains of HK\$56 million) arising from translation of non-Renminbi net monetary assets maintained in the Mainland branches and there were translation losses of approximately HK\$139 million (2016: gains of HK\$70 million) arising from the translation of Renminbi net monetary liabilities at Head Office level in relation to the working capital provided to the Mainland branches. These translation losses from monetary items had been reported as “net (loss) income from trading and investments – foreign exchange” whereas the corresponding translation gains from the consolidation of the Mainland branches had been reported as part of exchange differences arising on translation under other comprehensive income.

OTHER OPERATING INCOME

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Dividend income		
– Listed investments	2,092	5,922
– Unlisted investments	6,119	5,868
	8,211	11,790
Gross rents from investment properties	8,432	7,399
Less: Outgoings	17	(1,640)
Net rental income	8,449	5,759
Safe deposit box rentals	53,567	51,088
Insurance underwriting premiums less claims and commission expenses	14,269	13,158
Other banking services income	55,734	51,082
Gain on retirement benefit	323	–
Others	18,342	6,976
	<u>158,895</u>	<u>139,853</u>

OPERATING EXPENSES

	2017 HK\$'000	2016 HK\$'000
Auditor's remuneration		
– Audit services – current year	6,263	5,134
– Audit services – under provision in prior year	–	615
– Non-audit services	917	2,985
Total auditor's remuneration	7,180	8,734
Staff costs (including directors' emoluments)		
– Salaries and other costs	789,341	709,038
– Retirement benefits scheme contributions	48,937	41,615
– Capitalised to intangible assets	(34,697)	(30,693)
Total staff costs	803,581	719,960
Depreciation	84,137	62,629
– Capitalised to intangible assets	(4,168)	(4,182)
	79,969	58,447
Release of prepaid lease payments for land	66	66
Premises and equipment expenses, excluding depreciation and release of prepaid lease payments for land		
– Rentals and rates for premises	147,038	136,303
– Capitalised to intangible assets	(3,623)	(5,025)
	143,415	131,278
– Others	33,987	29,675
Other operating expenses	287,004	281,518
– Capitalised to intangible assets	(1,569)	(2,126)
	285,435	279,392
	1,353,633	1,227,552

Included in the premises and equipment expenses are minimum lease payments under operating lease of HK\$138,286,000 (2016: HK\$127,072,000).

TAXATION

	2017 HK\$'000	2016 <i>HK\$'000</i>
The tax charge comprises:		
Hong Kong Profits Tax		
– Current year	109,377	235,009
– Under (over) provision in prior years	312	(133)
Overseas taxation		
– Current year	34,557	26,632
– Over provision in prior years	–	(509)
Deferred tax	152	3,297
	144,398	264,296

Hong Kong Profits Tax is calculated at 16.5% (2016: 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:

	2017 HK\$'000	2016 <i>HK\$'000</i>
Profit before taxation	1,709,265	1,684,000
Tax at the domestic income tax rate of 16.5% (2016: 16.5%)	282,029	277,859
Tax effect of share of profits of associates	(9,194)	(5,217)
Tax effect of expenses not deductible for tax purpose	17,852	1,719
Tax effect of income not taxable for tax purpose	(120,921)	(9,752)
Under (over) provision in prior years	312	(642)
Effect of different tax rates of subsidiaries and branches operating in other jurisdictions	3,828	472
Others	(29,508)	(143)
Tax charge for the year	144,398	264,296

Included in the "Others" is mainly the tax effect on deductibility of additional tier 1 capital distribution of HK\$151,974,000 (2016: Nil).

DIVIDENDS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Dividends recognised as distribution to ordinary shareholders during the year:		
2017 Interim – HK\$0.15 (2016: Interim – HK\$0.15) per share	97,875	97,875
2016 Final – HK\$0.39 (2015: Final – HK\$0.37) per share	<u>254,475</u>	<u>241,425</u>
	<u>352,350</u>	<u>339,300</u>

The final dividend of HK\$0.39 per share, totalling HK\$254,475,000, in respect of the current financial year (2016: HK\$0.39 per share, totalling HK\$254,475,000) has been proposed by the Board and is subject to approval by the shareholders in the next AGM of the shareholders.

At the board meeting on 25 August 2017, the Board declared a total amount of interim dividend of HK\$97,875,000 (2016: HK\$97,875,000) at a rate of HK\$0.15 (2016: HK\$0.15) per share. The interim dividend was paid on 25 September 2017.

EARNINGS PER SHARE – BASIC AND DILUTED

The calculation of basic earnings per share is based on the profit attributable to equity owners of the Bank of HK\$1,564,867,000 (2016: HK\$1,419,704,000) with deduction of distribution payment for additional equity instruments of HK\$151,974,000 (2016: HK\$151,425,000) on 652,500,000 (2016: 652,500,000) weighted average ordinary shares in issue during the year.

As at 31 December 2017 and 31 December 2016, there were no potential dilutive instrument in issue.

CASH AND SHORT-TERM FUNDS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Cash and balances with central bank and banks	9,593,548	4,009,869
Money at call and short notice	11,170,870	23,415,448
Exchange fund bills	<u>4,400,223</u>	<u>3,095,964</u>
	<u>25,164,641</u>	<u>30,521,281</u>

Included in the “Cash and balances with central bank and banks” are surplus reserve deposits placed with People’s Bank of China by the Mainland branches of HK\$378,234,000 (2016: HK\$376,287,000).

DERIVATIVE FINANCIAL INSTRUMENTS

	Notional amount <i>HK\$'000</i>	2017 Fair value		Notional amount <i>HK\$'000</i>	2016 Fair value	
		Assets <i>HK\$'000</i>	Liabilities <i>HK\$'000</i>		Assets <i>HK\$'000</i>	Liabilities <i>HK\$'000</i>
Derivatives held for trading						
– Foreign currency forward contracts	148,149,348	361,561	500,892	46,805,949	238,799	173,054
– Foreign currency options	4,490,336	898	898	–	–	–
– Interest rate swaps	5,314,612	12,113	12,029	567,520	11,227	10,708
Derivatives designated as hedging instruments						
– Interest rate swaps	24,642,872	182,221	368,460	16,284,175	174,819	369,852
		<u>556,793</u>	<u>882,279</u>		<u>424,845</u>	<u>553,614</u>

As at 31 December 2017 and 31 December 2016, all foreign currency forward contracts have settlement dates within four years (2016: one year) from the end of the reporting period.

The remaining maturity of interest rate swaps held for trading is within 10 years (2016: within 10 years).

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

	2017			2016		
	Notional amount <i>HK\$'000</i>	Replacement cost <i>HK\$'000</i>	Credit risk- weighted amount <i>HK\$'000</i>	Notional amount <i>HK\$'000</i>	Replacement cost <i>HK\$'000</i>	Credit risk- weighted amount <i>HK\$'000</i>
Exchange rate contracts	152,639,684	362,459	699,625	46,805,949	238,799	222,385
Interest rate contracts	29,957,484	194,334	167,938	16,851,695	186,046	113,171
		<u>556,793</u>	<u>867,563</u>		<u>424,845</u>	<u>335,556</u>

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

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

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

Fair value hedge of fixed-rate bonds

The Group designates certain interest rate swaps as fair value hedges of available-for-sale debt securities with carrying amount of HK\$20,591,803,000 (2016: HK\$15,011,658,000) as at 31 December 2017. The purpose is to minimise its exposure to fair value changes of its fixed-rate bonds by swapping these fixed-rate bonds from fixed rates to floating rates. The interest rate swaps and the corresponding fixed-rate bonds have the same terms. The management of the Group considers that the interest rate swaps are highly effective hedging instruments. The remaining maturity of these interest rate swaps and debt securities ranged from 3 months to 10 years (2016: 5 months to 9 years).

During the years ended 31 December 2017 and 31 December 2016, the above fair value hedges were effective in hedging the fair value exposures to interest rate movements and as a result, both the losses in fair value of the bonds of HK\$184,159,000 (2016: losses of HK\$342,602,000) and gains in fair value of the interest rate swaps of HK\$183,949,000 (2016: gain of HK\$346,203,000) were included in the consolidated income statement.

Fair value hedge of subordinated note issued

The Group designates an interest rate swap as fair value hedge of the interest rate movement of the US\$587 million (2016: US\$225 million) subordinated note issued. The purpose is to minimise its exposure to fair value changes of its fixed-rate note by swapping fixed-rate note from fixed rate to floating rate. The interest rate swap and the hedged subordinated note have the same terms and the management of the Group considers that the interest rate swap is a highly effective hedging instrument.

The hedge was effective in hedging the fair value exposure to interest rate movements and as a result, both the increase in fair value of the note of HK\$70,295,000 (2016: decrease in fair value of HK\$29,744,000) and gains in fair value of the interest rate swap of HK\$68,662,000 (2016: losses of HK\$26,356,000) were included in the consolidated income statement.

INVESTMENTS IN SECURITIES

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

	Financial assets at fair value through profit or loss – Held for trading HK\$'000	Available- for-sale securities HK\$'000	Held-to- maturity securities HK\$'000	Loan and receivable securities HK\$'000	Total HK\$'000
2016					
Equity securities:					
Listed in Hong Kong	241	56,882	–	–	57,123
Listed overseas	–	2,317	–	–	2,317
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Unlisted	241	59,199	–	–	59,440
	–	32,561	–	–	32,561
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	241	91,760	–	–	92,001
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Debt securities:					
Unlisted	–	24,072,268	5,563,683	–	29,635,951
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total:					
Listed in Hong Kong	241	56,882	–	–	57,123
Listed overseas	–	2,317	–	–	2,317
Unlisted	–	24,104,829	5,563,683	–	29,668,512
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	241	24,164,028	5,563,683	–	29,727,952
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As analysed by issuing entities:					
Central governments and central banks	–	4,006,693	4,645	–	4,011,338
Public sector entities	–	26	39,234	–	39,260
Banks	–	7,314,551	941,530	–	8,256,081
Corporate entities	241	12,842,758	4,578,274	–	17,421,273
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	241	24,164,028	5,563,683	–	29,727,952
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

For the equity securities classified as available-for-sale financial instruments, impairment losses accumulated through the years of HK\$18,022,400 (2016: HK\$14,978,000) have been provided by the Group.

Unlisted equity securities classified as available-for-sale held by the Group amounting to HK\$34,735,000 (2016: HK\$32,286,000) are measured at cost less impairment. No impairment has been recognised for these equity securities.

No held-to-maturity certificates of deposit (2016: HK\$775,000) held by the San Francisco representative office of the Bank has 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 available-for-sale and held-to-maturity amounting to HK\$238,061,000 (2016: HK\$231,712,000) and HK\$Nil (2016: HK\$4,645,000) respectively were issued by the Government of Hong Kong Special Administrative Region and the Mainland.

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 Mainland and Hong Kong.

The Group has disposed certain securities classified as available-for-sale financial instruments during the year ended 31 December 2017 and 31 December 2016. Net gains on disposal of available-for-sale securities included in net (loss) income from trading and investments (refers to the gains on the disposal of securities which form part of the business operation). Net gains on disposal of other investments refers to the gains on the disposal of equity investments and structured investment vehicles which were held for capital appreciation.

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 2017 and 31 December 2016 that were transferred to an entity with terms to repurchase these debt securities at agreed dates and prices. As the Group has retained substantially all the risks and rewards relating to these debt securities, the full carrying amount of these debt securities continued to be recognised. The cash received on the transfer was reported as liabilities under "Financial assets sold under repurchase agreements". The transferred debt securities serve as collateral to secure these liabilities. During the covered period, the legal title of the debt securities are transferred to the counterparty entity and there is no restriction for the counterparty entity to sell or repledge the collateral. These debt securities are either measured at amortised cost or carried at fair value in the consolidated statement of financial position.

	31 December 2017		
	Available- for-sale debt securities HK\$'000	Held-to- maturity debt securities HK\$'000	Total HK\$'000
Carrying amount of transferred assets	11,743,378	1,929,075	13,672,453
Carrying amount of associated liabilities	10,840,377	1,162,612	12,002,989
	31 December 2016		
	Available- for-sale debt securities HK\$'000	Held-to- maturity debt securities HK\$'000	Total HK\$'000
Carrying amount of transferred assets	8,967,269	1,656,879	10,624,148
Carrying amount of associated liabilities	8,382,649	1,463,104	9,845,753

ADVANCES AND OTHER ACCOUNTS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Advances to customers		
Bills receivable	845,295	564,206
Trade bills	283,588	801,981
Other advances to customers	85,569,489	69,322,968
	86,698,372	70,689,155
Interest receivable	644,368	481,079
Impairment allowances		
– Individually assessed	(394,393)	(39,737)
– Collectively assessed	(329,639)	(251,219)
	86,618,708	70,879,278
Advances to banks	107,829	496,256
Other accounts	4,223,250	2,706,071
	90,949,787	74,081,605

Included in the “Other accounts” is initial and variation margin of HK\$849,906,000 (2016: HK\$538,331,000) deposited in banks for certain interest rate swaps, foreign currency forward contracts and repurchase agreements and an amount of approximately HK\$2,657,492,000 (2016: HK\$1,548,577,000) placed as reserve funds with banks in the Mainland by the Mainland branches. Among which, HK\$1,776,005,000 (2016: HK\$716,623,000) 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\$881,487,000 (2016: HK\$831,954,000) are the fixed deposits placed with financial institutions in the Mainland in compliance with the requirements of Regulations Governing Foreign Financial Institutions of the Mainland.

The remaining balance of “Other accounts” amounting to HK\$715,852,000 (2016: HK\$619,163,000) 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\$420,605,000 (2016: HK\$259,568,000).

Impairment allowances on advances:

	Individual assessment HK\$'000	Collective assessment HK\$'000	Total HK\$'000
Balance 1 January 2017	39,737	251,219	290,956
– Increase in impairment allowances	366,022	74,543	440,565
– Amounts reversed	(68,974)	–	(68,974)
Net charge of impairment allowances	297,048	74,543	371,591
Amounts written off	(4,487)	–	(4,487)
Recoveries of advances written off in previous years	63,796	–	63,796
Unwinding effect of discount rate	(1,701)	–	(1,701)
Exchange difference	–	3,877	3,877
Balance 31 December 2017	<u>394,393</u>	<u>329,639</u>	<u>724,032</u>
Balance 1 January 2016	23,688	250,494	274,182
– Increase in impairment allowances	27,070	2,167	29,237
– Amounts reversed	(69,435)	–	(69,435)
Net charge (reversal) of impairment allowances	(42,365)	2,167	(40,198)
Amounts written off	(5,758)	–	(5,758)
Recoveries of advances written off in previous years	64,876	–	64,876
Unwinding effect of discount rate	(704)	–	(704)
Exchange difference	–	(1,442)	(1,442)
Balance 31 December 2016	<u>39,737</u>	<u>251,219</u>	<u>290,956</u>

Details of the impaired loans are as follows:

	2017 HK\$'000	2016 <i>HK\$'000</i>
Gross impaired loans	398,100	48,253
Less: Impairment allowances under individual assessment	<u>(394,393)</u>	<u>(39,737)</u>
Net impaired loans	<u>3,707</u>	<u>8,516</u>
Gross impaired loans as a percentage of gross advances to customers	<u>0.46%</u>	<u>0.07%</u>
Market value of collateral pledged	<u>3,873</u>	<u>9,150</u>

Details of the non-performing loans are as follows:

	2017 HK\$'000	2016 <i>HK\$'000</i>
Gross non-performing loans (<i>Note</i>)	485,492	449,772
Less: Impairment allowances under individual assessment	<u>(394,393)</u>	<u>(39,737)</u>
Net non-performing loans	<u>91,099</u>	<u>410,035</u>
Gross non-performing loans as a percentage of gross advances to customers	<u>0.56%</u>	<u>0.64%</u>
Market value of collateral pledged	<u>200,716</u>	<u>760,420</u>

Note: Non-performing loans represent advances which are either classified as “substandard”, “doubtful” or “loss” under the Group’s classification of loan quality. The occurrence of loss event(s) may not necessarily result in impairment loss where the advances are fully collateralised. While such advances are of “substandard” or lower grades, they are regarded as not being impaired.

In accordance with HKAS 39, individual impairment allowances are assessed by a discounted cash flow method for loans and advances that are individually significant and have objective evidence of impairment. The increase in impairment allowances under individual allowances for the year ended 31 December 2017 was mainly due to one corporate credit relationship, which is engaged in various business segments including food production based in Mainland China, and is undergoing winding up proceedings. The exposure was fully provided for individual impairment allowances as at 31 December 2017.

In addition to the individually assessed loans impairment allowance, the Group has also provided collectively assessed loans impairment allowance for loans that are individually insignificant or advances where no impairment has been identified individually.

ASSETS HELD FOR SALE

The carrying amount of assets held for sale comprises:

	2017 HK\$'000	2016 <i>HK\$'000</i>
Leasehold land and buildings in Hong Kong		
Held on medium-term lease (10-50 years expired)	<u>–</u>	<u>2</u>

INVESTMENT PROPERTIES

	2017 HK\$'000	2016 <i>HK\$'000</i>
At 1 January	282,927	264,222
Transfer from land and buildings	–	19,000
Net increase in fair value recognised in the profit or loss	12,632	2,026
Exchange adjustments	<u>3,206</u>	<u>(2,321)</u>
At 31 December	<u>298,765</u>	<u>282,927</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.

Investment properties owned by the Group were revalued at 31 December 2017 by adopting the direct comparison approach (2016: direct comparison approach) and with reference to the recent transactions for similar premises by Vigers Appraisal and Consulting Limited (2016: Vigers Appraisal and Consulting Limited), independent professionally qualified valuers. The fair value is mainly arrived at by reference to comparable market transactions for similar properties.

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

One of the key inputs used in valuing the investment properties was the unit sale rate taking into account of time, location and individual factors such as size and levels of building, which ranged from HK\$3,300 to HK\$49,400 (2016: HK\$3,000 to HK\$47,900) per square feet. A decrease in the unit sale rate would result in decrease in fair value measurement of the investment properties by the same percentage decrease and vice versa.

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

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

Investment properties are classified as Level 3 under fair value hierarchy as at 31 December 2017 and 31 December 2016. 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:

	2017 HK\$'000	2016 <i>HK\$'000</i>
Leasehold properties		
Held in Hong Kong on long-term lease (over 50 years unexpired)	164,500	159,700
Held in Hong Kong on medium-term lease (10 – 50 years unexpired)	87,500	84,300
Held outside Hong Kong on medium-term lease (10 – 50 years unexpired)	46,765	38,927
	298,765	282,927

PROPERTY AND EQUIPMENT

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

	Leasehold land <i>HK\$'000</i>	Buildings <i>HK\$'000</i>	Equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST				
At 1 January 2016	486,181	163,595	641,040	1,290,816
Additions	–	–	82,389	82,389
Disposals	(3,661)	(814)	(13,356)	(17,831)
Transfer to assets held for sale	(6)	(20)	–	(26)
Transfer to investment properties	(4,202)	(1,070)	–	(5,272)
Exchange adjustments	–	(251)	(4,259)	(4,510)
At 31 December 2016	<u>478,312</u>	<u>161,440</u>	<u>705,814</u>	<u>1,345,566</u>

ACCUMULATED DEPRECIATION

At 1 January 2016	131,429	48,663	482,947	663,039
Depreciation	10,805	4,072	47,752	62,629
Eliminated on disposals	(93)	(534)	(8,795)	(9,422)
Transfer to assets held for sale	(4)	(20)	–	(24)
Transfer to investment properties	(1,931)	(570)	–	(2,501)
Exchange adjustments	–	(110)	(1,649)	(1,759)
At 31 December 2016	<u>140,206</u>	<u>51,501</u>	<u>520,255</u>	<u>711,962</u>

CARRYING AMOUNTS

At 31 December 2016	<u>338,106</u>	<u>109,939</u>	<u>185,559</u>	<u>633,604</u>
At 1 January 2016	<u>354,752</u>	<u>114,932</u>	<u>158,093</u>	<u>627,777</u>

The carrying amounts of leasehold land shown above comprise:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Leasehold land in Hong Kong:		
Held on long-term lease (over 50 years unexpired)	28,881	33,507
Held on medium-term lease (10 – 50 years unexpired)	232,236	303,775
Leasehold land outside Hong Kong:		
Held on medium-term lease (10 – 50 years unexpired)	<u>861</u>	<u>824</u>
	<u>261,978</u>	<u>338,106</u>

The carrying amounts of buildings shown above comprise:

	2017 HK\$'000	2016 <i>HK\$'000</i>
Building		
Held in Hong Kong on long-term lease (over 50 years unexpired)	5,493	7,959
Held in Hong Kong on medium-term lease (10-50 years unexpired)	68,334	96,031
Held outside Hong Kong on medium-term lease (10-50 years unexpired)	<u>6,403</u>	<u>5,949</u>
	<u>80,230</u>	<u>109,939</u>

PREPAID LEASE PAYMENTS FOR LAND

The Group's prepaid lease payments for land comprise:

	2017 HK\$'000	2016 <i>HK\$'000</i>
COST		
Outside Hong Kong held on:		
Leases of between 10-50 years	<u>2,850</u>	<u>2,850</u>
Net book value at 1 January	2,201	2,269
Release of prepaid operating lease payments	(66)	(66)
Exchange adjustments	<u>(1)</u>	<u>(2)</u>
Net book value at 31 December	<u>2,134</u>	<u>2,201</u>
Analysed as:		
Current portion	66	66
Non-current portion	<u>2,068</u>	<u>2,135</u>
Total	<u>2,134</u>	<u>2,201</u>

FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Analysed by collateral type:		
Debt securities classified as:		
Available-for-sale	10,840,377	8,382,649
Held-to-maturity	1,162,612	1,463,104
	<u>12,002,989</u>	<u>9,845,753</u>

As at 31 December 2017, debt securities which are classified as available-for-sale and held-to-maturity with carrying amount of HK\$11,743,378,000 (2016: HK\$8,967,269,000) and HK\$1,929,075,000 (2016: HK\$1,656,879,000) respectively were sold under repurchase agreements with other banks. All repurchase agreements are due within 12 months from the end of the reporting period.

DEPOSITS FROM CUSTOMERS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Demand deposits and current accounts	12,624,082	9,508,384
Savings deposits	37,667,095	35,751,109
Time, call and notice deposits	68,467,497	57,621,136
	<u>118,758,674</u>	<u>102,880,629</u>

CERTIFICATES OF DEPOSIT AND DEBT SECURITIES ISSUED

The Group has issued certificates of deposit which are measured at amortised cost with a total carrying amount of HK\$3,217,451,000 as at 31 December 2017 (2016: HK\$812,329,000). Certificates of deposit bear contractual interest rates between 0.95% to 4.65% (2016: 1.10% to 1.41%) per annum and will mature within 3 years (2016: 1 year). All certificates of deposit issued are not secured by any collateral.

The Group has issued debt securities which are measured at amortised cost with a total carrying amount of HK\$1,796,069,000 as at 31 December 2017 (2016: HK\$1,663,774,000). The debt securities issued bear contractual interest rate at 3.6% per annum (2016: 3.6% per annum) and will mature in May 2019. The debt securities issued are not secured by any collateral.

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

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

LOAN CAPITAL

	2017 HK\$'000	2016 HK\$'000
Subordinated notes, at amortised cost with fair value hedge adjustments		
US\$204 million (2016: US\$225 million) fixed rate subordinated note due 2020 (<i>Notes (a) & (c)</i>)	1,615,531	1,792,267
US\$383 million fixed rate subordinated note due 2027 (<i>Notes (b) & (c)</i>)	<u>2,925,849</u>	<u>-</u>
	<u>4,541,380</u>	<u>1,792,267</u>

Notes:

- (a) This represented a subordinated note qualifying as tier 2 capital under Basel II accord with face value of US\$225,000,000 issued on 5 November 2010 (the “Existing Notes”). The note will mature on 4 November 2020. If at any time on or after 1 January 2013, the note no longer fully qualifies as term subordinated debt for inclusion in Category II – Supplementary Capital of the Bank upon changes to regulatory requirements, the Bank may, at its option and subject to the prior written approval of the HKMA, exercise a change of the status of the note by serving the “Change in Status Notice” to the noteholders. Upon a “Change in Status Notice” becoming effective, the note shall thereafter constitute unsubordinated obligations and the rate of interest on the note shall be reduced from 6% per annum to 5.5% per annum. As “Change in Status Notice” has not been served, the rate of interest on the note remains at 6% per annum. Pursuant to the exchange offer by the Bank, the Bank settled and exchanged US\$20,976,000 of the Existing Notes for new tier 2 subordinated note due 2027 (Note(b)). Following the settlement of the exchange offer, US\$204,024,000 in aggregate principal amount of the Existing Notes remains outstanding.

- (b) This represented a subordinated note qualifying as tier 2 capital under Basel III accord with face value of US\$382,903,000 tier 2 subordinated notes issued on 26 July 2017 (the “New Notes”). The New Notes are 10-year non-call 5-year fixed rate notes, with a fixed coupon rate of 3.876% per annum, payable semi-annually for the first five years; the interest rate will be reset on 26 July 2022. This includes US\$22,903,000 of “New Exchange Notes” (being the New Notes issued pursuant to the exchange offer by the Bank to the holders of its US\$225 million 6.000% Subordinated Notes due 2020) and US\$360 million of “New Money Notes”. The New Notes have been listed on the Stock Exchange of Hong Kong under Stock Code of 05249 on 27 July 2017.
- (c) The subordinated notes issued are not secured by any collateral.

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

	2017 HK\$'000
At 1 January 2017	1,792,267
Changes from financing cash flows:	
Net proceeds from issue of loan capital	2,816,997
Interest paid on loan capital	(102,471)
	<u>4,506,793</u>
Exchange adjustments	748
Fair value hedge adjustments	(70,295)
Other changes	
Interest expense	122,489
Other non-cash movements	(18,355)
Total other changes	<u>104,134</u>
At 31 December 2017	<u>4,541,380</u>

SHARE CAPITAL

	2017		2016	
	Number of shares (thousands)	Share capital HK\$'000	Number of shares (thousands)	Share capital HK\$'000
At 1 January and 31 December	<u>652,500</u>	<u>5,435,904</u>	<u>652,500</u>	<u>5,435,904</u>

ADDITIONAL EQUITY INSTRUMENTS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
US\$300 million undated non-cumulative subordinated additional tier 1 capital securities	<u>2,312,030</u>	<u>2,312,030</u>

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

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

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

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

During the year, a distribution of US\$19,500,000 (2016: US\$19,500,000) (equivalent to HK\$151,974,000 (2016: HK\$151,425,000)) was paid to the securities holders.

DEFERRED TAXATION

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Deferred tax assets	–	4,672
Deferred tax liabilities	<u>(50,136)</u>	<u>(13,245)</u>
	<u>(50,136)</u>	<u>(8,573)</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 2017	(2,899)	35,365	(8,473)	(29,074)	(3,492)	(8,573)
Credit (charge) to income statement for the year	3,039	632	(3,823)	-	-	(152)
Charge to other comprehensive income for the year	-	-	-	(39,619)	(932)	(40,551)
Exchange adjustments	-	-	(860)	-	-	(860)
At 31 December 2017	140	35,997	(13,156)	(68,693)	(4,424)	(50,136)
At 1 January 2016	(3,881)	38,327	(7,653)	(22,626)	(3,492)	675
Credit (charge) to income statement for the year	982	(2,962)	(1,317)	-	-	(3,297)
Charge to other comprehensive income for the year	-	-	-	(6,448)	-	(6,448)
Exchange adjustments	-	-	497	-	-	497
At 31 December 2016	(2,899)	35,365	(8,473)	(29,074)	(3,492)	(8,573)

Under the Enterprise Income Tax Law of the People's Republic of China, withholding tax is imposed on profits distributed by the Bank's Mainland branches from 1 January 2008 onwards. Deferred taxation has not been provided in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the Mainland branches amounting to HK\$561,562,000 (2016: HK\$455,797,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

INTANGIBLE ASSETS

	Goodwill	Internally developed software	Total
Cost:			
At 1 January 2017	110,606	171,123	281,729
Addition through internal development	–	159,677	159,677
At 31 December 2017	<u>110,606</u>	<u>330,800</u>	<u>441,406</u>
At 1 January 2016	110,606	–	110,606
Addition through internal development	–	171,123	171,123
At 31 December 2016	<u>110,606</u>	<u>171,123</u>	<u>281,729</u>
Accumulated impairment			
At 1 January and 31 December 2017	<u>71,000</u>	<u>–</u>	<u>71,000</u>
At 1 January 2016	<u>60,000</u>	<u>–</u>	<u>60,000</u>
Impairment	<u>11,000</u>	<u>–</u>	<u>11,000</u>
At 31 December 2016	<u>71,000</u>	<u>–</u>	<u>71,000</u>
Net book value			
At 31 December 2017	<u>39,606</u>	<u>330,800</u>	<u>370,406</u>
At 31 December 2016	<u>39,606</u>	<u>171,123</u>	<u>210,729</u>

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

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

The management of the Group determines no impairment loss on the goodwill for the year ended 31 December 2017 (2016: HK\$11,000,000).

During the year, there was an addition of HK\$159,677,000 to internally developed software, which is a computer software currently under internal development. Included in the balance as at 31 December 2017, HK\$86,083,000 (2016: HK\$42,026,000) is capitalised from expenditures that directly attributable to the development of the software.

CONTINGENT LIABILITIES AND COMMITMENTS

	2017 HK\$'000	2016 HK\$'000
Contingent liabilities and commitments		
– contractual amounts		
Direct credit substitutes	1,315,865	805,429
Trade-related contingencies	1,995,688	596,068
Forward asset purchases	82,323	161,609
Undrawn formal standby facilities, credit lines and other commitments		
Which are unconditionally cancellable without prior notice	23,797,922	6,489,024
With an original maturity of one year and under	3,738,747	8,880,273
With an original maturity of over one year	7,178,886	8,397,394
Lease commitments	199,560	258,360
	38,308,991	25,588,157

The credit risk-weighted amount of contingent liabilities and commitments is HK\$5,604,792,000 (2016: HK\$6,103,286,000).

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% (2016: 0% to 100%) which is assessed in accordance with the Banking (Capital) Rules.

Direct credit substitutes include financial guarantees given by the Group.

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

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

	2017 HK\$'000	2016 HK\$'000
Within one year	128,470	120,932
In the second to fifth years, inclusive	71,090	137,428
	199,560	258,360

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:

	2017 HK\$'000	2016 HK\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of property and equipment	82,323	161,609

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

	2017 HK\$'000	2016 HK\$'000
Within one year	5,312	7,409
In the second to fifth years, inclusive	6,853	10,764
After five years	–	632
	12,165	18,805

RELATED PARTY TRANSACTIONS

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

	Interest, commission and rental income		Interest, rental and other operating expenses	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Ultimate holding company	12	2	18,285	3,505
Intermediate holding company	7,526	1,528	13,953	17,518
Fellow subsidiaries	4,784	11,579	47,555	14,068
Associates	48,848	62,115	1,783	5,393
Key management personnel (<i>Note</i>)	1,962	1,202	1,644	1,219

During the year, the Group had net trading income with intermediate holding company and fellow subsidiary of HK\$6,674,000 (2016: HK\$8,921,000).

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

	Amounts due from related parties		Amounts due to related parties	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Ultimate holding company	<u>–</u>	<u>–</u>	<u>426,430</u>	<u>1,453,839</u>
Intermediate holding company	<u>298,008</u>	<u>295,792</u>	<u>53,704</u>	<u>2,140</u>
Fellow subsidiaries	<u>835,733</u>	<u>2,507</u>	<u>1,766,326</u>	<u>1,842,204</u>
Associates	<u>–</u>	<u>–</u>	<u>213,367</u>	<u>152,867</u>
Key management personnel (<i>Note</i>)	<u>572,376</u>	<u>55,754</u>	<u>201,155</u>	<u>211,290</u>

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

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

As at 31 December 2017, the Group had operating lease commitments with fellow subsidiaries of HK\$18,411,000 (31 December 2016: HK\$19,183,000).

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

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

Compensation of key management personnel

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

	2017 HK\$'000	2016 HK\$'000
Short-term benefits	160,161	139,331
Post employment benefits	<u>10,015</u>	<u>8,739</u>
	<u>170,176</u>	<u>148,070</u>

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

As of 31 December 2017, the Group accrued a bonus for the Group's senior management and employees. The accrued bonus was approved by the Remuneration Committee on 9 February 2018. The Group has not completed the allocation of the bonus to individual senior management. The allocation of accrued bonus included under short-term benefits above represents the best estimate of management for the bonus to be distributed to key management personnel as of the date of approval of the financial statements.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Bank is an authorised institution supervised by the HKMA under the Hong Kong Banking Ordinance. The Bank is committed to maintaining high standards of corporate governance, with a view to safeguarding the interests of shareholders, customers, employees and other stakeholders. The Bank has applied the principles in the Corporate Governance Code (the “Code”) set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the module on “Corporate Governance of Locally Incorporated Authorised Institutions” under the Supervisory Policy Manual issued by the HKMA to its corporate governance structure and practices.

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

Throughout the year ended 31 December 2017, the Bank complied with all the applicable code provisions set out in the Code, except for deviations from the following code provisions:

1. Code Provision A.4.1 provides that non-executive directors should be appointed for a specific term, subject to re-election. None of the Non-executive Directors of the Bank was appointed for a specific term; however, all of them are subject to retirement by rotation and re-election at the annual general meeting (“AGM”) of the Bank in accordance with the Bank’s Articles of Association.
2. Rule 3.25 of the Listing Rules and Code Provision A.5.1 of the Code provide that the remuneration committee and the nomination committee should comprise a majority of independent non-executive directors. Following the passing away of Mr Chiranakhorn Wanchai, the then Independent Non-executive Director of the Bank, on 23 January 2017, only half of the members of both the Remuneration Committee and the Nomination Committee of the Bank were Independent Non-executive Directors. The Board conducted a holistic review and put in place the new composition of the Remuneration Committee and the Nomination Committee with effect from 16 February 2017 in order to comply with the respective requirements under Rule 3.25 of the Listing Rules and Code Provision A.5.1 of the Code.

COMPLIANCE WITH MODEL CODE

The Bank has adopted its own code for securities transactions by Directors on terms no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) under Appendix 10 to the Listing Rules. All the Directors confirmed, following specific enquiry by the Bank, that they have complied with the required standards set out in the Model Code and the Bank’s own code for securities transactions by Directors throughout the year ended 31 December 2017.

FINAL DIVIDEND

The Board will recommend at the forthcoming AGM of the Bank to be held on Friday, 18 May 2018 the payment of the final cash dividend for 2017 of HK\$0.39 per share (2016: HK\$0.39 per share). This final cash dividend, if approved, will be paid on Tuesday, 5 June 2018 to the shareholders whose names appear on the register of members of the Bank on Tuesday, 29 May 2018.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining the shareholders who are entitled to attend and vote at the 2018 AGM, the register of members of the Bank will be closed from Monday, 14 May 2018 to Thursday, 17 May 2018 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for attending and voting at the 2018 AGM, all transfer documents, together with the relevant share certificates, must be lodged for registration with the Bank's share registrar and transfer office, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 pm on Friday, 11 May 2018.

In addition, for the purpose of ascertaining the shareholders who are qualified to receive the final cash dividend, the register of members of the Bank will be closed from Friday, 25 May 2018 to Tuesday, 29 May 2018 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for receiving the 2017 final cash dividend, all transfer documents, together with the relevant share certificates, must be lodged for registration with the Bank's share registrar and transfer office, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 pm on Thursday, 24 May 2018.

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

On 26 July 2017, the Bank completed the issue of US\$382,903,000 Tier 2 Subordinated Notes due 2027 (the "New Notes"), which are listed on The Stock Exchange of Hong Kong Limited (Stock Code: 05249). Pursuant to the exchange offer by the Bank to the holders of its US\$225,000,000 6.000% Subordinated Notes due 2020 (Stock Code: 04327) (the "Existing Notes") to exchange their Existing Notes for the New Notes (the "Exchange Offer"), US\$22,903,000 out of US\$382,903,000 in aggregate principal amount of the New Notes was issued in exchange for US\$20,976,000 in aggregate principal amount of the Existing Notes. Following the settlement of the Exchange Offer, US\$204,024,000 in aggregate principal amount of the Existing Notes remains outstanding.

Save for the Exchange Offer as disclosed above, neither the Bank nor any of its subsidiaries purchased, sold or redeemed any of the Bank's listed securities during the year.

PUBLICATION OF 2017 FINAL RESULTS AND ANNUAL REPORT

This announcement is published on the websites of the Bank (www.chbank.com) and Hong Kong Exchanges and Clearing Limited (the “HKEX”) (www.hkexnews.hk). The 2017 Annual Report will be available on the websites of the Bank and the HKEX, and the printed copies will be despatched to the shareholders of the Bank, both in April 2018.

OTHER FINANCIAL INFORMATION

The Bank has set up a “Regulatory Disclosures” section on its website (www.chbank.com/en/regulatory-disclosures/index.shtml) to house the information relating to the disclosure of regulatory capital to comply with the Banking (Disclosure) Rules. The “Regulatory Disclosures”, together with the disclosures in the Bank’s Annual Report, contained all the disclosures required by the Banking (Disclosure) Rules issued by the HKMA. The “Regulatory Disclosures” together with the Annual Report for 2017 will be available in April 2018.

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

Hong Kong, 29 March 2018

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

- *Executive Directors*
Mrs Leung Ko May Yee Margaret (Deputy Chairman and Managing Director), Mr Zong Jianxin (Deputy Managing Director and Chief Executive) and Mr Lau Wai Man (Deputy Managing Director);
- *Non-executive Directors*
Mr Zhang Zhaoxing (Chairman), Mr Zhu Chunxiu, Mr Wang Shuhui, Mr Li Feng and Mr Chow Cheuk Yu Alfred; and
- *Independent Non-executive Directors*
Mr Cheng Yuk Wo, Mr Ma Chiu Cheung Andrew, Mr Lee Ka Lun and Mr Yu Lup Fat Joseph.