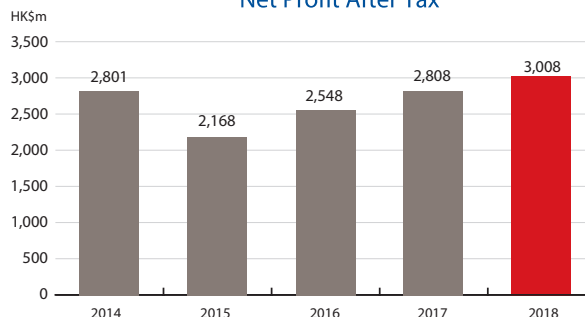


# 2018 Results Highlights

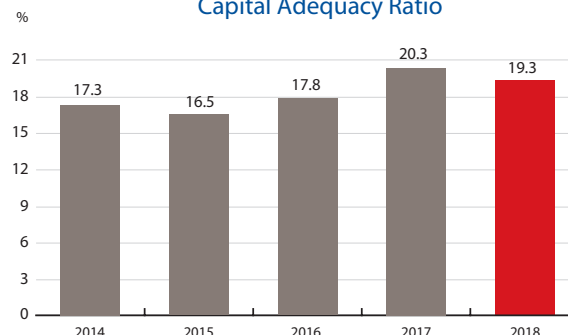
## Financial Performance

- **Net profit after tax** was HK\$3.01 billion, up 7.1% year on year.
- **Operating profit after impairment** increased by 10.5% to HK\$3.62 billion, with HK\$1.40 billion of impairment made.
- **Operating income** rose by 6.8% to HK\$8.41 billion, with **net interest income** of HK\$6.40 billion, up 18.6%. **Net interest margin (NIM)** increased by 14 basis points to 1.82% due to higher asset yields.
- **ROA** was down 1 basis point to 0.84% while **ROE** was 1.74 percentage points lower at 8.37%.
- **Total assets** grew by 5.4% to reach HK\$362.94 billion. **Total deposits** increased by 5.0% to HK\$288.63 billion while **customer loans including trade bills** were up 2.8% to HK\$201.82 billion.
- **Retail deposits and lending** expanded by 16.9% and 12.3% respectively, faster than the growth rates of the Bank's total.
- **Impaired loan ratio** as at end-2018 was 0.85% versus 1.26% as at end-2017 while **non-performing loan coverage ratio** went up to 154.9%, an increase of 93.1 percentage points.
- **Capital adequacy ratio** and **CET1 ratio** met regulatory requirements at 19.3% and 12.8% respectively.

Net Profit After Tax



Capital Adequacy Ratio



## Core Businesses

**Wholesale Banking Group (WBG)**'s operating income increased by 1.7% year on year on the back of a higher NIM despite basically the same loan size as the previous year. WBG continued to proactively adjust its loan portfolio by replacing relatively higher risk loans with more secured loans backed by direct mortgages and collaborating with China CITIC Bank Corporation Limited (CNCB) to serve large state-owned enterprises (SOEs). As a result, more than 63% of new real estate finance approvals in 2018 were backed by better credit quality direct mortgages, and more than 60% of the remaining unpledged portion was guaranteed by either SOEs or large financial institutions. Collaboration with CNCB and the CITIC Group resulted in more business opportunities, with collaboration income up 8.4% year on year and accounting for 45.8% of total operating income. WBG continued to actively pursue mergers and acquisition (M&A) financing opportunities and arranged US\$9.16 billion of M&A financing last year. Together with CNCB, CNCBI won the prestigious 2018 IFR China Loan House Award.

**Personal and Business Banking Group (PBG)** achieved record-high deposits and loans balances as at end-2018, reaching HK\$152.92 billion and HK\$51.52 billion respectively, up 16.9% and 12.3% from end-2017. Operating income grew by 5.4% to reach HK\$2.50 billion while profit before tax surpassed HK\$1 billion for the first time to set a new record of HK\$1.03 billion, up 8.2% year on year. PBG continued to focus on high net worth customers with the number of customers and customers' assets under management up 31.8% and 21.5% respectively. PBG is committed to delivering innovative technology solutions to enhance customer experience. In March, CNCBI was the first bank in Hong Kong to launch the inMotion mobile app which enables Hong Kong identity card holders to open bank accounts remotely and has subsequently extended this service to investment account opening. Business banking was another key growth area and the two business banking centres continued to achieve encouraging growth in loans and deposits in 2018.

**Treasury and Markets Group (TMG)** recorded an increase of 16.9% in total operating income, reaching HK\$851.16 million in 2018. The Debt Capital Markets team completed 104 deals for 69 Chinese issuers with an aggregate issuance size of US\$43.93 billion and total fee income of HK\$234.46 million recognized during the year. According to Bloomberg Offshore China Bonds issuance volume, CNCBI ranked eighth among all managers and fifth among all Chinese financial institutions as at end-2018. In August, HKEX OTC Clearing HK Ltd. approved CNCBI's application as a direct member for over-the-counter central clearing. Moreover, in October, the Securities and Futures Commission granted Type 4 and Type 9 licenses to CNCBI Asset Management Ltd. The asset management team intends to build up a sustainable business model in order to provide additional stable income for the Bank. Meanwhile, the Central Treasury Unit adjusted the funds transfer pricing curve in a timely manner to ensure prudent management of the Bank's liquidity.



# CHINA CITIC BANK INTERNATIONAL LIMITED

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

## ANNOUNCEMENT OF 2018 ANNUAL RESULTS

The Board of Directors of China CITIC Bank International Limited (“the Bank”) is pleased to announce the consolidated results of the Bank and its subsidiaries (“the Group”) for the year ended 31 December 2018.

### CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

(Expressed in Hong Kong dollars)

	2018 HK\$'000	2017 HK\$'000
Interest income	11,460,798	8,838,949
Interest expense	(5,060,442)	(3,443,959)
<b>Net interest income</b>	<b>6,400,356</b>	<b>5,394,990</b>
Fee and commission income	1,566,356	1,685,994
Fee and commission expense	(107,943)	(73,248)
<b>Net fee and commission income</b>	<b>1,458,413</b>	<b>1,612,746</b>
Net trading income	588,969	695,361
Net hedging (loss)/gain	(1,562)	976
Net loss on disposal of financial assets at fair value through other comprehensive income	(70,419)	—
Net gain on disposal of available-for-sale securities	—	126,794
Other operating income	34,317	42,077
<b>Operating income</b>	<b>8,410,074</b>	<b>7,872,944</b>
<b>Operating expenses</b>	<b>(3,385,067)</b>	<b>(3,173,699)</b>
<b>Operating profit before impairment</b>	<b>5,025,007</b>	<b>4,699,245</b>
Expected credit losses on financial assets	(1,316,500)	—
Impairment losses on loans and advances and other accounts	—	(1,391,065)
Impairment losses on available-for-sale securities	—	(31,204)
Impairment losses on other assets	(86,155)	—
<b>Impairment losses</b>	<b>(1,402,655)</b>	<b>(1,422,269)</b>
<b>Operating profit</b>	<b>3,622,352</b>	<b>3,276,976</b>
Net loss on disposal of property and equipment	(793)	(4,055)
Revaluation gain on investment properties	190	14,290
Share of profit of associates	2,151	—
<b>Profit before taxation</b>	<b>3,623,900</b>	<b>3,287,211</b>
Income tax	(615,542)	(478,774)
<b>Profit for the year</b>	<b>3,008,358</b>	<b>2,808,437</b>
<b>Profit attributable to shareholders</b>	<b>3,008,358</b>	<b>2,808,437</b>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME****For the year ended 31 December 2018***(Expressed in Hong Kong dollars)*

	<b>2018</b> <b>HK\$'000</b>	2017 <i>HK\$'000</i>
<b>Profit for the year</b>	<b>3,008,358</b>	2,808,437
<b>Other comprehensive (loss)/income for the year</b>		
<b>Items that will be reclassified subsequently to consolidated income statement when specific conditions are met</b>		
Exchange differences on translation of financial statements of foreign operations	<b>(88,425)</b>	119,152
Cash flow hedges		
– transfer to income statement on disposal	–	(1,279)
– deferred tax related to the above	–	211
	–	(1,068)
Financial assets at fair value through other comprehensive income		
– change in the fair value of debt instruments	<b>(320,754)</b>	–
– transfer to income statement on disposal	<b>(65,884)</b>	–
– transfer to income statement on impairment	<b>127,858</b>	–
– deferred tax related to the above	<b>49,254</b>	–
	<b>(209,526)</b>	–
Available-for-sale securities		
– change in fair value	–	62,269
– transfer to income statement on disposal	–	(122,929)
– transfer to income statement on impairment	–	26,851
– deferred tax related to the above	–	7,648
	–	(26,161)
<b>Items that will not be reclassified subsequently to consolidated income statement</b>		
Other property revaluation reserve		
– surplus on revaluation of other premises upon reclassification to investment properties	<b>76,245</b>	–
Financial assets at fair value through other comprehensive income		
– change in the fair value of equity instruments	<b>3,625</b>	–
– deferred tax related to the above	<b>(598)</b>	–
	<b>3,027</b>	–
<b>Other comprehensive (loss)/income for the year</b>	<b>(218,679)</b>	91,923
<b>Total comprehensive income for the year</b>	<b>2,789,679</b>	2,900,360
<b>Total comprehensive income attributable to shareholders</b>	<b>2,789,679</b>	2,900,360

# **CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**At 31 December 2018**

*(Expressed in Hong Kong dollars)*

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
<b>ASSETS</b>		
Cash and balances with banks, central banks and other financial institutions	29,622,486	31,657,854
Placements with and advances to banks, central banks and other financial institutions	52,886,380	47,402,438
Financial assets at fair value through profit or loss	1,440,532	1,029,044
Derivative financial instruments	6,027,833	4,770,495
Loans and advances to customers and other accounts	203,829,256	198,986,939
Financial assets at fair value through other comprehensive income	66,977,407	–
Available-for-sale securities	–	59,346,677
Interest in associates	352,151	–
Property and equipment		
– Investment properties	241,970	132,780
– Other premises and equipment	492,854	887,569
Intangible assets	652,210	–
Tax recoverable	8,353	29,047
Deferred tax assets	413,359	65,841
<b>Total Assets</b>	<b>362,944,791</b>	<b>344,308,684</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
Deposits and balances of banks and other financial institutions	2,849,375	5,187,319
Deposits from customers	285,492,851	271,471,865
Derivative financial instruments	6,543,351	4,824,483
Certificates of deposit issued	3,133,151	3,421,769
Debt securities issued	3,408,077	3,584,064
Current tax liabilities	600,053	497,575
Deferred tax liabilities	7,940	1,631
Other liabilities	8,645,374	5,422,626
Loan capital	6,283,542	6,340,192
<b>Total Liabilities</b>	<b>316,963,714</b>	<b>300,751,524</b>
<b>Equity</b>		
Share capital	18,404,013	18,404,013
Reserves	17,496,484	18,979,895
<b>Total shareholders' equity</b>	<b>35,900,497</b>	<b>37,383,908</b>
Additional equity instruments	10,080,580	6,173,252
<b>Total Equity</b>	<b>45,981,077</b>	<b>43,557,160</b>
<b>Total Equity and Liabilities</b>	<b>362,944,791</b>	<b>344,308,684</b>

# **CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

**For the year ended 31 December 2018**

*(Expressed in Hong Kong dollars)*

	Share capital <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	General reserve <i>HK\$'000</i>	Exchange differences reserve <i>HK\$'000</i>	Property revaluation reserve <i>HK\$'000</i>	Cash flow hedging reserve <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Statutory reserve <i>HK\$'000</i>	Regulatory general reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total reserves <i>HK\$'000</i>	Additional equity instruments <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
At 1 January 2018	18,404,013	6,589	100,000	24,940	55	-	(88,136)	58,073	149,500	18,728,874	18,979,895	6,173,252	43,557,160
Changes on initial adoption of HKFRS 9	-	-	-	-	-	-	69,369	-	-	(1,196,730)	(1,127,361)	-	(1,127,361)
Restated total equity at the beginning of the financial year	18,404,013	6,589	100,000	24,940	55	-	(18,767)	58,073	149,500	17,532,144	17,852,534	6,173,252	42,429,799
Changes in equity for 2018:													
Profit for the year	-	-	-	-	-	-	-	-	-	3,008,358	3,008,358	-	3,008,358
Other comprehensive loss for the year	-	-	-	(88,425)	76,245	-	(206,499)	-	-	-	(218,679)	-	(218,679)
Total comprehensive income for the year	-	-	-	(88,425)	76,245	-	(206,499)	-	-	3,008,358	2,789,679	-	2,789,679
Dividend paid	-	-	-	-	-	-	-	-	-	(2,808,437)	(2,808,437)	-	(2,808,437)
Issue of AT1 Capital Securities	-	-	-	-	-	-	-	-	-	-	-	3,907,328	3,907,328
Transfer from retained profits	-	-	-	-	-	-	-	-	-	(337,292)	(337,292)	337,292	-
Distribution payment for Additional Tier 1 Capital Securities ("AT1 Capital Securities")	-	-	-	-	-	-	-	-	-	-	-	(337,292)	(337,292)
At 31 December 2018	<u>18,404,013</u>	<u>6,589</u>	<u>100,000</u>	<u>(63,485)</u>	<u>76,300</u>	<u>-</u>	<u>(225,266)</u>	<u>58,073</u>	<u>149,500</u>	<u>17,394,773</u>	<u>17,496,484</u>	<u>10,080,580</u>	<u>45,981,077</u>
At 1 January 2017	9,366,271	6,589	100,000	(94,212)	55	1,068	(61,975)	53,845	149,500	16,259,623	16,414,493	6,173,252	31,954,016
Changes in equity for 2017:													
Profit for the year	-	-	-	-	-	-	-	-	-	2,808,437	2,808,437	-	2,808,437
Other comprehensive income for the year	-	-	-	119,152	-	(1,068)	(26,161)	-	-	-	91,923	-	91,923
Total comprehensive income for the year	-	-	-	119,152	-	(1,068)	(26,161)	-	-	2,808,437	2,900,360	-	2,900,360
Issue and allotment of shares, net of transaction costs	9,037,742	-	-	-	-	-	-	-	-	-	-	-	9,037,742
Transfer from retained profits	-	-	-	-	-	-	-	4,228	-	(339,186)	(334,958)	334,958	-
Distribution payment for AT1 Capital Securities	-	-	-	-	-	-	-	-	-	-	-	(334,958)	(334,958)
At 31 December 2017	<u>18,404,013</u>	<u>6,589</u>	<u>100,000</u>	<u>24,940</u>	<u>55</u>	<u>-</u>	<u>(88,136)</u>	<u>58,073</u>	<u>149,500</u>	<u>18,728,874</u>	<u>18,979,895</u>	<u>6,173,252</u>	<u>43,557,160</u>

**CONSOLIDATED CASH FLOW STATEMENT****For the year ended 31 December 2018***(Expressed in Hong Kong dollars)*

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
<b>Operating activities</b>		
Profit before taxation	3,623,900	3,287,211
Adjustments for non-cash items:		
Expected credit losses of financial assets	1,316,500	–
Impairment losses on other assets	86,155	–
Impairment losses on loans and advances and other accounts	–	1,391,065
Impairment losses on available-for-sale securities	–	31,204
Net loss on disposal of financial assets at fair value through other comprehensive income	70,419	–
Net gain on disposal of available-for-sale securities	–	(126,794)
Net loss on disposal of property and equipment	793	4,055
Revaluation gain on investment properties	(190)	(14,290)
Share of profit of associates	(2,151)	–
Amortisation of deferred expenses	39,780	29,010
Amortisation of intangible assets	42,299	–
Depreciation on property and equipment	184,552	200,666
Dividend income from equity securities	(6,221)	(6,390)
Interest expense on loan capital and debt securities issued	575,942	580,091
Foreign exchange differences	(247,721)	368,291
<b>Operating profit before changes in working capital</b>	<b>5,684,057</b>	<b>5,744,119</b>
<b>(Increase)/decrease in operating assets</b>		
Placements with and advances to banks, central banks and other financial institutions with original maturity beyond 3 months	733,226	3,907,003
Treasury bills with original maturity beyond 3 months	(5,484,589)	3,440,148
Certificates of deposit held with original maturity beyond 3 months	(3,948,355)	5,620,195
Financial assets at fair value through profit or loss	(411,488)	293,785
Derivative financial instruments	(1,257,338)	(511,604)
Loans and advances to customers and other accounts	(7,438,155)	(9,121,405)
Financial assets at fair value through other comprehensive income	(18,967)	–
Available-for-sale securities	–	(7,811,555)
	<b>(17,825,666)</b>	<b>(4,183,433)</b>
<b>Increase/(decrease) in operating liabilities</b>		
Deposits and balances of banks and other financial institutions	(2,337,944)	(69,341)
Deposits from customers	14,020,795	35,896,468
Derivative financial instruments	1,718,868	828,039
Certificates of deposit issued	(370,894)	(7,260,490)
Other liabilities	3,191,783	(4,797,264)
	<b>16,222,608</b>	<b>24,597,412</b>
<b>Cash generated from operating activities</b>	<b>4,080,999</b>	<b>26,158,098</b>
<b>Income tax paid</b>		
Hong Kong Profits Tax paid	(496,288)	(101,049)
Overseas tax paid	(54,874)	(139,966)
<b>Net cash flow generated from operating activities</b>	<b>3,529,837</b>	<b>25,917,083</b>

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
<b>Net cash flow generated from operating activities</b>	<b>3,529,837</b>	25,917,083
<b>Cash flow generated from/(used in) investing activities</b>		
Dividends received from equity securities	6,221	6,390
Purchase of property and equipment and intangible assets	(516,868)	(314,150)
Proceeds from disposal of property and equipment	–	52
Proceeds from purchase of associates	(350,000)	–
<b>Net cash used in investing activities</b>	<b>(860,647)</b>	(307,708)
<b>Cash flow generated from/(used in) financing activities</b>		
Dividend paid	(2,808,437)	–
Proceeds from debt securities issued	–	3,397,843
Proceeds from shares issued	–	9,037,742
Proceeds from Additional Tier 1 Capital Securities issued	3,907,328	–
Distribution paid on Additional Tier 1 Capital Securities	(337,292)	(334,958)
Proceeds from redemption of loan capital	–	(2,342,981)
Interest paid on debt securities issued	(162,523)	–
Interest paid on loan capital	(424,775)	(499,180)
<b>Net cash generated from financing activities</b>	<b>174,301</b>	9,258,466
<b>Net increase in cash and cash equivalents</b>	<b>2,843,491</b>	34,867,841
<b>Cash and cash equivalents at 1 January</b>	<b>89,385,112</b>	54,517,271
<b>Cash and cash equivalents at 31 December</b>	<b>92,228,603</b>	89,385,112
<b>Analysis of the balances of cash and cash equivalents</b>		
Cash and balances with banks, central banks and other financial institutions	29,187,539	30,700,892
Placements with and advances to banks, central banks and other financial institutions with original maturity within 3 months	52,324,189	46,599,596
Treasury bills and certificates of deposit held with original maturity within 3 months:		
– Financial assets at fair value through other comprehensive income	10,716,875	–
– Available-for-sale securities	–	12,084,624
	<b>92,228,603</b>	89,385,112
<b>Cash flows from operating activities included:</b>		
Interest received	11,082,654	8,670,430
Interest paid	(3,713,760)	(2,916,111)

## NOTES:

*(Expressed in Hong Kong dollars unless otherwise indicated)*

### 1 BASIS OF PREPARATION

The financial information relating to the financial year ended 31 December 2018 included in this annual results announcement does not constitute the Group's statutory financial statements for that financial year but is extracted from those financial statements. The Bank's auditor has reported on those financial statements of the Group. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance (Cap. 622).

Statutory financial statements for the year ended 31 December 2018 comply with the Banking (Disclosure) Rules and will be available from the Bank's corporate website at [www.cncbinternational.com](http://www.cncbinternational.com) and registered office.

### 2 CHANGES IN ACCOUNTING POLICIES

#### (a) New and amended standards adopted by the Group during the year ended 31 December 2018

The following new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting the following standards:

- HKFRS 9 “Financial Instruments”, and
- HKFRS 15 “Revenue from Contracts with Customers”.

The impact of the adoption of HKFRS 9 are summarised in the following note 2(a)(i) to (v) and it has resulted in changes in the Group's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. Please refer to the “significant accounting policies” as set out in the note 2.1(a) to (h) of the 2018 Annual Report.

HKFRS 15 is effective from 1 January 2018 and replaces HKAS 18 “Revenue”. HKFRS 15 is conceptually similar to HKAS 18, but includes more granular guidance on recognition and measurement of revenue. The Group has performed an assessment and concluded that the adoption of HKFRS 15 does not have significant impact on the Group's accounting policies and does not require retrospective adjustments.

#### (i) *Changes in accounting policies on adoption of HKFRS 9*

The Group has adopted HKFRS 9 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group did not early adopt any part of HKFRS 9 in previous periods. As permitted by the transitional provisions of HKFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period. The Group has also elected to continue to apply the hedge accounting requirements of HKAS 39 on adoption of HKFRS 9.

Consequently, for notes disclosures, the consequential amendments to HKFRS 7 ‘Financial Instruments: Disclosures’ disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior years. HKFRS 9 also significantly amends other standards dealing with financial instruments such as HKFRS 7 disclosures.

#### (ii) *Classification and subsequent measurement*

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured at amortised cost; and
- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss).

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows. The Group reclassifies debt investments when and only when its business model for managing those assets changes.



(iii) **Hedge accounting**

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.

(iv) **Impairment of amortised cost and financial assets through other comprehensive income**

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and at fair value through other comprehensive income ("FVOCI"). The impairment methodology applied depends on whether there has been a significant increase in credit risk.

(v) **Critical accounting estimates and judgements**

*Measurement of the expected credit losses allowances ("ECL")*

The measurement of the expected credit losses allowances for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in the disclosure information under credit risk management.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

(b) **New standards and interpretations not yet adopted for the year ended 31 December 2018**

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. These include the following which may be relevant to the Group.

	<b>Effective for accounting periods beginning on or after</b>
– HKFRS 16, <i>Leases</i>	1 January 2019
– HK(IFRIC) 23, <i>Uncertainty over income tax treatments</i>	1 January 2019
– Annual improvements to HKFRSs 2015-2017 Cycle	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of HKFRS 16 which may have a significant impact on the consolidated financial statements. The Group has substantially completed the impact assessment for HKFRS 16, and the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied on the Group's interim financial report for the six months ending 30 June 2019. The Group's assessment of HKFRS 16 is set out below.

HKFRS 16 will result in almost all lease being recognised on the balance sheet, as the distinction between operating and finance lease 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 exemptions are short-term and low-value leases and the accounting for lessors will not significantly change. The standard will affect primarily the accounting for the Group's operating leases.

As at 31 December 2018, the Group has non-cancellable operating lease commitments, and the Group expects to recognise right-of-use assets and lease liabilities (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018), which will increase both the total assets and total liabilities of the Group. Moreover, the Group expects that net profit after tax for 2019 will be decreased slightly as a result of adopting this new standard.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for the Group's property leases will be measured on transition as if the new standard had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses.)

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

### 3 INTEREST INCOME AND INTEREST EXPENSE

#### (a) Interest income

	2018 HK\$'000	2017 HK\$'000
Listed securities	1,078,719	707,649
Unlisted securities	642,316	391,798
Balances and placements with banks and other financial institutions	1,394,388	737,085
Advances and other accounts	8,345,375	7,002,417
Interest income on financial assets that are not at fair value through profit or loss	11,460,798	8,838,949

#### (b) Interest expense

	2018 HK\$'000	2017 HK\$'000
Deposits from customers, banks and other financial institutions and others	4,409,280	2,706,510
Certificates of deposit issued	75,220	157,358
Debt securities issued	161,091	96,666
Loan capital issued	414,851	483,425
Interest expense on financial liabilities that are not at fair value through profit or loss	5,060,442	3,443,959

### 4 NET FEE AND COMMISSION INCOME

	2018 HK\$'000	2017 HK\$'000
Fee and commission income:		
Bills commission	82,849	113,555
Card-related income	38,634	33,597
Banking services	372,842	426,751
Insurance	349,931	361,689
Investment and structured investment products	164,042	159,099
Loans, overdrafts and facilities fees	557,441	590,713
Others	617	590
	1,566,356	1,685,994
Fee and commission expense	(107,943)	(73,248)
	1,458,413	1,612,746

Of which:

Net fee and commission income (other than the amounts included in determining the effective interest rate) relating to financial assets and liabilities not at fair value through profit or loss:

– Fee and commission income	678,924	737,865
– Fee and commission expense	(35,660)	(20,905)
	643,264	716,960

## 5 NET TRADING INCOME

	2018 HK\$'000	2017 HK\$'000
Gains less losses from dealing in foreign currencies	604,449	482,673
Gains less losses from financial assets at fair value through profit or loss	(27,480)	(4,579)
Gains less losses from derivatives	(72,158)	112,362
Interest income on trading activities		
– Listed	41,163	26,778
– Unlisted	42,995	78,127
	<u>588,969</u>	<u>695,361</u>

## 6 NET HEDGING (LOSS)/GAIN

	2018 HK\$'000	2017 HK\$'000
Net hedging gain/(loss) on fair value hedges		
– Net gain on hedged items attributable to the hedged risk	23,735	73,167
– Net loss on hedging instruments	(25,297)	(72,037)
	(1,562)	1,130
Net hedging loss on cash flow hedges	–	(154)
	<u>(1,562)</u>	<u>976</u>

## 7 NET (LOSS)/GAIN ON DISPOSAL OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE SECURITIES

	2018 HK\$'000	2017 HK\$'000
<b>Net loss on disposal of financial assets at fair value through other comprehensive income</b>		
Net revaluation loss transferred from reserves	(65,884)	–
Net loss arising in current year	(4,535)	–
	<u>(70,419)</u>	<u>–</u>
<b>Net gain on disposal of available-for-sale securities</b>		
Net revaluation gain transferred from reserves	–	122,929
Net gain arising in current year	–	3,865
	<u>–</u>	<u>126,794</u>

## 8 OTHER OPERATING INCOME

	2018 HK\$'000	2017 HK\$'000
Dividend income		
– Listed investments	201	430
– Unlisted investments	6,020	5,960
	6,221	6,390
Rental income from investment properties		
less direct outgoings of HK\$1,095,000 (2017: HK\$302,000)	4,553	5,293
Others	23,543	30,394
	<u>34,317</u>	<u>42,077</u>

**9 OPERATING EXPENSES**

	2018 HK\$'000	2017 HK\$'000
<b>(a) Staff costs</b>		
Salaries and other staff costs	1,992,597	1,892,625
Retirement costs	107,132	101,689
	<u>2,099,729</u>	<u>1,994,314</u>
<b>(b) Depreciation and amortisation</b>		
Depreciation – property and equipment		
– Assets held for use under operating leases	19,331	19,737
– Other assets	165,221	180,929
	<u>184,552</u>	<u>200,666</u>
Amortisation – intangible assets	42,299	–
	<u>226,851</u>	<u>200,666</u>
<b>(c) Other operating expenses</b>		
Property and equipment expenses (excluding depreciation)		
– Rental of properties	312,105	277,326
– Others	290,081	260,057
Auditor's remuneration	8,718	7,062
Advertising	80,740	44,854
Communication, printing and stationery	119,801	105,262
Legal and professional fees	56,260	81,242
Others	190,782	202,916
	<u>1,058,487</u>	<u>978,719</u>
<b>Total operating expenses</b>	<u>3,385,067</u>	<u>3,173,699</u>

**10 EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS/IMPAIRMENT LOSSES ON LOANS AND ADVANCES AND OTHER ACCOUNTS**

<b>(a) Expected credit losses charged/(written back) on financial assets</b>				
		2018		
	Stage 1	Stage 2	Stage 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balances with banks, central banks and other financial institutions	5,738	–	–	5,738
Placements with and advances to banks, central banks and other financial institutions	(3,345)	–	–	(3,345)
Loans and advances to customers	(243,739)	889,282	622,674	1,268,217
Other accounts	(563)	(452)	–	(1,015)
Financial assets at fair value through other comprehensive income	(44,784)	(11,667)	184,883	128,432
Loan commitments and guarantees (included in contingent liabilities and commitments)	(13,593)	–	–	(13,593)
	<u>(300,286)</u>	<u>877,163</u>	<u>807,557</u>	<u>1,384,434</u>
Recoveries				(67,934)
				<u>1,316,500</u>

**(b) Impairment losses on loans and advances and other accounts**

	2017 HK\$'000
Impairment losses charged	
– Loans and advances	1,361,872
– Other accounts	29,193
	<u>1,391,065</u>
Impairment losses on loans and advances and other accounts	
– Individual assessment	1,302,847
– Collective assessment	88,218
	<u>1,391,065</u>
of which:	
– Additions	1,593,856
– Releases	(178,400)
– Recoveries	(24,391)
	<u>1,391,065</u>

**11 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT**

	2018 HK\$'000	2017 HK\$'000
<b>Current tax – Hong Kong Profits Tax</b>		
Provision for the year	616,263	408,864
Under/(over)-provision in respect of prior years	359	(14,081)
	<u>616,622</u>	<u>394,783</u>
<b>Current tax – Overseas</b>		
Provision for the year	79,927	109,494
(Over)/under-provision in respect of prior years	(13,510)	14,133
	<u>66,417</u>	<u>123,627</u>
<b>Deferred tax</b>		
Reversal of temporary differences	(67,497)	(39,636)
	<u>615,542</u>	<u>478,774</u>

The provision for Hong Kong Profits Tax for 2018 is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the year. Taxation for overseas branches and subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

**12 DIVIDEND PAID**

The final dividend of HK\$2,808,437,000 in respect of 2017 was approved and paid during the year ended 31 December 2018 (2017: Nil).

**13 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Certificate of deposits	–	213,103
Debt securities	944,630	815,137
Treasury bills	495,389	–
Investment funds	513	804
	<u>1,440,532</u>	<u>1,029,044</u>
<b>Issued by:</b>		
Sovereigns	495,953	572
Banks and other financial institutions	642,997	829,164
Corporate entities	301,582	199,308
	<u>1,440,532</u>	<u>1,029,044</u>
Listed	931,441	1,020,468
Unlisted	509,091	8,576
	<u>1,440,532</u>	<u>1,029,044</u>

**14 LOANS AND ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS**
**(a) Loans and advances to customers and other accounts less expected credit losses/impairment allowances**

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Gross loans and advances to customers	201,819,882	196,286,922
– Expected credit losses allowances	(2,658,898)	–
– Individually assessed impairment allowances	–	(1,127,014)
– Collectively assessed impairment allowances	–	(395,843)
	<u>199,160,984</u>	<u>194,764,065</u>
Other accounts	4,785,508	4,325,352
– Expected credit losses allowances	(39,036)	–
– Impairment allowances for other assets	(78,200)	(102,478)
	<u>4,668,272</u>	<u>4,222,874</u>
	<u>203,829,256</u>	<u>198,986,939</u>

**(b) Loans and advances to customers analysed by industry sectors**

The following economic sector analysis is based on categories and definitions used by the Hong Kong Monetary Authority (“HKMA”).

	2018		2017	
	Gross loans and advances to customers	Impaired loans and advances to customers	Gross loans and advances to customers	Impaired loans and advances to customers
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Industrial, commercial and financial				
– Property development	4,584,774	–	2,442,975	–
– Property investment	17,289,899	24,079	15,737,774	23,111
– Financial concerns	18,058,392	–	16,250,264	–
– Stockbrokers	3,131,658	–	6,564,251	–
– Wholesale and retail trade	9,156,964	18,162	14,236,238	59,677
– Manufacturing	12,099,051	36,071	17,020,091	771,306
– Transport and transport equipment	1,537,234	–	2,356,396	–
– Recreational activities	3,471,434	–	813,764	–
– Information technology	6,674,493	–	221,297	–
– Others	9,364,279	584,073	10,047,897	3,317
Individuals				
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	22,413	468	24,255	–
– Loans for the purchase of other residential properties	15,560,640	19,833	14,439,796	20,950
– Credit card advances	506,195	2,806	503,789	812
– Others	10,983,726	11,961	8,950,693	7,623
Gross loans and advances for use in Hong Kong	112,441,152	697,453	109,609,480	886,796
Trade finance	4,325,261	171,706	6,564,657	222,000
Gross loans and advances for use outside Hong Kong	85,053,469	846,979	80,112,785	1,355,216
Gross loans and advances to customers	<u>201,819,882</u>	<u>1,716,138</u>	<u>196,286,922</u>	<u>2,464,012</u>

*Note:*

The Group has revisited the classification of loans and advances to customers during the year and certain comparative figures have been reclassified to conform with the current year’s presentation.

**(c) Impaired loans and advances to customers**

	2018	2017
	HK\$'000	HK\$'000
Gross impaired loans and advances to customers	1,716,138	2,464,012
Expected credit losses allowances – Stage 3	(399,302)	–
Impairment allowances – Individually assessed	–	(1,127,014)
	<u>1,316,836</u>	<u>1,336,998</u>
Gross impaired loans and advances as a % of total loans and advances to customers	<u>0.85%</u>	<u>1.26%</u>

Collateral amounts of HK\$1,587,943,000 (2017: HK\$812,652,000) have been taken into account in respect of the assessment of the expected credit losses allowances (2017: individually assessed allowances) on impaired loans and advances to customers. Collateral mainly comprises mortgages on residential or commercial properties and cash placed with the Group.

**15 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE SECURITIES**

	Financial assets at fair value through other comprehensive income 2018 HK\$'000	Available-for- sale securities 2017 HK\$'000
<b>Debt securities</b>		
– Certificates of deposit held	14,394,029	10,622,679
– Treasury bills	15,975,480	11,681,635
– Other debt securities	36,512,097	36,950,662
	<b>66,881,606</b>	59,254,976
<b>Equity securities</b>	<b>95,801</b>	91,701
	<b>66,977,407</b>	59,346,677
<b>Issued by:</b>		
Sovereigns	16,277,569	12,796,288
Banks and other financial institutions	41,427,485	36,553,639
Corporate entities	7,175,580	8,614,579
Public entities	2,096,773	1,382,171
	<b>66,977,407</b>	59,346,677
Listed	31,181,259	32,193,830
Unlisted	35,796,148	27,152,847
	<b>66,977,407</b>	59,346,677

*Note:*

At 31 December 2018, the fair value of individually impaired debt securities was HK\$123,489,000 (2017: HK\$125,042,000).

**16 CAPITAL AND RESERVES**

**(a) Share capital**

**(i) Ordinary shares, issued and fully paid:**

	2018		2017	
	Number of shares	Share capital HK\$'000	Number of shares	Share capital HK\$'000
<b>At 1 January</b>	<b>12,111,121,568</b>	<b>18,404,013</b>	9,083,341,176	9,366,271
Shares issued during the year (Note (a)(ii))	—	—	3,027,780,392	9,053,063
	<b>12,111,121,568</b>	<b>18,404,013</b>	12,111,121,568	18,419,334
Less: Transaction costs arising on shares issued	—	—	—	(15,321)
<b>At 31 December</b>	<b>12,111,121,568</b>	<b>18,404,013</b>	12,111,121,568	18,404,013

**(ii) Shares issued during the year**

The Bank did not issue any shares during the year ended 31 December 2018 (2017: The Bank issued a total of 3,027,780,392 ordinary shares at HK\$2.99 each to five new shareholders on 15 December 2017).



**(b) Dividend**

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

**(c) Reserves**

	2018 HK\$'000	2017 HK\$'000
Capital reserve	6,589	6,589
General reserve	100,000	100,000
Exchange differences reserve	(63,485)	24,940
Property revaluation reserve	76,300	55
Investment revaluation reserve	(225,266)	(88,136)
Statutory reserve	58,073	58,073
Regulatory general reserve	149,500	149,500
Retained profits*	17,394,773	18,728,874
Total	17,496,484	18,979,895

\* A regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of impairment losses recognised which the Bank will or may incur on loans and advances. Movements in the reserve are earmarked directly through retained profits and in consultation with the HKMA. At 31 December 2018, HK\$855,457,000 (2017: HK\$2,814,520,000) was included in the retained profits in this respect, which is distributable to equity holders of the Bank subject to consultation with the HKMA.

**17 CONTINGENT LIABILITIES, COMMITMENTS AND DERIVATIVES**

**Contingent liabilities and commitments**

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

	2018 HK\$'000	2017 HK\$'000
Direct credit substitutes	2,196,356	3,869,439
Transaction-related contingencies	253,309	365,203
Trade-related contingencies	1,215,101	1,987,228
Forward forward deposits placed	4,056,917	–
Other commitments		
– which are unconditionally cancellable or automatically cancellable due to deterioration in the creditworthiness of the borrower	76,834,222	92,291,172
– with an original maturity of not more than 1 year	1,100,493	3,021,463
– with an original maturity of more than 1 year	3,789,368	3,986,946
	89,445,766	105,521,451
Credit risk-weighted amounts	5,036,814	5,445,027

The risk weights used in the computation of credit risk-weighted amounts range from 0% to 150% (2017: 0% to 150%) for contingent liabilities and commitments.

## Derivative financial instruments

### (a) Notional amounts of derivatives

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices. The notional amounts of these investments indicate the volume of outstanding transactions and do not represent amounts at risk.

The following is a summary of the notional amounts of each significant type of derivative entered into by the Group:

	Held for hedging HK\$'000	2018 Others (including held for trading) HK\$'000	Total HK\$'000	Held for hedging HK\$'000	2017 Others (including held for trading) HK\$'000	Total HK\$'000
<b>Currency derivatives</b>						
Forwards	–	95,174,835	95,174,835	–	64,036,378	64,036,378
Swaps	–	790,579,491	790,579,491	–	455,766,010	455,766,010
Options purchased	–	15,197,059	15,197,059	–	17,431,861	17,431,861
Options written	–	14,869,761	14,869,761	–	17,000,340	17,000,340
<b>Interest rate derivatives</b>						
Forwards/Futures	–	23,169,653	23,169,653	–	6,490,462	6,490,462
Swaps	9,545,458	255,835,562	265,381,020	11,767,566	63,403,485	75,171,051
Options purchased	–	–	–	–	1,000,000	1,000,000
Options written	–	–	–	–	1,078,151	1,078,151
	<u>9,545,458</u>	<u>1,194,826,361</u>	<u>1,204,371,819</u>	<u>11,767,566</u>	<u>626,206,687</u>	<u>637,974,253</u>

Trading includes the Group's proprietary positions in financial instruments, positions which arise from the execution of trade orders from customers and market making, and positions taken in order to hedge other elements of the trading book.

### (b) Fair value and credit risk-weighted amounts of derivatives

	Fair value assets HK\$'000	2018 Fair value liabilities HK\$'000	Credit risk- weighted amount HK\$'000	Fair value assets HK\$'000	2017 Fair value liabilities HK\$'000	Credit risk- weighted amount HK\$'000
Currency derivatives	5,453,679	6,066,637	7,492,494	4,511,710	4,705,217	5,405,671
Interest rate derivatives	574,154	476,714	358,462	258,785	119,266	152,750
	<u>6,027,833</u>	<u>6,543,351</u>	<u>7,850,956</u>	<u>4,770,495</u>	<u>4,824,483</u>	<u>5,558,421</u>

The credit risk-weighted amount is the amount which has been calculated in accordance with the Banking (Capital) Rules on capital adequacy, and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 150% (2017: 0% to 150%) for exchange rate, interest rate and other derivatives contracts. The Group did not enter into any bilateral netting arrangements during the year, and accordingly, these amounts are shown on a gross basis.

## 18 CURRENCY RISK

The Group's foreign exchange risk stems from taking foreign exchange positions from commercial dealings, investments in foreign currency securities, and operations of the Group and its overseas branches and subsidiaries. The Group's foreign exchange positions are subject to exposure limits approved by the Market Risk Committee. Methods adopted to measure foreign currency risk exposure against corresponding limits include individual currency positions, overall foreign exchange positions and sensitivities such as Greeks (for foreign exchange options). For the year ended 31 December 2018, the Group's average daily trading profit and loss from foreign exchange positions was a profit of HK\$869,000 (2017: a loss of HK\$170,000) with a standard deviation of HK\$7,395,000 (2017: HK\$3,319,000).

Significant foreign currency exposures at the end of the reporting period were as follows:

Equivalent in HK\$'000	2018			
	USD	RMB	Others	Total
Spot assets	163,317,203	18,729,493	24,865,103	206,911,799
Spot liabilities	(125,601,331)	(23,488,739)	(16,142,278)	(165,232,348)
Forward purchases	427,931,000	208,884,284	44,451,537	681,266,821
Forward sales	(462,883,922)	(203,302,636)	(53,567,017)	(719,753,575)
Net options position	(1,177,930)	793,289	382,033	(2,608)
Net long/(short) position	<u>1,585,020</u>	<u>1,615,691</u>	<u>(10,622)</u>	<u>3,190,089</u>
Net structural position	<u>–</u>	<u>675,965</u>	<u>48,549</u>	<u>724,514</u>
Equivalent in HK\$'000	2017			
	USD	RMB	Others	Total
Spot assets	141,268,736	37,959,720	15,988,499	195,216,955
Spot liabilities	(109,407,468)	(31,800,014)	(15,182,196)	(156,389,678)
Forward purchases	242,910,664	118,395,468	26,779,741	388,085,873
Forward sales	(275,877,590)	(123,928,048)	(25,342,446)	(425,148,084)
Net options position	1,835,468	685,596	(2,379,021)	142,043
Net long/(short) position	<u>729,810</u>	<u>1,312,722</u>	<u>(135,423)</u>	<u>1,907,109</u>
Net structural position	<u>–</u>	<u>718,963</u>	<u>48,676</u>	<u>767,639</u>

The net option position is calculated using the Model User Approach, which has been approved by the HKMA.

## 19 SEGMENT REPORTING

Segment information is prepared consistently with reportable segments. Information is regularly reported to the chief operating decision-maker, including management committee members, to allocate resources to the segments and to assess their performance. The Group has identified the following four main reportable segments:

Wholesale banking business includes wholesale banking business in Hong Kong and overseas branches, and China banking. Wholesale banking mainly comprises corporate lending and syndicated loans, trade financing deposit account services and cash management. Overseas branches include the management office unit in Hong Kong and the branches operated overseas. China banking mainly includes a subsidiary bank in China.

Personal and business banking mainly comprises deposit account services, residential mortgages, other consumer lending, credit card services, and Small and Medium Enterprises ("SMEs") banking business, wealth management services and private banking.

Treasury and markets covers the provision of foreign exchange services, money market activities, the management of investment securities and central cash management.

Others mainly comprises unallocated revenue and expenses, head office, and corporate expenses.

For the purpose of segment reporting, the allocation of operating income reflects the benefits of funding resources allocated to the business segments based on the internal funds transfer pricing mechanism. Cost allocation is based on the direct costs incurred by the respective business segments and the apportionment of overheads on a reasonable basis to the business segments. Rental charges at the market rate for the use of bank premises are reflected as inter-segment income for the 'Others' segment and inter-segment expenses for the respective business segments.

During the year ended 31 December 2018, the Group has revised certain allocation methods of some income and expenses among different operating units in preparing the information reported to the Group's senior executive management for the purposes of performance assessment. Corresponding amounts have been provided on a basis consistent with the revised segment information.

**(a) Reportable segments**

	2018				
	Wholesale banking HK\$'000	Personal and business banking HK\$'000	Treasury and markets HK\$'000	Others HK\$'000	Consolidated HK\$'000
Net interest income	3,962,053	1,765,429	375,189	297,685	6,400,356
Other operating income/(expenses)	1,054,902	733,436	557,391	(265,592)	2,080,137
Net gain/(loss) on disposal of financial assets at fair value through other comprehensive income	10,999	–	(81,418)	–	(70,419)
<b>Operating income</b>	<b>5,027,954</b>	<b>2,498,865</b>	<b>851,162</b>	<b>32,093</b>	<b>8,410,074</b>
Operating expenses	(554,359)	(787,290)	(150,091)	(1,893,327)	(3,385,067)
Inter-segment (expenses)/income	(506,605)	(715,649)	(170,179)	1,392,433	–
<b>Operating profit/(loss) before impairment</b>	<b>3,966,990</b>	<b>995,926</b>	<b>530,892</b>	<b>(468,801)</b>	<b>5,025,007</b>
Expected credit losses on financial assets	(1,207,825)	34,297	(148,345)	5,373	(1,316,500)
Impairment losses on other assets	(78,200)	–	–	(7,955)	(86,155)
<b>Operating profit/(loss)</b>	<b>2,680,965</b>	<b>1,030,223</b>	<b>382,547</b>	<b>(471,383)</b>	<b>3,622,352</b>
Net loss on disposal of property and equipment	(7)	(531)	–	(255)	(793)
Revaluation gain on investment properties	–	–	–	190	190
Share of profit of associates	–	–	–	2,151	2,151
<b>Profit/(loss) before taxation</b>	<b>2,680,958</b>	<b>1,029,692</b>	<b>382,547</b>	<b>(469,297)</b>	<b>3,623,900</b>
Income tax	–	–	–	(615,542)	(615,542)
<b>Profit/(loss) for the year</b>	<b>2,680,958</b>	<b>1,029,692</b>	<b>382,547</b>	<b>(1,084,839)</b>	<b>3,008,358</b>
<b>Other segment items:</b>					
Depreciation and amortisation	15,050	17,069	582	194,150	226,851
<b>Segment assets</b>	<b>163,587,847</b>	<b>52,226,341</b>	<b>176,523,533</b>	<b>(29,392,930)</b>	<b>362,944,791</b>
<b>Segment liabilities</b>	<b>163,196,201</b>	<b>159,124,190</b>	<b>19,289,708</b>	<b>(24,646,385)</b>	<b>316,963,714</b>
<b>Capital expenditure incurred during the year</b>	<b>18,179</b>	<b>62,209</b>	<b>3,960</b>	<b>432,520</b>	<b>516,868</b>

	2017 (Restated)				
	Wholesale banking HK\$'000	Personal and business banking HK\$'000	Treasury and markets HK\$'000	Others HK\$'000	Consolidated HK\$'000
Net interest income/(expense)	3,790,970	1,652,016	17,058	(65,054)	5,394,990
Other operating income/(expenses)	1,153,257	718,453	679,676	(200,226)	2,351,160
Net gain on disposal of available-for-sale securities	1,211	–	31,612	93,971	126,794
<b>Operating income/(expense)</b>	<b>4,945,438</b>	<b>2,370,469</b>	<b>728,346</b>	<b>(171,309)</b>	<b>7,872,944</b>
Operating expenses	(554,674)	(703,878)	(112,965)	(1,802,182)	(3,173,699)
Inter-segment (expenses)/income	(466,661)	(703,078)	(195,291)	1,365,030	–
<b>Operating profit/(loss) before impairment</b>	<b>3,924,103</b>	<b>963,513</b>	<b>420,090</b>	<b>(608,461)</b>	<b>4,699,245</b>
Impairment losses (charged)/written back on loans and advances and other accounts	(1,380,829)	(10,962)	(29,094)	29,820	(1,391,065)
Impairment losses on available-for-sale securities	–	–	(31,204)	–	(31,204)
<b>Operating profit/(loss)</b>	<b>2,543,274</b>	<b>952,551</b>	<b>359,792</b>	<b>(578,641)</b>	<b>3,276,976</b>
Net loss on disposal of property and equipment	(22)	(798)	–	(3,235)	(4,055)
Revaluation gain on investment properties	–	–	–	14,290	14,290
<b>Profit/(loss) before taxation</b>	<b>2,543,252</b>	<b>951,753</b>	<b>359,792</b>	<b>(567,586)</b>	<b>3,287,211</b>
Income tax	–	–	–	(478,774)	(478,774)
<b>Profit/(loss) for the year</b>	<b>2,543,252</b>	<b>951,753</b>	<b>359,792</b>	<b>(1,046,360)</b>	<b>2,808,437</b>
<b>Other segment items:</b>					
<b>Depreciation</b>	<b>12,825</b>	<b>17,116</b>	<b>1,012</b>	<b>169,713</b>	<b>200,666</b>
<b>Segment assets</b>	<b>169,309,209</b>	<b>46,734,253</b>	<b>154,580,920</b>	<b>(26,315,698)</b>	<b>344,308,684</b>
<b>Segment liabilities</b>	<b>169,622,631</b>	<b>136,958,804</b>	<b>15,683,640</b>	<b>(21,513,551)</b>	<b>300,751,524</b>
<b>Capital expenditure incurred during the year</b>	<b>38,265</b>	<b>10,698</b>	<b>9,050</b>	<b>256,137</b>	<b>314,150</b>

**(b) Geographical information**

The geographical information analysis is based on the location of the principal operations of the subsidiaries, or in the case of the Bank itself, of the location of the branches responsible for reporting the results or booking the assets and liabilities.

	2018				
	Profit/(Loss) before taxation HK\$'000	Total assets HK\$'000	Total liabilities HK\$'000	Operating income/ (expenses) HK\$'000	Contingent liabilities and commitments HK\$'000
Hong Kong	3,448,531	350,012,740	304,619,968	7,622,889	68,026,229
Mainland China	(76,244)	8,964,339	7,477,234	263,027	418,104
United States	197,890	13,509,382	13,276,532	248,720	1,984,408
Singapore	18,163	12,425,457	12,402,980	203,834	18,306,578
Others	35,706	2,790,436	2,749,565	72,266	710,447
Inter-segment items	(146)	(24,757,563)	(23,562,565)	(662)	–
	<u>3,623,900</u>	<u>362,944,791</u>	<u>316,963,714</u>	<u>8,410,074</u>	<u>89,445,766</u>
2017					
	Profit/(Loss) before taxation HK\$'000	Total assets HK\$'000	Total liabilities HK\$'000	Operating income/ (expenses) HK\$'000	Contingent liabilities and commitments HK\$'000
Hong Kong	2,928,158	323,505,089	280,773,786	7,099,804	74,249,031
Mainland China	(22,897)	17,592,204	15,909,898	219,926	2,934,196
United States	150,985	11,781,864	11,593,690	236,070	1,888,554
Singapore	190,098	14,074,332	13,840,590	273,261	24,802,931
Others	40,721	2,863,100	2,824,018	44,252	1,646,739
Inter-segment items	146	(25,507,905)	(24,190,458)	(369)	–
	<u>3,287,211</u>	<u>344,308,684</u>	<u>300,751,524</u>	<u>7,872,944</u>	<u>105,521,451</u>

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in Hong Kong dollars unless otherwise indicated)

### (A) REGULATORY DISCLOSURE STATEMENTS AVAILABLE ON THE BANK'S CORPORATE WEBSITE

For the purposes of compliance with Banking (Disclosure) Rules, the Regulatory Disclosure Statement relating to the Group's regulatory disclosure information are published by using standard disclosure templates as specified by the HKMA and they can be viewed in the Regulatory Disclosures section of our Bank's corporate website [www.cncbinternational.com](http://www.cncbinternational.com).

### (B) CAPITAL ADEQUACY

#### (i) Capital base

Capital adequacy ratios ("CARs") are complied in accordance with the Banking (Capital) Rules issued by the HKMA. The CARs are computed on a consolidated basis covering the Bank and some of its subsidiaries as required by the HKMA. The Bank has adopted the "standardised approach" for calculating the risk-weighted amount for credit risk and market risk and the "basic indicator approach" for calculating operational risk.

	2018 HK\$'000	2017 HK\$'000
<b>Common Equity Tier 1 ("CET1") capital instruments and reserves</b>		
Directly issued qualifying CET1 capital instruments		
plus any related share premium	17,931,698	18,404,013
Retained earnings	17,411,498	18,728,874
Disclosed reserves	101,710	251,021
<b>CET1 capital before regulatory deductions</b>	<b>35,444,906</b>	<b>37,383,908</b>
<b>CET1 capital: regulatory deductions</b>		
Deferred tax assets net of deferred tax liabilities	413,359	65,841
Other intangible assets (net of related deferred tax liability)	652,210	—
Cumulative fair value gains arising from the revaluation of land and buildings (own use and investment properties)	160,768	84,333
Regulatory reserve for general banking risks	855,457	2,814,520
Valuation adjustments	6,602	7,138
Debt valuation adjustments in respect of derivative contracts	1,884	1,285
<b>Total regulatory deductions to CET1 capital</b>	<b>2,090,280</b>	<b>2,973,117</b>
<b>CET1 capital</b>	<b>33,354,626</b>	<b>34,410,791</b>
<b>Additional Tier 1 ("AT1") capital</b>		
<b>AT1 capital</b>	<b>10,085,527</b>	<b>6,177,015</b>
<b>Tier 1 capital</b>	<b>43,440,153</b>	<b>40,587,806</b>
<b>Tier 2 capital instruments and provisions</b>		
Qualifying Tier 2 capital instruments plus any related share premium	3,915,898	4,687,678
Reserve attributable to fair value gains on revaluation of holdings of land and buildings	72,346	37,950
Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	2,957,962	2,732,777
<b>Tier 2 capital base before deductions</b>	<b>6,946,206</b>	<b>7,458,405</b>
<b>Tier 2 capital: regulatory deductions</b>		
Regulatory deductions to Tier 2 capital	—	—
<b>Tier 2 capital</b>	<b>6,946,206</b>	<b>7,458,405</b>
<b>Total capital</b>	<b>50,386,359</b>	<b>48,046,211</b>

(ii) **Risk-weighted assets**

	2018 HK\$'000	2017 HK\$'000
– Credit risk	239,247,171	219,918,986
– Market risk	7,337,525	4,425,300
– Operational risk	14,184,325	12,572,238
	<u>260,769,021</u>	<u>236,916,524</u>

(iii) **Capital adequacy ratios**

	2018	2017
– CET1 capital ratio	12.8%	14.5%
– Tier 1 capital ratio	16.7%	17.1%
– Total capital ratio	19.3%	20.3%

(iv) **Capital conservation buffer ratio and countercyclical capital buffer ratio**

The capital buffer ratios are applicable to the Group on a consolidated basis are as follows:

	2018	2017
Capital conservation buffer ratio	1.875%	1.250%
Countercyclical capital buffer (“CCyB”) ratio	1.071%	0.707%
	<u>2.946%</u>	<u>1.957%</u>

The detail relevant disclosure of the CCyB ratio for each jurisdiction and the geographical breakdown of risk-weighted assets in relation to private sector credit exposures using the standard templates as specified by the HKMA can be viewed in the Regulatory Disclosure section of our Bank’s website.

(v) **Capital instruments**

The following is a summary of the Group’s CET1, Additional Tier 1 Capital Securities and Tier 2 capital instruments, which are issued by the Bank:

	2018 HK\$'000	2017 HK\$'000
<b>CET 1 capital instruments</b>		
Ordinary shares:		
12,111,121,568 issued and fully paid ordinary shares	<u>18,404,013</u>	<u>18,404,013</u>
	2018 HK\$'000	2017 HK\$'000
<b>Additional Tier 1 Capital Securities</b>		
Undated non-cumulative subordinated capital securities with US\$300 million	2,310,168	2,310,168
Undated non-cumulative subordinated capital securities with US\$500 million	3,863,084	3,863,084
Undated non-cumulative subordinated capital securities with US\$500 million	3,907,328	–
	<u>10,080,580</u>	<u>6,173,252</u>



	2018 HK\$'000	2017 HK\$'000
<b>Tier 2 capital instruments</b>		
– Subordinated note due 2020 (nominal value: US\$500 million)	3,943,791	4,009,985
– Subordinated note due 2024 (nominal value: US\$300 million)	2,339,751	2,330,207
	<u>6,283,542</u>	<u>6,340,192</u>

(vi) **Leverage ratio**

The Bank is required to disclose its leverage ratio calculated on a consolidated basis covering the Bank and some of its subsidiaries.

	2018	2017
Leverage ratio	<u>11.4%</u>	<u>11.3%</u>

The detail relevant disclosure of the leverage exposure using the standard templates as specified by the HKMA can be viewed in the Regulatory Disclosure section of our Bank's website.

(C) **LIQUIDITY RATIOS**

The Group was designated by the HKMA as Category 1 institution with effect from 1 October 2017. As a result, under the Banking (Liquidity) Rules, the Group being a Category 1 institution is required to maintain a Liquidity Coverage Ratio ("LCR") and Net Stable Funding Ratio ("NSFR") above the statutory minimum requirements.

	Weighted amount (average value)				
	For quarter ended 31 December 2018	For quarter ended 30 September 2018	For quarter ended 30 June 2018	For quarter ended 31 March 2018	For quarter ended 31 December 2017
Average LCR	258.5%	213.5%	213.1%	228.2%	177.6%

The Group also maintains sufficient available stable funding in support of its longer-term assets to meet the statutory NSFR requirements, which have been implemented with effect from 2018 reporting periods.

The NSFRs as at the quarter-end in 2018 are as follows:

	Quarter ended 31 December 2018 %	Quarter ended 30 September 2018 %	Quarter ended 30 June 2018 %	Quarter ended 31 March 2018 %	Quarter ended 31 December 2017 %
NSFR	<u>141.5%</u>	<u>136.7%</u>	<u>132.5%</u>	<u>134.9%</u>	<u>N/A</u>

For the purposes of compliance with Banking (Disclosure) Rules, information relating to the Group's liquidity are published by using standard disclosure templates as specified by the HKMA and they can be viewed in the Regulatory Disclosures section of our Bank's corporate website at [www.cncbinternational.com](http://www.cncbinternational.com).

**(D) FURTHER ANALYSIS ON LOANS AND ADVANCES TO CUSTOMERS**

Loans and advances to customers analysed by the coverage of collateral, overdue amount and the impairment allowance is as follows. The economic sector analysis is based on the categories and definitions used by the HKMA.

	<b>2018</b>		<b>2017</b>	
	<b>Gross loans and advances to customers</b>	<b>% of gross loans and advances to customers covered by collateral</b>	<b>Gross loans and advances to customers</b>	<b>% of gross loans and advances to customers covered by collateral</b>
	<b>HK\$'000</b>		<b>HK\$'000</b>	
Industrial, commercial and financial				
– Property development	4,584,774	44	2,442,975	89
– Property investment	17,289,899	91	15,737,774	88
– Financial concerns	18,058,392	24	16,250,264	26
– Stockbrokers	3,131,658	9	6,564,251	20
– Wholesale and retail trade	9,156,964	77	14,236,238	80
– Manufacturing	12,099,051	22	17,020,091	24
– Transport and transport equipment	1,537,234	28	2,356,396	23
– Recreational activities	3,471,434	11	813,764	61
– Information technology	6,674,493	5	221,297	100
– Others	9,364,279	79	10,047,897	75
Individuals				
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	22,413	100	24,255	100
– Loans for the purchase of other residential properties	15,560,640	100	14,439,796	100
– Credit card advances	506,195	–	503,789	–
– Others	10,983,726	91	8,950,693	88
Gross loans and advances for use in Hong Kong	112,441,152	59	109,609,480	62
Trade finance	4,325,261	37	6,564,657	32
Gross loans and advances for use outside Hong Kong	85,053,469	25	80,112,785	26
Gross loans and advances to customers	<u>201,819,882</u>	<u>44</u>	<u>196,286,922</u>	<u>47</u>

*Note:*

The Group has revisited the classification of loans and advances to customers during the year and certain comparative figures have been reclassified to conform with the current year's presentation.

The analysis of impaired loans and advances to customers of the individual loan usage category, which accounted for 10% or more of the gross loans and advances to customers, is as follows:

	2018					
	Overdue loans and advances to customers <i>HK\$'000</i>	Impaired loans and advances to customers <i>HK\$'000</i>	Stage 1 ECL allowances <i>HK\$'000</i>	Stage 2 ECL allowances <i>HK\$'000</i>	Stage 3 ECL allowances <i>HK\$'000</i>	Expected credit losses on income statement during the year <i>HK\$'000</i>
Gross loans and advances for use outside Hong Kong	<u>381,594</u>	<u>846,979</u>	<u>292,892</u>	<u>837,706</u>	<u>317,605</u>	<u>822,556</u>
	2017					
	Overdue loans and advances to customers <i>HK\$'000</i>	Impaired loans and advances to customers <i>HK\$'000</i>	Collective impairment allowances <i>HK\$'000</i>	Individual impairment allowances <i>HK\$'000</i>		Impairment loss charged to/ (written back) on income statement during the year <i>HK\$'000</i>
Property investment	18,841	23,111	720	9		(1,569)
Gross loans and advances for use outside Hong Kong	<u>821,042</u>	<u>1,355,216</u>	<u>106,013</u>	<u>729,479</u>		<u>792,521</u>
	<u>839,883</u>	<u>1,378,327</u>	<u>106,733</u>	<u>729,488</u>		<u>790,952</u>

#### By geographical areas

	2018					
	Loans and advances to customers <i>HK\$'000</i>	Overdue loans and advances to customers <i>HK\$'000</i>	Impaired loans and advances to customers <i>HK\$'000</i>	Stage 1 ECL allowances <i>HK\$'000</i>	Stage 2 ECL allowances <i>HK\$'000</i>	Stage 3 ECL allowances <i>HK\$'000</i>
Hong Kong	114,341,202	123,082	753,215	282,575	776,875	216,898
Mainland China	55,148,825	1,035	648,527	209,139	817,621	56,697
United States	7,303,786	19,345	19,345	27,470	25,753	12,363
Singapore	5,625,789	256,362	256,362	6,040	–	88,618
Others	19,400,280	38,689	38,689	106,146	7,977	24,726
	201,819,882	438,513	1,716,138	631,370	1,628,226	399,302
	2017					
	Loans and advances to customers <i>HK\$'000</i>	Overdue loans and advances to customers <i>HK\$'000</i>	Impaired loans and advances to customers <i>HK\$'000</i>	Collective impairment allowances <i>HK\$'000</i>	Individual impairment allowances <i>HK\$'000</i>	
Hong Kong	107,422,724	874,934	1,230,989	189,954	611,854	
Mainland China	71,077,957	931,923	965,597	143,775	404,880	
United States	6,672,615	6,995	6,996	14,889	–	
Singapore	3,705,562	–	–	2,201	–	
Others	7,408,064	93,597	260,430	45,024	110,280	
	196,286,922	1,907,449	2,464,012	395,843	1,127,014	

The above geographical analysis is classified by the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor.

Overdue loans and advances are loans that have been overdue for more than three months.

**(E) OVERDUE ASSETS**

**Overdue loans and advances to customers**

	<b>2018</b>		<b>2017</b>	
	<b>HK\$'000</b>	<b>% of total loans and advances to customers</b>	<b>HK\$'000</b>	<b>% of total loans and advances to customers</b>
The gross amount of loans and advances has been overdue for periods of:				
– 6 months or less but over 3 months	<b>92,265</b>	<b>0.05</b>	822,734	0.42
– 1 year or less but over 6 months	<b>174</b>	<b>0.00</b>	471,579	0.24
– over 1 year	<b>346,074</b>	<b>0.17</b>	613,136	0.31
	<b>438,513</b>	<b>0.22</b>	1,907,449	0.97
Secured overdue loans and advances	<b>257,944</b>		293,785	
Unsecured overdue loans and advances	<b>180,569</b>		1,613,664	
	<b>438,513</b>		1,907,449	
Market value of collateral held against the secured overdue loans and advances	<b>341,501</b>		375,391	
Expected credit losses allowances/ Individual impairment allowances made	<b>160,224</b>		1,068,504	

Loans and advances with specific repayment dates are classified as overdue when the principal or interest is overdue and remains unpaid at the year end. Loans repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the demand notice, and/or when the loans have remained continuously outside the approved limit advised to the borrower for more than the overdue period in question.

Eligible collateral, which is held in respect of the overdue loans and advances, is 'Eligible Physical Collateral' which mainly comprises real estate properties. The eligible collateral should generally satisfy the following:

- (a) The market value of the asset is readily determinable or can be reasonably established and verified.
- (b) The asset is marketable and there exists a readily available secondary market for disposal of the asset.
- (c) The Bank's right to repossess the asset is legally enforceable and without impediment.
- (d) The Bank is able to secure control over the asset if necessary.

There were no advances to banks and other financial institutions which were overdue for over three months at 31 December 2018 and 2017.

**(F) RESCHEDULED LOANS**

	2018	% of total loans and advances to customers	2017	% of total loans and advances to customers
	<i>HK\$'000</i>		<i>HK\$'000</i>	
Rescheduled loans	<u>5,588</u>	<u>0.003</u>	<u>537,979</u>	<u>0.274</u>

Rescheduled loans are those advances which have been restructured or renegotiated because of a deterioration in the financial position of the borrower, or the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms are non-commercial to the Group. Rescheduled loans to customers are stated net of any advances that have subsequently become overdue for over three months and are reported as overdue advances in note (E).

There were no advances to banks and other financial institutions which were rescheduled at 31 December 2018 and 2017.

**(G) REPOSSESSED ASSETS**

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Included in loans and advances to customers and other accounts	<u>166,617</u>	<u>184,411</u>

The amount represents the estimated market value of the repossessed assets at 31 December 2018 and 2017.

**(H) INTERNATIONAL CLAIMS**

International claim refers to the sum of cross-border claims in all currencies and local claims in foreign currencies determined as based on the calculation methodology specified in the HKMA's Return of International Banking Statistics. International claims are on-balance sheet exposures of counterparties which attributable to the country or segment, after taking into account risk recognised transfer, constitute to not less than 10% of the aggregate claims are disclosed as follows.

	2018				
	Non-bank private sector				
	Banks <i>HK\$'000</i>	Official Sector <i>HK\$'000</i>	Non-bank financial institutions <i>HK\$'000</i>	Non-financial private sector <i>HK\$'000</i>	Total <i>HK\$'000</i>
Developed countries	22,881,847	30,452	1,787,729	5,265,326	29,965,354
Offshore centres	14,938,225	792	17,107,420	46,162,347	78,208,784
of which Hong Kong	11,879,024	116	10,418,174	32,477,257	54,774,571
Developing Asia-Pacific	65,752,116	512,056	6,628,107	47,932,710	120,824,989
of which Mainland China	<u>65,577,390</u>	<u>511,443</u>	<u>6,628,107</u>	<u>47,021,182</u>	<u>119,738,122</u>
	2017				
	Non-bank private sector				
	Banks <i>HK\$'000</i>	Official Sector <i>HK\$'000</i>	Non-bank financial institutions <i>HK\$'000</i>	Non-financial private sector <i>HK\$'000</i>	Total <i>HK\$'000</i>
Offshore centres	7,120,802	869	13,827,960	37,914,745	58,864,376
of which Hong Kong	6,489,207	282	13,081,673	29,814,181	49,385,343
Developing Asia-Pacific	66,646,716	83,611	5,916,565	60,216,815	132,863,707
of which Mainland China	<u>66,309,598</u>	<u>83,040</u>	<u>5,916,565</u>	<u>58,878,966</u>	<u>131,188,169</u>

**(I) MAINLAND ACTIVITIES**

Mainland Activities are Mainland China exposures to non-bank counterparties and their categories and the type of direct exposures defined by the HKMA's Return of Mainland Activities.

		2018		
		On-statement of financial position exposure HK\$'000	Off-statement of financial position exposure HK\$'000	Total HK\$'000
(1)	Central government, central government-owned entities and their subsidiaries and joint ventures ("JVs")	31,479,387	472,197	31,951,584
(2)	Local governments, local government-owned entities and their subsidiaries and JVs	12,284,640	549,357	12,833,997
(3)	PRC national residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	67,756,250	3,906,080	71,662,330
(4)	Other entities of central government not reported in item 1 above	15,222,043	162,342	15,384,385
(5)	Other entities of local governments not reported in item 2 above	756,526	137,980	894,506
(6)	PRC national residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	17,432,219	2,365,071	19,797,290
(7)	Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	13,992,493	57,433	14,049,926
<b>Total</b>		<b>158,923,558</b>	<b>7,650,460</b>	<b>166,574,018</b>
<b>Total assets after provision</b>		<b>362,944,791</b>		
<b>On-balance sheet exposures as percentage of total assets</b>		<b>43.8%</b>		
		2017		
		On-statement of financial position exposure HK\$'000	Off-statement of financial position exposure HK\$'000	Total HK\$'000
(1)	Central government, central government-owned entities and their subsidiaries and joint ventures ("JVs")	28,973,542	986,287	29,959,829
(2)	Local governments, local government-owned entities and their subsidiaries and JVs	15,138,695	745,750	15,884,445
(3)	PRC national residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	62,576,230	4,079,754	66,655,984
(4)	Other entities of central government not reported in item 1 above	6,796,166	297,253	7,093,419
(5)	Other entities of local governments not reported in item 2 above	188,578	206,342	394,920
(6)	PRC national residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	9,682,747	3,309,615	12,992,362
(7)	Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	26,655,744	786,898	27,442,642
<b>Total</b>		<b>150,011,702</b>	<b>10,411,899</b>	<b>160,423,601</b>
<b>Total assets after provision</b>		<b>344,308,684</b>		
<b>On-balance sheet exposures as percentage of total assets</b>		<b>43.6%</b>		

## REPORT OF THE CHIEF EXECUTIVE OFFICER

I was appointed as President and Chief Executive Officer of **China CITIC Bank International Limited** (“CNCBI” or the “Bank”) in September 2018, feeling greatly honoured, yet also a great responsibility. I am grateful for the trust of the Bank’s shareholders and Board of Directors, for the support of Mr. Zhang Xiaowei, my predecessor and currently Vice Chairman, and to CNCBI’s management team and over 2,000 colleagues around the world, who are professional, dedicated and dynamic. I believe that going forward, we will work as one, continuing to create a splendid chapter in the history of CNCBI.

### Operating Environment

The global economy performed strongly in the first half of 2018, while markets were relatively stable. Nevertheless, since the middle of the year, the US has waged a trade war against China, and its trade disputes with other countries have also been escalating, resulting in fluctuations in global financial markets and synchronized deceleration in the economic growth momentum of various countries. China was by far the hardest hit, as export prospects were blighted and business and consumer confidence was weakened. As such, the full-year growth rate of China’s real GDP softened further from 6.8% in 2017 to 6.6% in 2018.

Deterioration in external conditions also caused the Hong Kong economy to trend notably lower, precipitating weaker credit demand, with total loans and advances dipping by 0.9% in the second half of 2018 after registering a 5.3% increase in the first half of the year. Statistics of the Hong Kong Monetary Authority (“HKMA”) show that the drop in mainland-related lending in the same period was bigger at 3.8%.

Meanwhile, banks continued to face tighter regulatory requirements. Risk management and internal controls would require stronger capital buffers and more resources support. Regulators have also introduced more competition into the market. As a case in point, the HKMA invited applications for virtual banking licences, and applicants included both traditional banks and some new entrants aiming to carve out a niche by cutting-edge Fintech.

### Financial Performance

The Group (**CNCBI together with its subsidiaries**)’s operating income for the year 2018 registered a 6.8% year-on-year growth to HK\$8.41 billion. Profit after impairment increased by 10.5% to HK\$3.62 billion while profit attributable to shareholders was up 7.1% to HK\$3.01 billion. Return on average assets at 0.84% was marginally lower by 1 basis point and return on average shareholders’ equity was 8.37%, compared with 10.11% for the previous year.

The growth in operating income was primarily underpinned by an 18.6% increase in net interest income to HK\$6.40 billion. As a result of higher asset yields, net interest margin improved by 14 basis points to 1.82%. However, non-interest income for the year decreased by 18.9% to HK\$2.01 billion.

The Group remained disciplined in cost management despite continued investments in technology and human resources. Total operating expenses were up by 6.7%, and cost to income ratio at 40.2% was similar to the level of the preceding year.

### Financial Position

The Group’s total assets stood at HK\$362.94 billion as at 31 December 2018, up 5.4% from a year earlier. Total deposits amounted to HK\$288.63 billion while customer loans including trade bills totalled HK\$201.82 billion, representing 5.0% and 2.8% year-on-year increases respectively. Loans-to-deposits ratio was 69.9%. As both retail deposits and retail lending achieved double-digit growth rates, their shares of the total have risen to more than 50% and 25% respectively.

To maintain healthy asset quality, the Group continued to manage its loan portfolio prudently. As at 31 December 2018, impaired loan ratio was reduced to 0.85% from 1.26% as at end-2017, while non-performing loan coverage ratio was 154.9%, compared with 61.8% twelve months ago.

In November 2018, CNCBI successfully issued US\$500 million of additional tier 1 capital securities, thereby sustaining its capital strength. As at the year-end, the Group's total capital adequacy ratio was 19.3%, while tier 1 and common equity tier 1 capital ratios were 16.7% and 12.8% respectively, meeting regulatory requirements. Meanwhile, average liquidity coverage ratio stayed at a healthy level of 258.5% for the quarter ended 31 December 2018.

## **Business Review**

### ***Wholesale Banking Group***

Over the last year, Wholesale Banking Group ("WBG") maintained the "Active Marketing, Conservative Underwriting" strategy to optimize its customer structure and replace relatively higher risk loans with secured real estate loans backed by direct mortgages to contain portfolio risk. Meanwhile, leveraging the strong customer base of the CITIC Group and parent bank China CITIC Bank Corporation Limited ("CNCB"), WBG's collaboration revenue for 2018 reached HK\$2.30 billion, an increase of 8.4% year on year, and the share of WBG's operating income grew by 2.8 percentage points to 45.8%, constituting a significant part of WBG's business. Moreover, last year WBG Hong Kong absorbed HK\$10.63 billion new deposits from 857 new customers.

For 2018 WBG's total operating income grew by 1.7% year on year despite a steady loan portfolio size, as NIM was higher than the previous year. During the year, CNCBI maintained a leading position in China's cross-border mergers and acquisitions financing, being the top bookrunner in Asia Pacific according to the Loan Connector league table of Thomson Reuters as at year-end. Together with parent bank CNCB, the Bank also won the prestigious 2018 IFR China Loan House Award, further building up its reputation in global capital markets.

### ***Personal and Business Banking Group***

Personal and Business Banking Group ("PBG") achieved historical highs in operating income as well as deposits and loans. For 2018 operating income reached HK\$2.50 billion, up 5.4% year on year, while as at end-2018, customer deposits and loans increased by 16.9% and 12.3% respectively to HK\$152.92 billion and HK\$51.52 billion. Benefiting from continued efforts to improve cost efficiency and maintain prudent asset quality management, profit before taxation for 2018 posted a new record of HK\$1.03 billion, up 8.2% year on year.

During the year, CNCBI became Hong Kong's first bank to launch a mobile app called inMotion which enabled Hong Kong identity card holders to establish banking relationships with the Bank without visiting a physical branch. This service has also been extended to investment accounts. CNCBI's customer base grew steadily especially of both cross-border and local high net worth customers. In recognition of the Bank's continued Fintech development and achievements, CNCBI was awarded a Second Prize in the first Shenzhen-Hong Kong Fintech Award jointly organized by the HKMA and the Shenzhen Office of Financial Development Service.

### ***Treasury and Markets Group***

The year 2018 saw a 16.9% year-on-year increase in the total operating income of Treasury and Markets Group ("TMG") to HK\$851.16 million, with total fee income of HK\$234.46 million recognized in the year for the Debt Capital Markets ("DCM") business. The Corporate Marketing team had good flows in various products (including FX and interest rate products) as it was working closely with the DCM team on corporate issuer referrals, selling bonds to corporate investors, and capitalizing on potential treasury business opportunities. For the Financial Institutions Marketing team, there was a marked increase in bond trading volume in the secondary market. The Trading team was in the process of transforming itself into a market maker, maintaining the average daily trading volume at a high level, and the collaboration with the marketing teams bore fruit in the year.

Moreover, the DCM team completed 104 deals for 69 Chinese issuers with an aggregate issuance size of US\$43.93 billion. As at the end of the year, according to Bloomberg Offshore China Bonds issuance volume, CNCBI ranked eighth among all managers and fifth among all Chinese financial institutions. The Central Treasury Unit ("CTU") carefully managed the mismatch in the Bank's liquidity positions to lessen the impact of rising USD and HKD interest rates, thus achieving higher returns on deployment and lower losses on the internal funding pool.



## **Risk Management and Internal Control**

The Group attaches great importance to ensuring rigorous risk governance and maintaining robust risk management, internal controls and compliance to all relevant laws, rules and regulations. To proactively strengthen its risk infrastructure and cope with ever-increasing and complex regulatory requirements, the Group implemented a number of risk management initiatives and launched several projects during the year as follows.

### ***Enhancement Initiatives***

#### ***New Product Approval (“NPA”) Governance***

A New Product Committee (“NPC”) has been established to promote holistic oversight of the risks associated with new products and services. The NPA process has become more robust under this revised governance framework which is strongly supported by a dedicated New Product Governance team charged with the responsibilities of implementing enhanced control measures, strengthening monitoring and escalating exceptions to the NPC.

#### ***HKFRS 9***

Impairment provision in accordance with HKFRS 9 has been effective since 1 January 2018 whereby the Expected Credit Losses (ECL) methodology, which is more risk-sensitive, has been adopted. The Group has continued to further strengthen its governance and control processes, and fine-tune the ECL calculation. Concurrently, the ECL methodology is being embedded into the Group’s decision-making process through the adoption of various risk management tools.

### ***Regulatory Projects***

The HKMA has been imposing new requirements on banks, many of which are in accordance with the standards set by the Basel Committee on Banking Supervision. The major projects are as follows:

- Banking (Exposure Limits) Rules (“BELR”) Large Exposure Limits Monitoring and Reporting – effective from July 2019 (with a six-month grace period to December 2019)
- New Standards of Interest Rate Risk in the Banking Book (“IRRBB”) – effective from July 2019
- Initial Margining (“IM”) for Non-Centrally Cleared OTC Derivatives – effective from September 2019
- Standardized Approach to Counterparty Credit Risk (“SA-CCR”) – effective from January 2020 (subject to the HKMA’s finalized timeline)

The Group is committed to complying with all regulatory requirements, and has undertaken elaborate preparations both internally and by engaging external consultants to ensure timely completion of the various projects.

## **Human Resources Development**

Throughout the year, a number of Human Resources process redesign initiatives were introduced, including new tools for automated eLearning, Human Resources dashboard and 360 performance appraisal.

To support business continuity, a number of Deputy Heads for key functions were appointed. With the retirement of an Alternate Chief Executive Officer in the middle of the year and two Management Committee members towards the end of the year, their successors were named and appointed for timely implementation.

The 360 methodology has been adopted as a leadership assessment tool. In 2018, the method was extended to provide behavioral assessment for a critical group of senior staff including the newly appointed deputies of key functions and branch general managers.

During the year, the headcount for each function was vigorously controlled while some ad hoc business and compliance requirements were met. Productivity drives, such as the timely and proactive managing out of underperformers, were attempted, resulting in turnover rates largely in line with the industry average.

Yet good overall morale and teamwork were achieved within the budgeted headcount and staff costs. In addition to timely job rotation, promotions, and reward management to meet the expectations of staff, several employee engagement programmes such as “Team Power” and “Fun-Plus-Point” contributed to overall motivation and collaboration.

Moreover, a number of initiatives were introduced to continuously deepen the awareness of conduct risk, with follow-up activities on the Bank’s Culture Survey, requirements on documented evidence of behavioral assessment in performance assessment, and enhanced learning aid of the Group’s Code of Conduct.

## **Corporate Social Responsibility**

Convinced that knowledge changes the future and that today’s education shapes tomorrow’s society, the Group not only puts considerable effort into facilitating steady business development but also ploughs back resources into society with a keen focus on the education of underprivileged children as a means to contributing to social sustainability. The Group’s dedicated Corporate Social Responsibility Committee (“CSRC”), which comprises management-level staff from various departments, helps to enhance the governance of related initiatives and spread the spirit of philanthropy to every corner of the Group.

During the period, the Group extended its spirit of innovation for Fintech to the realm of CSR with support to the development of Hong Kong’s first comprehensive online platform and training programme for language development “Speak Along” in partnership with The Chinese University of Hong Kong, aiming to benefit half of the preschool and primary-school children in need over a three-year span. Aside from this, the Group also joined forces with Hong Kong Youth Arts Foundation and kicked off a community art programme “Draw HK” to support underprivileged students to explore their untapped artistic talents, unleash their creativity and raise their self-confidence while promoting art to various layers of Hong Kong society.

## **Outlook**

In 2019, given expected decreasing growth momentum in the US and China, the economies around the world look set to slow down in tandem, with most of them showing lower growth rates than in 2018. The market will remain bewildered by monetary policy uncertainty of the US Federal Reserve (“Fed”) and other central banks. Nevertheless, as the Fed slackens the pace of raising interest rates and shrinking its balance sheet, the threat of capital outflows to emerging markets can be eased. China’s economy continues to face downward pressure, which may be alleviated by a truce in the Sino-US trade war. Admittedly a truce does not imply an end. The economic and trade relations between China and the US will likely stay strained and unsettled. All in all, there will continue to be considerable market uncertainties.

The Group is faced with a tough operating environment, with significant internal and external challenges. Nonetheless, if we look beyond the economic cycle and focus on the future instead, what can be seen are more opportunities and confidence. Needless to say, we are well aware that chance favours the prepared mind. Therefore, while we strive to achieve various business objectives, we will remain strategically tenacious and reinforce our fundamentals, enhancing the Group’s long-term competitiveness thoroughly.

**We promote culture development.** We firmly believe that talent is the most valuable asset and the pillar of a sound corporate culture. We care deeply about cultivating talents and advocate ethical, responsible and honest behavior, and we will continue to raise the risk and compliance awareness of all staff, striving to strike a fine balance between risk and business. The growth in risk-weighted assets will be carefully managed, while risk-adjusted returns will be an important basis for making business decisions. We are fully convinced that only an excellent culture can sustain the Group’s business ahead.

**We put into practice our core value of “customer-centric”.** We will enhance the service quality of account managers by means of training, seminars and other tools; we will enhance customer satisfaction by more precise product positioning and simpler service process. In addition, through an informed allocation of capital and resources to the three business units, we will drive a continued increase in the return on capital for the corporate banking business and faster expansion of the personal banking and treasury businesses, which can diversify our income sources and raise overall capital efficiency, thus increasing our capabilities for sustainable development.

**We stress win-win collaboration.** We will strengthen the collaboration between the business units to create cross-selling opportunities, and forge stronger ties between business units and support units. Moreover, the Group will continue to work closely with the CITIC Group and parent bank CNCB to capture the cross-border business opportunities arising from favourable government policy initiatives, such as the development of the Greater Bay Area and the “Belt and Road” strategy. Leveraging a good network formed by the overseas branches and the wholly-owned subsidiary in China, the Group can service customers who are in need of offshore asset allocation.

**We are committed to technology-led development,** applying Fintech to drive strategic transformation. We will continue to introduce advanced technologies to help develop innovative products and services as well as improving operational efficiencies and providing more and better services. Specifically, inMotion will serve as the key platform for sharpening the competitive edge of the Group’s retail banking business through the availability of a wider array of products and services and enhancement of customer experience and satisfaction. The Group will also step up investments to strengthen IT capabilities, ensuring that it can proactively anticipate and adapt to the changing needs and preferences of customers, and continue to perform well in monitoring risks and managing compliance work.

I am confident that by fostering a sound culture and focusing on the interests of customers, together with effective internal and external collaboration as well as fruitful application of technologies, the staff will succeed in enhancing the Group’s foundation to scale new heights ahead.

**Bi Mingqiang**

*President & Chief Executive Officer*

Hong Kong, 25 March 2019