HKCB Finance Limited

Regulatory Disclosure Statement

31 December 2018
(Unaudited)

These disclosures are prepared under the Banking (Disclosure) Rules

Regulatory Disclosure Statements

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Regulatory Disclosure Statements (continued)

The information contained in this regulatory disclosure statements is for HKCB Finance Limited ("the Company"), and is prepared in accordance with the Banking (Disclosure) Rules and the disclosure templates issued by the Hong Kong Monetary Authority ("HKMA"). It should be read in conjunction with the Company's 2018 annual report. These regulatory disclosures are governed by the Company's immediate parent's disclosure policy, which set out the governance, control and assurance requirements for publication of the document.

Part I: Key prudential ratios, overview of risk management and Risk-Weighted Asset (RWA)

OVA: Overview of risk management

The Company has the fundamental goal of executing our strategy while managing our risks in a comprehensive and integrated manner. A comprehensive overview of our risk management framework including the management and mitigation of key risks facing the Company is set out in the risk management section of the annual report 2018.

OVI: Overview of RWAs

The following table provides an overview of the Company's RWAs by various risk types and the corresponding minimum capital requirements (i.e. 8% of RWAs), as required by the HKMA.

		(a)	(b)	(c)
		RWAs		**Minimum capital requirements**
		At 31 December 2018	**At 31 December 2017**	**At 31 December 2018**
		HK$'000	**HK$'000**	**HK$'000**
1	Credit risk for non-securitization exposures	2,576,192	2,679,725	206,095
2	Of which STC approach	2,576,192	2,679,725	206,095
2a	Of which BSC approach	-	-	-
3	Of which IRB approach	-	-	-
6	Counterparty default risk and default fund contributions	-	-	-
20	Market risk	-	-	-
21	Of which STM approach	-	-	-
24	Operational risk	144,175	193,113	11,534
26a	Deduction to RWAs	-	-	-
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	-	-	-
26c	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	-	-	-
27	**Total**	**2,720,367**	**2,872,838**	**217,629**

The Company 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.

Total RWAs decreased mainly due to a decrease in credit RWAs for non-securitization exposures, which was also driven mainly by a decrease in loans and advances to customers.

Regulatory Disclosure Statements

Part I: Key prudential ratios, overview of risk management and Risk-Weighted Asset (RWA)

KM1: Key prudential ratios

		At 31 December 2018	At 31 December 2017
		HK$'000	HK$'000
	Regulatory capital		
1	Common Equity Tier 1 (CET1)	529,617	505,765
2	Tier 1	529,617	505,765
3	Total capital	529,620	505,768
4	Total RWA	2,720,367	2,872,838
	Risk-based regulatory capital ratios (as a percentage of RWA)		
5	CET1 ratio (%)	19.5%	17.6%
6	Tier 1 ratio (%)	19.5%	17.6%
7	Total capital ratio (%)	19.5%	17.6%
	Additional CET1 buffer requirements (as a percentage of RWA)		
8	Capital conservation buffer requirement (%)	1.875%	1.250%
9	Countercyclical capital buffer requirement (%)	1.874%	1.250%
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	N/A	N/A
11	Total AI-specific CET1 buffer requirements (%)	3.749%	2.500%
12	CET1 available after meeting the AI's minimum capital requirements (%)	11.5%	9.6%
	Basel III leverage ratio		
13	Total leverage ratio (LR) exposure measure	5,970,347	6,144,275
14	LR (%)	8.87%	8.23%
	Liquidity Coverage Ratio (LCR)/Liquidity Maintenance Ratio (LMR)		
	Applicable to category 1 institution only:		
15	Total high quality liquid assets (HQLA)	N/A	N/A
16	Total net cash outflows	N/A	N/A
17	LCR (%)	N/A	N/A
	Applicable to category 2 institution only:		
17a	LMR (%)	158.6%	160.0%
	Net Stable Funding Ratio (NSFR)/Core Funding Ratio (CFR)		
	Applicable to category 1 institution only:		
18	Total available stable funding	N/A	N/A
19	Total required stable funding	N/A	N/A
20	NSFR (%)	N/A	N/A
	Applicable to category 2A institution only:		
20a	CFR (%)	N/A	N/A

Regulatory Disclosure Statements *(continued)*

Part II : Linkages between financial statements and regulatory exposures

LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

	(a)	(b)	(c)	(d)	(e)	(f)	(g)
			Carrying values of items:				
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	subject to credit risk framework	subject to counterparty credit risk framework	subject to the securitization framework	subject to market risk framework	not subject to capital requirements or subject to deduction from capital
At 31 December 2018	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Assets							
Cash and balances with banks, central banks and other financial institutions	16,076	16,076	16,076	-	-	-	-
Placements with and advances to banks, central banks and other financial institutions	24,000	24,000	24,000	-	-	-	-
Loans and advances to customers and other accounts	5,921,915	5,921,915	5,921,915	-	-	-	-
Tax recoverable	8,353	8,353	8,353	-	-	-	-
Deferred tax assets	544	544	-	-	-	-	544
Intangible assets	152	152	-	-	-	-	152
Total assets	**5,971,040**	**5,971,040**	**5,970,344**	-	-	-	**696**
Liabilities							
Deposits and balances of banks and other financial institutions	5,430,000	5,430,000	-	-	-	-	5,430,000
Other liabilities	10,727	10,727	-	-	-	-	10,727
Total liabilities	**5,440,727**	**5,440,727**	-	-	-	-	**5,440,727**

Regulatory Disclosure Statements *(continued)*

Part II : Linkages between financial statements and regulatory exposures

LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		(a)	(b)	(c)	(d)	(e)
			Items subject to:			
		Total	**credit risk framework**	**securitization framework**	**counterparty credit risk framework**	**market risk framework**
At 31 December 2018		**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
1	**Asset carrying value amount under scope of regulatory consolidation (as per template LI1)**	5,970,344	5,970,344	-	-	-
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-	-	-
3	Total net amount under regulatory scope of consolidation	5,970,344	5,970,344	-	-	-
4	Off-balance sheet amounts	-	-	-	-	-
5	Differences in valuations	-	-	-	-	-
6	Differences due to different netting rules, other than those already included in row 2	-	-	-	-	-
7	Differences due to consideration of provisions	-	-	-	-	-
8	Differences due to prudential filters	-	-	-	-	-
	Exposure amounts considered for regulatory purposes	**5,970,344**	**5,970,344**	-	-	-

LIA: Explanations of differences between accounting and regulatory exposure amounts

There is no difference between accounting and regulatory exposure amounts in the carrying amounts reported in the financial statements and the carrying amount under scope of regulatory consolidation purposes.

Regulatory Disclosure Statements *(continued)*

Part III: Composition of regulatory captial and other disclosures

CC1: Composition of regulatory capital

	At 31 December 2018	(a) Amount	(b) Source based on reference number of the balance sheet under the regulatory scope of consolidation
		HK$'000	
	CET1 capital: instruments and reserves		
1	Directly issued qualifying CET1 capital instruments plus any related share premium	200,000	(3)
2	Retained earnings	330,313	(4)
3	Disclosed reserves	-	
4	*Directly issued capital subject to phase out from CET1 capital (only applicable to non-joint stock companies)*	Not applicable	Not applicable
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	-	
6	**CET1 capital before regulatory adjustments**	**530,313**	
	CET1 capital: regulatory deductions		
7	Valuation adjustments	-	
8	Goodwill (net of associated deferred tax liability)	-	
9	Other intangible assets (net of associated deferred tax liability)	152	(5)
10	Deferred tax assets (net of deferred tax liabilities)	544	(2)
11	Cash flow hedge reserve	-	
12	Excess of total EL amount over total eligible provisions under the IRB approach	-	
13	Credit-enhancing interest-only strip, and any gain-on-sale and other increase in the CET1 capital arising from securitization transactions	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	-	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	-	
17	Reciprocal cross-holdings in CET1 capital instruments	-	
18	Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
19	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
20	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable	Not applicable
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	Not applicable	Not applicable
22	Amount exceeding the 15% threshold	Not applicable	Not applicable
23	of which: significant investments in the ordinary share of financial sector entities	Not applicable	Not applicable
24	of which: mortgage servicing rights	Not applicable	Not applicable
25	of which: deferred tax assets arising from temporary differences	Not applicable	Not applicable
26	National specific regulatory adjustments applied to CET1 capital	-	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	-	
26b	Regulatory reserve for general banking risks	-	
26c	Securitization exposures specified in a notice given by the Monetary Authority	-	
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	-	
26e	Capital shortfall of regulated non-bank subsidiaries	-	
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	-	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	-	
28	**Total regulatory deductions to CET1 capital**	**696**	
29	**CET1 capital**	**529,617**	
	AT1 capital: instruments		
30	Qualifying AT1 capital instruments plus any related share premium	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	*Capital instruments subject to phase out arrangements from AT1 capital*	-	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	-	
35	*of which: AT1 capital instruments issued by subsidiaries subject to phase out arrangements*	-	
36	**AT1 capital before regulatory deductions**	-	

Regulatory Disclosure Statements *(continued)*

Part III: Composition of regulatory captial and other disclosures

CC1: Composition of regulatory capital

		(a)	(b)
	At 31 December 2018	Amount	Source based on reference number of the balance sheet under the regulatory scope of consolidation
		HK$'000	
	AT1 capital: regulatory deductions		
37	Investments in own AT1 capital instruments	-	
38	Reciprocal cross-holdings in AT1 capital instruments	-	
39	Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
40	Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
41	National specific regulatory adjustments applied to AT1 capital	-	
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	-	
43	**Total regulatory deductions to AT1 capital**	-	
44	**AT1 capital**	-	
45	**Tier 1 capital (Tier 1 = CET1 + AT1)**	**529,617**	
	Tier 2 capital: instruments and provisions		
46	Qualifying Tier 2 capital instruments plus any related share premium	-	
47	*Capital instruments subject to phase out arrangements from Tier 2 capital*	-	
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	-	
49	*of which: capital instruments issued by subsidiaries subject to phase out arrangements*	-	
50	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	3	(1)
51	**Tier 2 capital before regulatory deductions**	**3**	
	Tier 2 capital: regulatory deductions		
52	Investments in own Tier 2 capital instruments	-	
53	Reciprocal cross-holdings in Tier 2 capital instruments	-	
54	Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
55	Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments applied to Tier 2 capital	-	
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	-	
57	**Total regulatory deductions to Tier 2 capital**	-	
58	**Tier 2 capital (T2)**	**3**	
59	**Total regulatory capital (TC = T1 + T2)**	**529,620**	
60	**Total RWA**	**2,720,367**	
	Capital ratios (as a percentage of RWA)		
61	**CET1 capital ratio**	**19.47%**	
62	**Tier 1 capital ratio**	**19.47%**	
63	**Total capital ratio**	**19.47%**	
64	**Institution specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)**	**3.76%**	
65	*of which: capital conservation buffer requirement*	1.88%	
66	*of which: bank specific countercyclical buffer requirement*	1.88%	
67	*of which: higher loss absorbency requirement*	0.00%	
68	CET1 capital surplus over the minimum CET1 requirement and any CET1 capital used to meet the Tier 1 and Total capital requirement under s.3A, or s.3B, as the case requires, of the BCR	11.47%	

Regulatory Disclosure Statements *(continued)*

Part III: Composition of regulatory captial and other disclosures

CC1: Composition of regulatory capital

	At 31 December 2018	(a) Amount	(b) Source based on reference number of the balance sheet under the regulatory scope of consolidation
		HK$'000	
	National minima (if different from Basel 3 minimum)		
69	National CET1 minimum ratio	Not applicable	Not applicable
70	National Tier 1 minimum ratio	Not applicable	Not applicable
71	National Total capital minimum ratio	Not applicable	Not applicable
	Amounts below the thresholds for deduction (before risk weighting)		
72	Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	95,801	
73	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	861,015	
74	Mortgage servicing rights (net of related tax liability)	Not applicable	Not applicable
75	Deferred tax assets arising from temporary differences (net of related tax liability)	Not applicable	Not applicable
	Applicable caps on the inclusion of provisions in Tier 2 capital		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the BSC approach, or the STC approach and SEC-ERBA, SEC-SA and SEC-FBA (prior to application of cap)	3,185,800	
77	Cap on inclusion of provisions in Tier 2 under the BSC approach, or the STC approach, and SEC-ERBA, SEC-SA and SEC-FBA	2,957,962	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap)	-	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	-	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	*Current cap on CET1 capital instruments subject to phase out arrangements*	Not applicable	Not applicable
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	Not applicable	Not applicable
82	*Current cap on AT1 capital instruments subject to phase out arrangements*	-	
83	*Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)*	-	
84	*Current cap on Tier 2 capital instruments subject to phase out arrangements*	1,566,035	
85	*Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)*	2,505,980	

Regulatory Disclosure Statements *(continued)*

Part III : Composition of regulatory captial and other disclosures

CC1: Composition of regulatory capital

Row No.	Description	Hong Kong basis	Basel III basis
9	**Other intangible assets (net of associated deferred tax liabilities)**	152	152
	Explanation As set out in paragraph 87 of the Basel III text issued by the Basel Committee (December 2010), mortgage servicing rights ("MSRs") may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to follow the accounting treatment of including MSRs as part of intangible assets reported in the AI's financial statements and to deduct MSRs in full from CET1 capital. Therefore, the amount to be deducted as reported in row 9 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 9 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of MSRs to be deducted to the extent not in excess of the 10% threshold set for MSRs and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.		
10	**Deferred tax assets (net of associated deferred tax liabilities)**	544	544
	Explanation As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs of the bank to be realized are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 10 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.		
18	**Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)**	-	-
	Explanation For the purpose of determining the total amount of insignificant capital investments in CET1 capital instruments issued by financial sector entities, an AI is required to aggregate any amount of loans, facilities or other credit exposures provided by it to any of its connected companies, where the connected company is a financial sector entity, as if such loans, facilities or other credit exposures were direct holdings, indirect holdings or synthetic holdings of the AI in the capital instruments of the financial sector entity, except where the AI demonstrates to the satisfaction of the MA that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the AI's business. Therefore, the amount to be deducted as reported in row 18 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 18 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.		

Regulatory Disclosure Statements *(continued)*

Part III : Composition of regulatory captial and other disclosures

CC1: Composition of regulatory capital

Row No.	Description	Hong Kong basis	Basel III basis
19	**Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)**	-	-
	Explanation For the purpose of determining the total amount of significant capital investments in CET1 capital instruments issued by financial sector entities, an AI is required to aggregate any amount of loans, facilities or other credit exposures provided by it to any of its connected companies, where the connected company is a financial sector entity, as if such loans, facilities or other credit exposures were direct holdings, indirect holdings or synthetic holdings of the AI in the capital instruments of the financial sector entity, except where the AI demonstrates to the satisfaction of the MA that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the AI's business. Therefore, the amount to be deducted as reported in row 19 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 19 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.		
39	**Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)**	-	-
	Explanation The effect of treating loans, facilities or other credit exposures to connected companies which are financial sector entities as CET1 capital instruments for the purpose of considering deductions to be made in calculating the capital base (see note re row 18 to the template above) will mean the headroom within the threshold available for the exemption from capital deduction of other insignificant capital investments in AT1 capital instruments may be smaller. Therefore, the amount to be deducted as reported in row 39 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 39 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.		
54	**Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation**	-	-
	Explanation The effect of treating loans, facilities or other credit exposures to connected companies which are financial sector entities as CET1 capital instruments for the purpose of considering deductions to be made in calculating the capital base (see note re row 18 to the template above) will mean the headroom within the threshold available for the exemption from capital deduction of other insignificant capital investments in Tier 2 capital instruments may be smaller. Therefore, the amount to be deducted as reported in row 54 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 54 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.		
Remarks: The amount of the 10% threshold mentioned above is calculated based on the amount of CET1 capital determined in accordance with the deduction methods set out in BCR Schedule 4F. The 15% threshold is referring to paragraph 88 of the Basel III text issued by the Basel Committee (December 2010) and has no effect to the Hong Kong regime.			

Abbreviations:

CET1: Common Equity Tier 1

AT1: Additional Tier 1

Regulatory Disclosure Statements *(continued)*

Part III : Composition of regulatory captial and other disclosures

CC2: Reconciliation of regulatory capital to balance sheet

	At 31 December 2018		
	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	HK$'000	HK$'000	
Assets			
Cash and balances with banks, central banks and other financial institutions	16,076	16,076	
Placements with and advances to banks, central banks and other financial institutions	24,000	24,000	
Loans and advances to customers and other accounts	5,921,915	5,921,915	
of which; Expected credit losses allowances eligible for inclusion in Tier 2 Capital	3	3	(1)
Tax Recoverable	8,353	8,353	
Deferred tax assets	544	544	(2)
Intangible assets	152	152	(5)
Total Assets	**5,971,040**	**5,971,040**	
Liabilities			
Deposits and balances of banks and other financial institutions	5,430,000	5,430,000	
Other liabilities	10,727	10,727	
Current taxation	-	-	
Total Liabilities	**5,440,727**	**5,440,727**	
Equity			
Total equity attributable to equity shareholders of the Bank	**530,313**	**530,313**	
of which: Paid-in share capital	200,000	200,000	(3)
Retained earnings	330,313	330,313	(4)
Total Equity and Liabilities	**5,971,040**	**5,971,040**	

Regulatory Disclosure Statements *(continued)*

Part III : Composition of regulatory captial and other disclosures

CCA: Main features of regulatory capital instruments

		Share Capital
(1)	Issuer	HKCB Finance Limited
(2)	Unique identifier	N/A
(3)	Governing law(s) of the instrument	Hong Kong laws
	Regulatory treatment	
(4)	- Transitional Basel III rules (#)	N/A
(5)	- Post-transitional Basel III rules (+)	Common Equity Tier 1
(6)	- Eligible at solo(*)/ group/ group and solo	Solo
(7)	-Instrument type (types to be specified by each jurisdiction)	Ordinary Shares
(8)	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	HK$200 million
(9)	Par value of instrument	N/A
(10)	Accounting classification	Shareholders' equity
(11)	Original date of issuance	26/6/1979 (Date of incorporation)
(12)	Perpetual or dated	Perpetual
(13)	- Original maturity date	No maturity
(14)	Issuer call subject to prior supervisory approval	No
(15)	- Optional call date, contingent call dates and redemption amount	N/A
(16)	- Subsequent call dates, if applicable	N/A
	Coupons/ dividends	
(17)	- Fixed or floating dividend/ coupon	N/A
(18)	- Coupon rate and any related index	N/A
(19)	- Existence of a dividend stopper	No
(20)	- Fully discretionary, partially discretionary or mandatory	Fully discretionary
(21)	- Existence of step up or other incentive to redeem	No
(22)	- Non-cumulative or cumulative	Non-cumulative
(23)	*Convertible or non-convertible*	Non-convertible
(24)	- If convertible, conversion trigger(s)	N/A
(25)	- If convertible, fully or partially	N/A
(26)	- If convertible, conversion rates	N/A
(27)	- If convertible, mandatory or optional conversion	N/A
(28)	- If convertible, specify instrument type convertible into	N/A
(29)	- If convertible, specify issuer of instrument if converts into	N/A
(30)	Write-down feature	No
(31)	- If write-down, write-down trigger(s)	N/A
(32)	- If write-down, full or partial	N/A
(33)	- If write-down, permanent or temporary	N/A
(34)	- If temporary write-down, description of write-up mechanise	N/A
(35)	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A
(36)	Non-compliant transitioned features	No
(37)	If yes, specify non-compliant features	N/A

Footnotes:

\# Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

\+ Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

* Include solo-consolidated

Regulatory Disclosure Statements *(continued)*

Part III : Composition of regulatory captial and other disclosures

CCyB1: Geographical distribution of credit exposures used in countercyclical capital buffer ("CCyB")

		At 31 December 2018			
		a	b	c	d
	Jurisdiction (J)	Applicable JCCyB ratio in effect	RWA used in computation of CCyB ratio	AI-specific CCyB ratio	CCyB amount
		(%)	(Amount) in HK$'000		HK$'000
1	Hong Kong SAR	1.875%	2,564,746		
	Sum (Remark 1)		**2,564,746**		
	Total (Remark 2)		**2,565,462**	**1.874%**	**50,993**

Remark:

(1) This represents the sum of RWAs for the private sector credit exposures in jurisdictions with a non-zero countercyclical buffer rate.

(2) The total RWAs used in the computation of the CCyB ratio in column (b) represents the total RWAs for the private sector credit exposures in all jurisdictions to which the banks is exposed, including jurisdictions with no countercyclical buffer rate or with a countercyclical buffer rate set at zero. The CCyB amount in column (d) represents the Group's total RWAs multiplied by the Group specific CCyB ratio in column (c).

Regulatory Disclosure Statements *(continued)*

Part III : Composition of regulatory captial and other disclosures

LR1: Summary comparison of accounting assets against leverage ratio exposure measure

	Item	Leverage ratio framework 31 December 2018
		HK$'000
1	Total consolidated assets as per published financial statements	5,971,044
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting standard but excluded from the LR exposure measure	-
4	Adjustments for derivative contracts	-
5	Adjustment for SFTs (i.e. repos and similar secured lending)	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	-
6a	Adjustment for specific and collective provisions that are allowed to be excluded from exposure measure	-
7	Other adjustments	(697)
8	Leverage ratio exposure measure	**5,970,347**

Regulatory Disclosure Statements *(continued)*

Part III : Composition of regulatory captial and other disclosures

LR2: Leverage ratio

		Leverage ratio framework 31 December 2018	Leverage ratio framework 31 December 2017
		HK$'000	HK$'000
	On-balance sheet exposures		
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	5,971,044	6,144,936
2	Less: Asset amounts deducted in determining Tier 1 capital	(697)	(661)
3	**Total on-balance sheet exposures (excluding derivative contracts and SFTs)**	**5,970,347**	**6,144,275**
	Exposures arising from derivative contracts		
4	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	-	-
5	Add-on amounts for PFE associated with all derivative contracts	-	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7	Less: Deductions of receivables assets for cash variation margin provided under derivative contracts	-	-
8	Less: Exempted CCP leg of client-cleared trade exposures	-	-
9	Adjusted effective notional amount of written credit derivative contracts	-	-
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivative contracts	-	-
11	**Total exposures arising from derivative contracts**	**-**	**-**
	Exposures arising from SFTs		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-	-
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	CCR exposure for SFT assets	-	-
15	Agent transactions exposures	-	-
16	**Total exposures arising from SFTs**	**-**	**-**
	Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	-	-
18	Less: Adjustments for conversion to credit equivalent amounts	-	-
19	**Off-balance sheet items**	**-**	**-**
	Capital and total exposures		
20	**Tier 1 capital**	**529,617**	**505,765**
20a	**Total exposures before adjustments for specific and collective provisions**	**5,970,347**	**6,144,275**
20b	**Adjustments for specific and collective provisions**	**-**	**-**
21	**Total exposures after adjustments for specific and collective provisions**	**5,970,347**	**6,144,275**
	Leverage ratio		
22	**Basel III leverage ratio**	**8.87%**	**8.23%**

Regulatory Disclosure Statements *(continued)*

Part IV : Liquidity

LIQA: Liquidity risk management

The Company is designated by the HKMA as a Category 2 institution. As a result, the Company is required to disclose the average value of liquidity maintenance ratio for the reporting period concerned. In 2018, the Company's average liquidity maintenance ratio was 158.6% (for the year ended 31 December 2017: 160.0%). The LMR is being calculated based on the arithmetic mean of the average value of its LMR for each month during the reporting period and computed as required by the Hong Kong Monetary Authority.

The Company always maintains high liquidity ratio in order to meet unexpected increase of customer demand on cash. Apart from compliance with statutory ratio requirement, stress tests are being performed regularly.

Part V : Credit risk for non-securitisation exposures

CRA: General information about credit risk

Credit risk arises from the possibility that the counterparty in a transaction may default. It arises from the lending and other activities undertaken by the Company.

Specific credit policies are formulated, implemented and maintained at company level. The credit risk management function of the Company is centralised and is overseen by the Credit & Risk Management Committee appointed by China CITIC Bank International Limited ("the immediate parent)'s Board of Directors (the "Committee"). The Committee defines and delegates the approval authority to various credit-related functional committees in respect of the approval of credit applications, policy exceptions, loan classifications, specific provisions, management of criticised credits and the control of interbank counterparty risks. The Committee comprises mainly the Chief Executive Officer, Chief Risk Officer and other members of senior management of the immediate parent.

The Company maintains robust management information and reporting systems to identify, measure, monitor and mitigate all relevant quantifiable and material risks and to provide our management with timely and accurate reports on our risk exposure, including provisions, total exposures and RWAs, as well as early alert accounts.

Regulatory Disclosure Statements *(continued)*

Part V : Credit risk for non-securitisation exposures

CR1: Credit quality of exposures

		(a)	(b)	(c)	(d)
		Gross carrying amounts of			
		Defaulted exposures	**Non-defaulted exposures**	**Allowances / impairments**	**Net values**
At 31 December 2018		**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
1	Loans	331	5,911,523	(3)	5,911,851
2	Debt securities	-	-	-	-
3	Off-balance sheet exposures	-	-	-	-
4	**Total**	**331**	**5,911,523**	**(3)**	**5,911,851**

CR2: Changes in defaulted loans and debt securities

		(a)
		Amount
At 31 December 2018		**HK$'000**
1	Defaulted loans and debt securities at end of the previous reporting period	-
2	Loans and debt securities that have defaulted since the last reporting period	331
3	Returned to non-defaulted status	-
4	Amounts written off	-
5	Other changes	-
6	**Defaulted loans and debt securities at end of the current reporting period**	**331**

CRB: Additional disclosure related to credit quality of exposures

Loans and advances past due up to 90 days and not otherwise classified as impaired are separately classified as "past due but not impaired", irrespective of their credit rating. "Past due but not impaired" gross financial instruments are those loans where, although customers have failed to make payments in accordance with the contractual terms of their facilities, they do not exhibit any objective evidence of impairment. Impaired loans and advances are loans which exhibit objective evidence of impairment, and the borrower is either unlikely to pay their credit obligations in full without recourse to security, or is more than 90 days past due on any material credit obligation. Objective evidence for impairment is described in the accounting policy Note 2 of the Annual Report 2018. The accounting definition of past due and the regulatory definition of default are generally aligned.

Effective from 1st January 2018, the new Hong Kong Financial Reporting Standard 9 ("HKFRS 9") has replaced the Hong Kong Accounting Standard ("HKAS 39"). HKFRS 9 introduces new accounting concepts and measures such as significant credit deterioration and lifetime loss measurement. HKFRS 9 also introduces expanded disclosure requirements and changes in presentation on credit risks and "expected credit losses" ("ECLs").

HKFRS 9 replaces the 'incurred loss' model in HKAS 39 with a forward-looking 'ECL' model. This will require considerable judgement over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The Group has an effective credit risk rating process in place which captures the varying level, nature and drivers of credit risk of all in-scope assets in order to reasonably ensure that the corresponding ECL are appropriately measured. ECL must be updated on a timely basis to reflect changes in credit risk quality for all in-scope assets. The models used in the ECL computation process shall be validated on at least an annual basis. Our approach for determining impairment allowances is set out in Note 3 Changes in Accounting Policies Section of the Annual Report 2018.

Regulatory Disclosure Statements *(continued)*

Part V : Credit risk for non-securitisation exposures

CRB: Additional disclosure related to credit quality of exposures

(a) Breakdown of exposures by geographical areas

	31 December 2018
	HK$'000
Hong Kong	**5,911,854**

(b) Breakdown of exposures by industry

	31 December 2018
	HK$'000
Industrial, commercial and financial	
- Property investment	931,960
- Others	1,101
Individuals	4,978,793
Total	**5,911,854**

(c) Breakdown of exposures by residual maturity

	31 December 2018
	HK$'000
Repayable on demand	1,294
Within 1 month	28,107
3 months or less but over 1 month	58,963
1 year or less but over 3 months	265,723
5 years or less but over 1 year	1,409,699
After 5 years	4,101,078
Undated	46,990
	5,911,854

(d) Impaired exposures, related allowances and write-offs by geographical areas

	31 December 2018		
	Impaired exposures	Related allowances	Write-offs
	HK$'000	HK$'000	HK$'000
Hong Kong	331	-	-

Regulatory Disclosure Statements *(continued)*

Part V : Credit risk for non-securitisation exposures

CRB: Additional disclosure related to credit quality of exposures

(e) Impaired exposures, related allowances and write-offs by industry

	31 December 2018		
	Impaired exposures	**Related allowances**	**Write-offs**
	HK$'000	**HK$'000**	**HK$'000**
Individuals	331	-	-

(f) Aging analysis of accounting past due exposures

		31 December 2018
		HK$'000
Loans overdue for :		
-	6 months or less but over 3 months	157
-	1 year or less but over 6 months	174
-	over 1 year	-
	Total	**331**

(g) Rescheduled loans

		31 December 2018
		HK$'000
1	Impaired exposures	-
2	Not impaired exposures	-
	Total	**-**

Regulatory Disclosure Statements *(continued)*

Part V : Credit risk for non-securitisation exposures

CRC: Qualitative disclosures related to credit risk mitigation

The Company focuses on assessing the repayment ability of individual customers or counterparties rather than just solely relying on securities. Mitigation of credit risk is a key aspect of effective risk management to mitigate credit risk and takes many forms. The Company has guidelines on the acceptability of specific classes of collateral or credit risk enhancements accompanied by the determination of valuation parameters. Such parameters are expected to be conservative and reviewed regularly. Security structures and covenants (financial and non-financial) are subject to regular review to ensure they comply with the stipulated conditions.

The Company follows its immediate parent to guidelines and procedures to govern the credit risk mitigations including acceptability and management of collateral, valuation practices and valuer's competency. Collateral should be revalued on a regular basis, though the frequency may vary with the type of collateral involved and the nature and the internal credit rating of the underlying credit.

The most common form of mitigating credit risk is to take collateral. The principal collateral received to secure loans and advances includes mortgages, other registered securities over assets and guarantees. The creditworthiness of guarantee providers is thoroughly assessed and ideally independent of the financial position of the borrower.

CR3: Overview of recognized credit risk mitigation

		(a)	(b1)	(b)	(d)	(f)
		Exposures unsecured: carrying amount	**Exposures to be secured**	**Exposures secured by recognized collateral**	**Exposures secured by recognized guarantees**	**Exposures secured by recognized credit derivative contracts**
At 31 December 2018		**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
1	Loans	5,911,854	-	-	-	-
2	**Total**	**5,911,854**	-	-	-	-
3	Of which defaulted	-	-	-	-	-

CRD: Qualitative disclosures on use of ECAI ratings under STC approach

The Company follows the immediate parent to adopt a new and more granular 24-grade internal risk rating system (Grades G1-G21 for performing loans and Grades G22-G24 for non-performing loans) that maps to ECAIs' master scales (including), providing calibrated internal rating.

The Company also adopts standardized approach for credit risk. The risk weights are assigned to exposures according to Banking Capital Rule. When calculating risk weighted-amount, risk systems look up the available issue and issuer ratings to derive relevant risk weights.

Regulatory Disclosure Statements *(continued)*

Part V : Credit risk for non-securitisation exposures

CR4: Credit risk exposures and effects of recognised credit risk mitigation – for STC approach

At 31 December 2018		(a)	(b)	(c)	(d)	(e)	(f)
		Exposures pre-CCF and pre-CRM		**Exposures post-CCF and post-CRM**		**RWA and RWA density**	
		On-balance sheet amount	**Off-balance sheet amount**	**On-balance sheet amount**	**Off-balance sheet amount**	**RWA**	**RWA density**
		HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**	**%**
	Exposure classes						
1	Sovereign exposures	8,353	-	8,353	-	-	0%
2	PSE exposures	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-
4	Bank exposures	40,077	-	40,077	-	8,015	20%
5	Securities firm exposures	-	-	-	-	-	-
6	Corporate exposures	370,668	-	370,668	-	370,668	100%
7	CIS exposures	-	-	-	-	-	-
8	Cash items	-	-	-	-	-	-
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-
10	Regulatory retail exposures	431,987	-	431,987	-	323,990	75%
11	Residential mortgage loans	5,033,120	-	5,033,120	-	1,787,377	36%
12	Other exposures which are not past due exposures	85,809	-	85,809	-	85,809	100%
13	Past due exposures	333	-	333	-	333	100%
14	Significant exposures to commercial entities	-	-	-	-	-	-
15	**Total**	**5,970,347**	**-**	**5,970,347**	**-**	**2,576,192**	**43%**

Regulatory Disclosure Statements *(continued)*

Part V : Credit risk for non-securitisation exposures

CR5: Credit risk exposures by asset classes and by risk weights – for STC approach

At 31 December 2018		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(ha)	(i)	(j)
	Exposure class / Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
1	Sovereign exposures	8,353	-	-	-	-	-	-	-	-	-	8,353
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	40,077	-	-	-	-	-	-	-	40,077
5	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-
6	Corporate exposures	-	-	-	-	-	-	370,668	-	-	-	370,668
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Cash items	-	-	-	-	-	-	-	-	-	-	-
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-	-	-	-	-	-
10	Regulatory retail exposures	-	-	-	-	-	431,987	-	-	-	-	431,987
11	Residential mortgage loans	-	-	-	4,992,064	-	3,605	37,451	-	-	-	5,033,120
12	Other exposures which are not past due exposures	-	-	-	-	-	-	85,809	-	-	-	85,809
13	Past due exposures	-	-	-	-	-	-	333	-	-	-	333
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15	**Total**	**8,353**	**-**	**40,077**	**4,992,064**	**-**	**435,592**	**494,261**	**-**	**-**	**-**	**5,970,347**

Regulatory Disclosure Statements *(continued)*

Part VI : Counterparty credit risk

CCRA: Qualitative disclosures related to counterparty credit risk (including those arising from clearing through CCPs)

The Company has no counterparty default risk exposures by asset classes and by risk weights under STC approach as at 31 December 2018.

Part VII: Market risk

MRA: Qualitative disclosure related to market risk

The Company has followed the immediate parent to establish market risk policies, including limits, reporting lines and control procedures, which are reviewed regularly by management and monitored by the Asset and Liability Committee ("ALCO") of the immediate parent. The Company does not expect there is any significant market risk exposure as the major assets and liabilities are denominated in Hong Kong dollars, and the interest rate risk is controlled by monitoring on the maturities of these assets and liabilities.

Part VIII: Interest risk in banking book

IRRBB: Interest rate risk in the banking book (before 30 June 2019)

Interest rate risk primarily results from timing differences in the repricing of interest bearing assets, liabilities and commitments. The Company's interest rate positions arise mainly from lending activities undertaken. The Company has established policies and systems to monitor its interest-sensitive positions and net repricing gap. The interest rate risk is managed and monitored regularly under the guidelines and limits approved by the Directors of the Company.

Sensitivity analysis on interest rate exposures

At 31 December 2018, it is estimated that a general increase of 200 basis points in interest rates, with all other variables held constant, would increase the Company's profit after tax and retained profits by approximately HK$23,394,195. The extent of decrease in interest rate is expected to be minimal which would decrease the Company's retained profits by an insignificant amount.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 200 basis point increase or minimal decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual date of reporting period.

Part IX: Remuneration

The Company does not have employee during the financial year 2018. It does not have any fixed or variable remunerations, special payments nor deferred remuneration granted by the Company to its Senior Management or Key Personnel during the financial year 2018.

HKCB FINANCE LIMITED

FINANCIAL STATEMENTS

31 December 2018

HKCB FINANCE LIMITED

STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018
(Expressed in Hong Kong dollars)

	Note	2018 HK$'000	2017 HK$'000
Interest income		173,983	181,048
Interest expense		(143,932)	(99,986)
Net interest income	4	30,051	81,062
Fee and commission income	5	6,070	6,279
Fee and commission expense		(1,137)	(973)
Net fee and commission income		4,933	5,306
Other operating income		80	103
Operating income		35,064	86,471
Operating expenses	6	(6,572)	(7,239)
		28,492	79,232
2018 Expected credit losses written back on loans and advances and other accounts	8(a)	103	-
2017 Impairment losses written back on loans and advances and other accounts	8(b)	-	196
Operating Profit before taxation		28,595	79,428
Income tax	9(a)	(4,709)	(12,870)
Profit for the year		23,886	66,558
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		23,886	66,558

The notes on pages 5 to 34 form part of these financial statements.

HKCB FINANCE LIMITED

STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2018
(Expressed in Hong Kong dollars)

	Note	2018 HK$'000	2017 HK$'000
Assets			
Cash and balances with banks and other financial institutions	10	16,076	22,621
Placements with banks and other financial institutions	11	24,000	33,000
Loans and advances to customers and other accounts	12(a)	5,921,915	6,084,447
Tax recoverable	16(a)	8,353	3,930
Deferred tax assets	16(b)	544	661
Property and equipment	13	-	274
Intangible assets	14	152	-
Total Assets		5,971,040	6,144,933
Equity and Liabilities			
Deposits and balances of banks and other financial institutions	15	5,430,000	5,630,000
Other liabilities		10,727	8,507
Total Liabilities		5,440,727	5,638,507
Equity			
Share capital	17(b)	200,000	200,000
Reserves		330,313	306,426
Total Equity		530,313	506,426
Total Equity and Liabilities		5,971,040	6,144,933

Approved and authorised for issue by the Board of Directors on 23 April 2019

The notes on pages 5 to 34 form part of these financial statements.

HKCB FINANCE LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018
(Expressed in Hong Kong dollars)

	Share capital HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2018	200,000	306,426	506,426
Changes on initial adoption of HKFRS 9	-	1	1
Restated total equity at the beginning of the financial year	200,000	306,427	506,427
Changes in equity for 2018:			
Profit for the year	-	23,886	23,886
Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	-	23,886	23,886
Interim dividend declared and paid in respect of the current year	-	-	-
At 31 December 2018	200,000	330,313	530,313
At 1 January 2017	200,000	319,868	519,868
Changes in equity for 2017:			
Profit for the year	-	66,558	66,558
Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	-	66,558	66,558
Interim dividend declared and paid in respect of the current year	-	(80,000)	(80,000)
At 31 December 2017	200,000	306,426	506,426

The notes on pages 5 to 34 form part of these financial statements.

HKCB FINANCE LIMITED

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018
(Expressed in Hong Kong dollars)

	Note	2018 HK$'000	2017 HK$'000
Operating activities			
Profit before taxation		28,595	79,428
Adjustments for non-cash items:			
Expected credit losses written back on loans and advances and other accounts	8(a)	(103)	-
Impairment losses written back on loans and advances and other accounts	8(b)	-	(196)
Amortisation of intangible assets	14	31	-
Depreciation	13	91	123
Operating profit before changes in working capital		28,614	79,355
Decrease in loans and advances to customers and other accounts		162,636	151,874
Decrease in deposits and balances of banks and other financial institutions		(200,000)	(150,000)
Increase in other liabilities		2,220	1,744
Net changes in working capital		(35,144)	3,618
Net cash (used in) /generated from operations		(6,530)	82,973
Hong Kong Profits Tax paid		(9,015)	(16,462)
Net cash (used in) /generated from operating activities		(15,545)	66,511
Financing activity			
Dividend paid	17(c)	-	(80,000)
Net cash used in financing activity		-	(80,000)
Net decrease in cash and cash equivalents		(15,545)	(13,489)
Cash and cash equivalents at 1 January		55,621	69,110
Cash and cash equivalents at 31 December	18	40,076	55,621
Cash flows from operating activities included:			
Interest received		175,366	181,035
Interest paid		141,450	97,169

The notes on pages 5 to 34 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
(Expressed in Hong Kong dollars)

1 General information

The principal activities of HKCB Finance Limited ("the Company") are provision of personal and commercial lending, finance leases and hire purchase, mortgage finance and other related financial services.

HKCB Finance Limited is a company incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 3/F, Ka Wah Bank Centre, 232 Des Voeux Road Central, Hong Kong.

2 Significant accounting policies

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Company. Note 3 provides information on any changes in accounting policies resulting from the application of these developments to the extent that they are relevant to the Company for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis.

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 24.

2 Significant accounting policies (Continued)

(c) Revenue recognition

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

(i) Interest income

Interest income for all interest-bearing financial instruments is recognised in the income statement on an accruals basis using the effective interest method.

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

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

(ii) Fee and commission income

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

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

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

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

2 Significant accounting policies (Continued)

(d) Financial instruments

(i) Initial recognition

The Company classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: loans and receivables, and other financial liabilities.

Financial instruments are measured initially at fair value, which normally will be equal to the transaction price plus transaction costs that are directly attributable to the acquisition of the financial asset or issue of the financial liability.

The Company recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are recognised using settlement date accounting.

(ii) Categorisation

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables mainly comprise loans and advances to customers and other accounts and placements with banks and other financial institutions.

Loans and receivables are carried at amortised cost using the effective interest method, less any expected credit loss allowance, if any (see note 2 (i)(i)).

Other financial liabilities

Financial liabilities are measured at amortised cost using the effective interest method.

(iii) Derecognition

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

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

(e) Leases and hire purchase contracts

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

(i) Classification of leased assets

Leases which transfer substantially all the risks and rewards of ownership to the lessee are classified as finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the lessee are classified as operating leases.

2 Significant accounting policies (Continued)

(e) Leases and hire purchase contracts (Continued)

(ii) *Finance leases*

Where the Company is a lessor under finance leases, an amount representing the net investment in the lease is included in the statement of financial position as loans and advances to customers. Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases. Impairment losses are accounted for in accordance with the accounting policy as set out in note 2 (i)(i). Revenue arising from finance leases is recognised in accordance with the Company's revenue recognition policies, as set out in note 2(c)(iii).

(f) Intangible assets

Intangible assets include the acquired software licenses and capitalised development costs of computer software programmes. Cost associated with maintaining software programme are recognised as an expense as incurred. Development costs, which directly attributable to the design and testing of identifiable and software products for internal use, are capitalised as part of the software and included employee costs and an appropriate portion of relevant overheads.

Intangible assets for software that have a finite estimated useful life are stated at cost less amortisation and accumulated impairment losses, and are amortised over their estimated useful lives (5 years) on a straight-line basis. Intangible assets are subject to impairment review on an annual basis if there are any impairment indicators present that that the carrying amount may not be recoverable.

(g) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses, if any (see note 2 (i)(ii)).

Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property and equipment, less their estimated residual value, if any, using the straight-line method over the estimated useful lives as follows:

Leasehold improvements	over the lease terms
Furniture, fixtures and equipment	5 - 10 years
Machinery for use in operating leases	3 years

Where parts of an item of property and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

2 Significant accounting policies (Continued)

(h) Impairment of assets (accounting policies applied until 31 December 2017)

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

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

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

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

Loans and receivables

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

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

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

2 Significant accounting policies (Continued)

(h) Impairment of assets (accounting policies applied until 31 December 2017) (Continued)

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

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

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

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

When there is no reasonable prospect of recovery, the loan and the related interest receivables are written off. Loans and receivables with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Company has made concessions that it would not otherwise consider. Renegotiated loans and receivables are subject to ongoing monitoring to determine whether they remain impaired or past due.

(i) Impairment of assets (accounting policies applied from 1 January 2018)

(i) Expected credit loss allowance on amortised cost

The Company assesses on a forward-looking basis the expected credit losses ("ECL") associated with its debt instrument assets carried at amortised cost and with the exposures arising from loan commitment and financial guarantee contracts (if any). The Company recognises a loss allowance for such losses at each reporting date.

A 3-Stages approach to impairment for financial assets that are performing at the date of origination or purchase. This approach is summarised as follows:

(a) Stage 1: The Group recognises a credit loss allowance at an amount equal to 12-month expected credit losses. This represents the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, assuming that credit risk has not increased significantly after initial recognition.

(b) Stage 2: The Group recognises a credit loss allowance at an amount equal to lifetime expected credit losses for those financial assets which are considered to have experienced a significant increase in credit risk since initial recognition. Allowances for credit losses are higher in this stage because of an increase in credit risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1.

2 Significant accounting policies (Continued)

(i) Impairment of assets (accounting policies applied from 1 January 2018) (Continued)

(i) Expected credit loss allowance on amortised cost (Continued)

(c) Stage 3: The Group recognises a credit loss allowance at an amount equal to lifetime expected credit losses, reflecting that financial assets are credit impaired with 100% probability of default. The Group's definition of default is aligned with the regulatory definition.

(ii) Impairment of property and equipment

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the property and equipment may be impaired or, an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the asset's recoverable amount is estimated.

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

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs; exceeds its recoverable amount.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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

(j) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value and recoverable on demand.

(k) Employee benefits

(i) Employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Staff retirement scheme

Contributions under a defined contribution provident fund and a Mandatory Provident Fund scheme are charged to profit or loss as and when the contributions fall due.

2 Significant accounting policies (Continued)

(l) Provisions and contingent liabilities

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

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

(m) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. All deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

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

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

- in the case of current tax assets and liabilities, the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2 Significant accounting policies (Continued)

(n) Translation of foreign currencies

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

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Hong Kong Dollars, which is the Company's functional and presentation currency.

(o) Related parties

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

(i) has control or joint control over the Company;

(ii) has significant influence over the Company; or

(iii) is a member of the key management personnel of the Company or the Company's parent.

(b) An entity is related to the Company if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

3 Changes in accounting policies

(a) New and amended accounting standards adopted by the Company

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

- *HKFRS 9, 'Financial Instruments'*
- *HKFRS 15, 'Revenue from Contracts with Customers'*

The impact of the adoption of HKFRS 9 and the related new accounting policies are disclosed in note 3 (b) below and 2(i). 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 Company has performed an assessment and concluded that the adoption of HKFRS 15 does not have significant impact on the Company's accounting policies and does not require retrospective adjustments.

(b) Changes in accounting policies on adoption of HKFRS 9

The Company 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 Company did not early adopt any part of HKFRS 9 in previous periods.

The adoption of HKFRS 9 has resulted in changes in the Company's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. The most significant change is on the impairment of loans and advances to customers.

The new impairment model requires the recognition of impairment allowances based on expected credit losses ('ECL') rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, certain loan commitments and financial guarantee contracts. At initial recognition, impairment allowance (or provision in the case of commitments and guarantees) is required for ECL resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). The assessment of credit risk and the estimation of ECL are required to be probability-weighted and should incorporate all available information which is relevant to the assessment.

3 Changes in accounting policies (Continued)

(b) Changes in accounting policies on adoption of HKFRS 9 (Continued)

Set out below are disclosures relating to the impact of the adoption of HKFRS 9 on the Company.

(i) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with HKAS 39 and HKFRS 9 as at 1 January 2018 are compared as follows:

	HKAS 39		HKFRS 9	
Financial assets	**Measurement category**	**Carrying amount (HK$'000)**	**Measurement category**	**Carrying amount (HK$'000)**
Balances with banks and other financial institutions	Amortised cost	22,621	Amortised cost	22,621
Placements with banks and other financial institutions	Amortised cost	33,000	Amortised cost	33,000
Loans and advances to customers and other accounts	Amortised cost	6,084,447	Amortised cost	6,084,448

There were no changes to the classification and measurement of financial liabilities.

(ii) Reconciliation of carrying amounts of financial assets and retained earnings from HKAS 39 to HKFRS 9

The table below reflects the impact of adopting HKFRS 9 on the Company's opening financial assets and retained earnings as at 1 January 2018. The adoption of HKFRS 9 does not give a significant impact as it only increased the Company's net assets at 1 January 2018 by HK$1,145, representing: (i) an increase of HK$807 related to expected credit loss; and (ii) a reduction of HK$338 related to deferred tax assets. Corresponding impact on the Company's capital ratios is not significant.

Financial assets	**HKAS 39 31 December 2017 (HK$'000)**	**Impact of classification and measurement**	**Impact of expected credit losses ("ECL") (HK$'000)**	**Impact of deferred tax (HK$'000)**	**HKFRS 9 1 January 2018 (HK$'000)**
Balances with banks and other financial institutions	22,621	Amortised cost	-	-	22,621
Placements with banks and other financial institutions	33,000	Amortised cost	-	-	33,000
Loans and advances to customers and other accounts	6,084,447	Amortised cost	1	-	6,084,448
Retained earnings	306,426		1	-	306,427

3 Changes in accounting policies (Continued)

(b) Changes in accounting policies on adoption of HKFRS 9 (Continued)

(iii) Reconciliation of impairment allowance balance from HKAS 39 to HKFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the HKAS 39 incurred loss model to the new impairment allowance measured in accordance with the HKFRS 9 ECL model as at 1 January 2018:

Financial assets at amortised cost	**Impairment allowance under HKAS 39 (HK$'000)**	**Reduction in impairment allowances on adoption of HKFRS 9 (HK$'000)**	**Impairment allowance under HKFRS 9 (HK$'000)**
Loans and advances to customers and other accounts	3	(1)	2

(c) Future accounting development but not effective for the year ended 31 December 2018

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

	Effective for accounting periods beginning on or after
- *HKFRS 16, 'Leases'*	1 January 2019
- *HK(IFRIC) 23, Uncertainty over Income Tax Treatments*	1 January 2019
- *Annual Improvements to HKFRSs 2015-2017 Cycle*	1 January 2019

The Company is in the process of making an assessment of what the impact of these new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

4 Net interest income

All interest income and interest expenses included in the statement of comprehensive income refer to the interest income on financial assets or interest expense on financial liabilities that are not at fair value through profit or loss for the years ended 31 December 2018 and 2017.

5 Fee and commission income

Included in total fee and commission income are fee and commission income of HK$806,000 (2017: HK$ 995,000), other than the amounts included in determining the effective interest rate, relating to financial assets and liabilities that are not at fair value through profit or loss for the years ended 31 December 2018 and 2017.

6 Operating expenses

	2018 HK$'000	2017 HK$'000
Staff costs		
- Salaries and other staff costs	3,362	4,678
- Contributions to defined contribution retirement plans	256	296
Premises and equipment expenses		
- Rental of premises	798	796
- Depreciation (note 13)	91	123
- Repair and maintenance	37	31
- Others	259	250
Amortisation – intangible assets (note 14)	31	-
Auditor's remuneration	365	343
Professional fees	1	(146)
Others	1,372	868
	6,572	7,239

7 Directors' remuneration

The Directors' remunerations disclosed pursuant to section 383 of the Hong Kong Companies Ordinance (Cap. 622) and the Companies (Disclosure of Information about Benefits of Directors) Regulation is set out as below:

	2018 HK$'000	2017 HK$'000
Directors' fees	-	-
Salaries, allowances and benefits in kind	-	-
Discretionary bonuses	-	-
Retirement scheme contributions	-	-

Note:

(i) During the year, no termination benefits were paid by the Company to any of the Company's directors.

(ii) During the year, the Company did not incur any payment to third parties for making available directors' services.

8 Expected credit losses written back on loans and advances and other accounts

	2018
	HK$'000
(a) Expected credit losses written back on loans and advances and other accounts	Stage 1
Expected credit losses on loans and advances	(1)
Recoveries	104
	103

	2017
	HK$'000
(b) Impairment losses written back on loans and advances (note 12(b))	
- Individual assessment	75
- Collective assessment	121
	196
of which:	
- Additions	(3)
- Releases	-
- Recoveries	199
	196

9 Income tax in the statement of comprehensive income

(a) Taxation in the statement of comprehensive income represents:

	2018	2017
	HK$'000	HK$'000
Current tax - Hong Kong Profits Tax		
Provision for the year	4,602	12,954
Over-provision in respect of prior year	(10)	(235)
	4,592	12,719
Deferred tax		
Origination of temporary differences (note 16(b))	117	151
Income tax expense	4,709	12,870

The provision of Hong Kong Profits Tax for 2018 is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the year.

9 Income tax in the statement of comprehensive income (Continued)

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

	2018 HK$'000	2017 HK$'000
Profit before tax	28,595	79,428
Notional tax on profit before tax, calculated at 16.5% (2017: 16.5%)	4,719	13,106
Over-provision in prior years	(10)	(216)
Others	-	(20)
Tax expense	4,709	12,870

10 Cash and balances with banks and other financial institutions

	2018 HK$'000	2017 HK$'000
Balances with banks	16,076	22,621

Balances with banks are non-interest bearing, have no fixed repayment terms and recoverable on demand.

11 Placements with banks and other financial institutions

	2018 HK$'000	2017 HK$'000
Placements with banks maturing within one month	24,000	33,000

12 Loans and advances to customers and other accounts

(a) Loans and advances to customers and other accounts less expected credit losses /impairment allowances

	2018 HK$'000	2017 HK$'000
Gross loans and advances to customers	5,911,854	6,072,730
Less: Expected credit losses allowances/ impairment allowance		
- ECL allowance for Stage 1 (note 12(b))	(3)	-
- Collectively assessed impairment allowances	-	(3)
	5,911,851	6,072,727
Accrued interest and other accounts	10,064	11,720
	5,921,915	6,084,447

During the years ended 31 December 2018 and 2017, the Company has not taken possession of any collateral it holds as security, which are mainly real estates. Repossessed assets, if any, obtained are intended for an orderly realisation of the impaired loans and advances and are not intended for the own use of the Company.

(b) Reconciliation of gross carrying amount and ECL allowances for loans and advances to customers and other accounts

Stage 1	2018 ECL allowances HK$'000
At 1 January 2018	2
Movements with income statement impact	
Changes in risk parameters	1
At 31 December 2018	3

The following impairment movement disclosures on loans and advances to customers were included in the 2017 annual reports and do not reflect the adoption of HKFRS 9. Therefore, these impairment movement summary cannot directly comparable to the above 2018 current disclosures on an HKFRS 9 basis.

	Individually assessed HK$'000	Collectively assessed HK$'000	Total HK$'000
At 1 January 2017	-	-	-
Impairment losses charged on the statement of comprehensive income (note 8)	-	3	3
Impairment losses written back to the statement of comprehensive income (note 8)	(75)	(124)	(199)
Recoveries of loans and advances written off in previous years	75	124	199
At 31 December 2017	-	3	3

12 Loans and advances to customers and other accounts (Continued)

(c) 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 HK$'000	Impaired loans and advances to customers HK$'000	Gross loans and advances to customers HK$'000	Impaired loans and advances to customers HK$'000
Loans and advances for use in Hong Kong				
Industrial, commercial and financial				
- Property investment	931,960	-	1,001,992	-
- Wholesale and retail trade	-	-	18	-
- Transport and transport equipment	-	-	1,014	-
- Others	1,101	-	1,599	-
Individuals				
- Loans for the purchase of other residential properties	4,226,648	174	4,202,018	80
- Others	752,145	157	866,089	-
Gross loans and advances to customers	5,911,854	331	6,072,730	80

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

Loans and advances to customers include net investment in equipment leased to customers under finance leases and hire purchase contracts have been fully repaid in 2018. There is no new contract entered during the year and also no outstanding contracts as at 31 December 2018.

	2018		2017	
	Present value of the minimum lease payments HK$'000	Total minimum lease payments HK$'000	Present value of the minimum lease payments HK$'000	Total minimum lease payments HK$'000
Within 1 year	-	-	144	166
After 1 year but within 5 years	-	-	611	666
After 5 years	-	-	259	264
	-	-	1,014	1,096
Impairment allowances				
- Collectively assessed	-		-	
Net investment in finance leases and hire purchase contracts	-		1,014	

12 Loans and advances to customers and other accounts (Continued)

(e) Impaired loans and advances to customers

	2018 HK$'000	2017 HK$'000
Gross impaired loans and advances to customers	331	80
ECL allowance for Stage 3	-	-
Impairment allowances - Individually assessed	-	-
	331	80
Gross impaired loans and advances as a % of total loans and advances to customers	0.01%	0.00%

(f) The maturity profile analysed by the remaining period at the end of the reporting period to the contractual maturity date is as follows:

	2018 HK$'000	2017 HK$'000
Loans and advances to customers:		
Repayable on demand	1,294	5,157
Within 1 month	28,107	29,416
3 months or less but over 1 month	58,963	61,626
1 year or less but over 3 months	265,723	278,802
5 years or less but over 1 year	1,409,699	1,492,771
After 5 years	4,101,078	4,197,682
Undated	46,990	7,276
	5,911,854	6,072,730

13 Property and equipment

	Furniture, fixtures and equipment HK$'000	Software computer equipment HK$'000	Total HK$'000
Cost:			
At 1 January 2018	7	1,087	1,094
Reclassification to Intangible Assets	-	(1,087)	(1,087)
At 31 December 2018	7	-	7
Accumulated depreciation:			
At 1 January 2018	7	813	820
Charge for the year (note 6)	-	91	91
Reclassification to Intangible Assets	-	(904)	(904)
At 31 December 2018	7	-	7
Net book value:			
At 31 December 2018	-	-	-
Cost:			
At 1 January 2017	1,092	-	1,092
Reclassification	(1,085)	1,087	2
At 31 December 2017	7	1,087	1,094
Accumulated depreciation:			
At 1 January 2017	695	-	695
Charge for the year (note 6)	-	123	123
Reclassification	(688)	690	2
At 31 December 2017	7	813	820
Net book value:			
At 31 December 2017	-	274	274

14 Intangible assets

	Computer Software HK$'000
Cost:	
At 1 January 2018	-
Reclassification from software computer equipment since 1 October 2018	1,087
At 31 December 2018	1,087
Accumulated depreciation:	
At 1 January 2018	-
Reclassification from software computer equipment since 1 October 2018	904
Charge for the year (note 6)	31
At 31 December 2018	935
Net book value:	
At 31 December 2018	152

15 Deposits and balances of banks and other financial institutions

The maturity profile of deposits and balances of banks and other financial institutions analysed by the remaining period at the end of the reporting period to the contractual maturity dates is as follows:

	2018 HK$'000	2017 HK$'000
3 months or less but not repayable on demand	5,430,000	5,630,000

16 Income tax in the statement of financial position

(a) Taxation in the statement of financial position represents:

	2018 HK$'000	2017 HK$'000
Provision for Hong Kong Profits Tax for the year	4,602	12,934
Provisional Profits Tax paid	(12,955)	(16,864)
Tax recoverable	(8,353)	(3,930)

(b) Deferred tax assets recognised:

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

Deferred tax arising from:	Depreciation in excess of related depreciation allowances HK$'000
At 1 January 2018	(661)
Charged to profit or loss (note 9(a))	117
At 31 December 2018	(544)
At 1 January 2017	(812)
Charged to profit or loss (note 9(a))	151
At 31 December 2017	(661)

17 Capital and reserves

(a) Components of the Company's capital and reserves

The opening and closing balances of each component of the Company's equity and a reconciliation between these amounts are set out in the statement of changes in equity.

(b) Share capital

	2018		2017	
	No. of shares	Amount HK$'000	No. of shares	Amount HK$'000
Issued and fully paid:				
At 1 January and 31 December	2,000,000	200,000	2,000,000	200,000

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 meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(c) Dividend

Dividend declared and paid to equity shareholders of the Company attributable to the year:

	2018 HK$'000	2017 HK$'000
Interim dividend declared	-	80,000

18 Cash and cash equivalents

Cash and cash equivalents in the cash flow statement comprise:

	2018 HK$'000	2017 HK$'000
Cash and balances with banks and other financial institutions	16,076	22,621
Placements with banks and other financial institutions with original maturity within one month	24,000	33,000
	40,076	55,621

19 Material related party transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Company entered into the following material related party transactions.

(a) Transactions with group companies

During the year, the Company entered into a number of transactions with related parties, in the normal course of its banking business including, inter alia, lending, the acceptance and placement of inter-bank deposits, correspondent banking transactions and foreign exchange transactions. The transactions were priced based on relevant market rates at the time of each transaction, and were under the same terms as those available to other counterparties and customers of the group companies. In the opinion of the Directors, these transactions were conducted on normal commercial terms.

The amount of related party transactions during the year and outstanding balances at the end of the reporting period are set out below:

	Immediate parent	
	2018	2017
	HK$'000	HK$'000
Interest income	252	4
Interest expense	(143,932)	(99,986)
Dividend paid	-	(80,000)
Cash and balances with banks:		
At 1 January	22,621	42,951
At 31 December	16,076	22,621
Average for the year	16,330	18,249
Placement with banks:		
At 1 January	33,000	40,000
At 31 December	24,000	33,000
Average for the year	76,833	59,000
Acceptance of deposits:		
At 1 January	5,630,000	5,780,000
At 31 December	5,430,000	5,630,000
Average for the year	5,563,333	5,757,500
Interest payable:		
At 1 January	7,313	4,495
At 31 December	9,795	7,313
Average for the year	8,062	5,398

There were no impairment allowances made against the loans and placements with related parties.

19 Material related party transactions (Continued)

(b) Loans to directors

Pursuant to Section 17 of the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) for the year ended 31 December 2018, the Company did not grant any loans to directors during the year ended 31 December 2018 (2017: HK$Nil).

20 Financial risk management

Exposure to credit, currency, interest rate and liquidity risk arises in the normal course of the Company's business. The Company has established policies and procedures to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor these risks and limits continually by means of reliable and up-to-date management and information systems.

In addition to the Company's exposure to and management of the aforesaid risks, this note also includes information about the Company's capital management.

(a) Credit risk

Credit risk arises from the possibility that the counterparty in a transaction may default. It arises from the lending and other activities undertaken by the Company.

Specific credit policies are formulated, implemented and maintained at company level. The credit risk management function of the Company is centralised and is overseen by the Credit & Risk Management Committee appointed by the immediate parent's Board of Directors (the "Committee"). The Committee defines and delegates the approval authority to various credit-related functional committees in respect of the approval of credit applications, policy exceptions, loan classifications, calculation of expected credit loss, management of criticised credits and the control of interbank counterparty risks. The Committee comprises mainly the Chief Executive Officer, Chief Risk Officer and other members of senior management of the immediate parent.

An analysis of loans and advances to customers by industry sectors is disclosed in note 12(c).

(i) Maximum exposure

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

	2018 HK$'000	2017 HK$'000
Cash and balances with banks and other financial institutions	16,076	22,621
Placements with banks and other financial institutions	24,000	33,000
Loans and advances to customers and other accounts	5,921,829	6,084,361
	5,961,905	6,139,982

20 Financial risk management (Continued)

(a) Credit risk (Continued)

(ii) Significant increase in credit risk ("SICR")

An assessment of whether the Company's financial assets have experienced SICR since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment is rule-based, unbiased and forward-looking, and considers all reasonable and supportable information, including information about past events, current conditions and future economic conditions. The financial assets will be considered to have significant increase in credit risk when:

(a) The contractual payments of the instruments are with more than 30 days past due; or
(b) The credit rating of the financial instrument has been gone down by 5 notches since initial recognition; or
(c) The financial instruments have been classified as special mention.

Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The immediate parent has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each asset portfolio for the group companies. The immediate parent's economic experts have included consideration of a variety of external actual and forecast information and exercised expert judgement to formulate a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios such as 1 upside and 3 downside forecast scenarios. The Company is following the immediate parent's assessment to apply key assumptions and judgments in determining the expected credit loss for the financial assets.

The Company has conducted sensitivity analysis for the impact of devaluation of collaterals. With the average loan-to-value ratio of 36%, 10% drop in current market value of property (as collaterals) will have insignificant ECL impact to the Company.

(iii) Credit quality of financial assets

Distribution of financial instruments to which the impairment requirements in HKFRS 9 are applied, by credit quality and stage distribution:

	Gross carrying amount HK$'000	ECL allowances HK$'000	Net carrying amount HK$'000
Cash and balances with banks and other financial institutions – Stage 1	16,076	-	16,076
Placements with banks and other financial institutions – Stage 1	24,000	-	24,000
Loans and advances to customers and other accounts – Stage 1	5,830,397	(3)	5,830,394
Loans and advances to customers and other accounts – Stage 2	91,190	-	91,190
Loans and advances to customers and other accounts – Stage 3	331	-	331
	5,961,994	(3)	5,961,991

20 Financial risk management (Continued)

(b) Market risk

The Company has established market risk policies, including limits, reporting lines and control procedures, which are reviewed regularly by management and monitored by the Asset and Liability Committee ("ALCO") of the immediate parent. Market risk is managed within various limits approved by management, which include limits on net positions and position concentrations. Substantially the Company's market risk is interest rate. The Company manages its financial instruments such that its assets and liabilities bear floating rates of interest. It therefore controls its interest rate risk by monitoring the maturities of these assets and liabilities.

The Company has also met all of the "de minimis" exemption criteria for reporting market risk as set out in the HKMA's Guideline "Maintenance of Adequate Capital Against Market Risks". The Company therefore considers that its market risk is not material.

(i) Currency risk

Currency risk is the risk to earnings arising from movements of foreign exchange rates.

The Company's foreign exchange risk primarily arises from currency exposures originating from its consumer finance businesses and the associated foreign exchange operations. Foreign exchange risk is managed and monitored on an ongoing basis under the guidelines and limits approved by the Directors of the Company. As the Company's major assets and liabilities are denominated in Hong Kong dollars, management does not expect that there will be any significant currency risk associated with them.

(ii) Interest rate risk

Interest rate risk primarily results from timing differences in the repricing of interest bearing assets, liabilities and commitments. The Company's interest rate positions arise mainly from lending activities undertaken. The Company has established policies and systems to monitor its interest-sensitive positions and net repricing gap. The interest rate risk is managed and monitored regularly under the guidelines and limits approved by the Directors of the Company.

The following table indicates the average effective interest rates for the years ended 31 December 2018 and 2017 for monetary financial instruments:

	2018	2017
Assets		
Balances and placements with banks and other financial institutions	0.33%	0.01%
Loans and advances to customers and other accounts	2.90%	2.92%
Liabilities		
Deposits and balances of banks and other financial institutions	2.58%	1.73%

20 Financial risk management (Continued)

(b) Market risk (Continued)

(ii) Interest rate risk (Continued)

Sensitivity analysis on interest rate exposures

At 31 December 2018, it is estimated that a general increase of 200 (2017: 200) basis points in interest rates, with all other variables held constant, would increase the Company's profit after tax and retained profits by approximately HK$23,394,195 (2017: HK$23,445,130). The extent of decrease in interest rate is expected to be minimal which would decrease the Company's retained profits by an insignificant amount.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 200 basis point increase or minimal decrease (2017: 200 basis points increase or minimal decrease) represents management's assessment of a reasonably possible change in interest rates over the period until the next annual date of reporting period.

The following tables indicate the mismatches of the expected next repricing dates (or maturity dates whichever are earlier) for the interest bearing assets and liabilities at the end of the reporting period.

	2018			
	Total HK$'000	3 months or less (include overdue) HK$'000	Over 3 months to 1 year HK$'000	Non-interest bearing HK$'000
Assets				
Cash and balances with banks and other financial institutions	16,076	-	-	16,076
Placements with banks and other financial institutions	24,000	24,000	-	-
Loans and advances to customers and other accounts	5,921,915	5,911,680	-	10,235
Other assets	9,049	-	-	9,049
Total assets	5,971,040	5,935,680	-	35,360
Liabilities				
Deposits and balances of banks and other financial institutions	5,430,000	5,430,000	-	-
Other liabilities	10,727	-	-	10,727
Total liabilities	5,440,727	5,430,000	-	10,727
Interest rate sensitivity gap		505,680	-	

20 Financial risk management (Continued)

(b) Market risk (Continued)

(ii) Interest rate risk (Continued)

	2017			
	Total HK$'000	3 months or less (include overdue) HK$'000	Over 3 months to 1 year HK$'000	Non-interest bearing HK$'000
Assets				
Cash and balances with banks and other financial institutions	22,621	-	-	22,621
Placements with banks and other financial institutions	33,000	33,000	-	-
Loans and advances to customers and other accounts	6,084,447	6,072,651	-	11,796
Other assets	4,865	-	-	4,865
Total assets	6,144,933	6,105,651	-	39,282
Liabilities				
Deposits and balances of banks and other financial institutions	5,630,000	5,630,000	-	-
Other liabilities	8,507	-	-	8,507
Total liabilities	5,638,507	5,630,000	-	8,507
Interest rate sensitivity gap		475,651	-	

20 Financial risk management (Continued)

(c) Liquidity risk

The Company always maintains high liquidity ratio in order to meet unexpected increase of customer demand on cash. Apart from compliance with statutory ratio requirement, stress tests are being performed regularly.

Analysis of the residual contractual maturities of financial liabilities

The following maturity profile shows the undiscounted cash flows on the Company's financial liabilities on the basis of their earliest possible contractual maturity.

	Gross cash flows HK$'000	Within 1 month HK$'000	3 months or less but over 1 month HK$'000	1 year or less but over 3 months HK$'000
2018				
Deposits and balances of banks and other financial institutions	5,467,604	-	5,467,604	-
2017				
Deposits and balances of banks and other financial institutions	5,657,068	-	5,657,068	-

(d) Operational risk

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

Material operational risk exposures of the Company are managed through a framework of policies, procedures and process which are formulated by the independent Operational risk Unit within the Risk Management Group of the immediate parent.

(e) Capital management

The Company's primary objectives when managing capital are to safeguard the Company's ability to continue as a going concern. The Company's policy is to maintain a strong capital base to support the development of the Company's business and to meet the statutory capital adequacy ratio. As the Company is part of a larger group ("the Group"), the Company's sources of additional capital and policies for distribution of excess capital may also be affected by the Group's capital management objectives.

The Company defines "capital" as including all components of equity. On this basis the amount of capital employed at 31 December 2018 was HK$530,313,000 (2017: HK$506,426,000).

The Company's capital structure is regularly reviewed and managed with due regard to the capital management practices of the Group to which the Company belongs. Adjustments are made to the capital structure in light of changes in economic conditions affecting the Company or the Group, to the extent that these do not conflict with the Directors' fiduciary duties towards the Company or the requirements of the Hong Kong Companies Ordinance. The results of the Directors' review of the Company's capital structure are used as a basis for the determination of the level of dividend, if any, that are declared.

The Company has complied with all externally imposed capital requirements throughout the years ended 31 December 2018 and 2017 and is well above the minimum required ratio set by the HKMA.

21 Fair values of financial instruments

(a) Estimation of fair values

Where available, the most suitable measure for fair value is the quoted and observable market prices. In the absence of such quoted and observable market prices for most financial instruments, in particular for loans and deposits, the fair values are estimated based on a range of valuation, current market parameters methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. In particular, the fair value is a theoretical value applicable at a given reporting date, and hence can only be used as an indicator of the value realisable in a future sale. Changes in the uncertainties and assumptions could materially affect these estimates and the resulting fair value estimates.

(b) Fair value

All financial instruments are stated at fair value or carried at amounts not materially different from their fair values as at 31 December 2018 and 2017.

22 Contingent liabilities and commitments

There were no contingent liabilities and commitments to extend credit as at 31 December 2018 and 2017.

23 Immediate parent and ultimate controlling party

At 31 December 2018, the Directors consider the immediate parent to be China CITIC Bank International Limited, which is an authorised institution incorporated in Hong Kong, and the ultimate controlling party to be CITIC Group Corporation, which is incorporated in the People's Republic of China.

24 Accounting estimates and judgements

Note 20 contains information about the assumptions and the risk factors relating to fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

Expected credit loss on loans and advances and other accounts (from 1 January 2018 under HKFRS 9)

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of key assumptions and inputs such as significant increase in credit risk, measurement of expected credit loss, forward-looking information are disclosed in the credit risk management section of note 20(a)(ii).

Impairment losses on loans and advances and other accounts (applied until 31 December 2017 under HKAS 39)

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

(A) Capital adequacy and liquidity ratios

(i) Capital base

Capital adequacy ratios ("CARs") are complied with in accordance with the Banking (Capital) Rules issued by the HKMA. The Company 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
Common Equity Tier 1 ("CET1") Capital instruments and reserves		
Directly issued qualifying CET1 capital instruments plus any related share premium	200,000	200,000
Retained earnings	330,313	306,426
CET1 capital before regulatory deductions	530,313	506,426
CET1 capital: regulatory deductions		
Other Intangible assets	152	-
Deferred tax assets net of deferred tax liabilities	544	661
Total regulatory deductions to CET1 capital	696	661
CET1 capital	529,617	505,765
Tier 1 capital	529,617	505,765
Tier 2 capital instruments and provisions		
Collective impairment allowances for inclusion in Tier 2 capital	3	3
Tier 2 capital	3	3
Total capital	529,620	505,768

(A) Capital adequacy and liquidity ratios (Continued)

(ii) Risk-weighted amount

	2018 HK$'000	2017 HK$'000
Credit risk	2,576,192	2,679,725
Operational risk	144,175	193,113
	2,720,367	2,872,838

(iii) Capital adequacy ratios

	2018	2017
CET1 capital ratio	19.47%	17.61%
Tier 1 capital ratio	19.47%	17.61%
Total capital ratio	19.47%	17.61%

(iv) Capital instruments

The following is a summary of the Company's CET1 capital instruments.

	2018 HK$'000	2017 HK$'000
CET1 capital instruments issued by the Company		
Ordinary shares:		
2,000,000 issued and fully paid ordinary shares	200,000	200,000

(v) Capital information available on the Company's website

For the purpose of compliance with the Banking (Disclosure) Rules, information relating to the Company's regulatory capital and other disclosures are published by using standard disclosure templates as specified by the HKMA and they can be viewed in the Regulatory Disclosure section of the Company's website.

(Expressed in Hong Kong dollars)

(A) Capital adequacy and liquidity ratios (Continued)

(vi) Liquidity ratio

	2018	2017
Average liquidity maintenance ratio*	158.61%	160.00%

* The Company is required to disclose the average value of liquidity maintenance ratio ("LMR") for the reporting period concerned. The LMR is being calculated based on the arithmetic mean of the average value of its LMR for each month during the reporting period and computed as required by the Hong Kong Monetary Authority ("HKMA").

(vii) Leverage ratio

	2018	2017
Leverage ratio	8.87%	8.23%

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 the Company's website.

(viii) Capital conservation buffer ratio and countercyclical capital buffer ratio

The capital buffer ratios applicable to the Company are as follows:

	2018	2017
Capital conservation buffer ratio	1.88%	1.25%
Countercyclical capital buffer ("CCyB") ratio	1.8745%	1.2496%
	3.7545%	2.4996%

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 the Company's website.

(B) Segmental information

(i) By geographical area

The Company's principal operations are carried out in Hong Kong during the years ended 31 December 2018 and 2017. Therefore, no details of segmental information by geographical area is disclosed.

(ii) By class of business

The principal class of business of the Company during the years ended 31 December 2018 and 2017 was provision of finance.

(C) Further analysis on loans and advances to customers by industry sectors

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

	2018		2017	
	Gross loans and advances to customers HK$'000	% of gross loans and advances to customers covered by collateral	Gross loans and advances to customers HK$'000	% of gross loans and advances to customers covered by collateral
Loans and advances for use in Hong Kong				
Industrial, commercial and financial				
- Property investment	931,960	100%	1,001,992	100%
- Wholesale and retail trade	-	-	18	100%
- Transport and transport equipment	-	-	1,014	100%
- Others	1,101	100%	1,599	100%
Individuals				
- Loans for the purchase of other residential properties	4,226,648	100%	4,202,018	100%
- Others	752,145	100%	866,089	100%
Gross loans and advances to customers	5,911,854	100%	6,072,730	100%

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(C) Further analysis on loans and advances to customers by industry sectors (Continued)

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

2018	Overdue loans and advances HK$'000	Impaired loans and advances to customers HK$'000	Stage 3 ECL allowances HK$'000	Stage 1 & Stage 2 ECL allowance HK$'000	Expected credit losses written back to profit or loss during the year HK$'000
Loans for the purchase of other RML	174	174	-	3	-
Individuals – Others	157	157	-	-	(104)
	331	331	-	3	(104)

2017	Overdue loans and advances HK$'000	Impaired loans and advances to customers HK$'000	Individual impairment allowance HK$'000	Collective impairment allowance HK$'000	Impairment written back to profit or loss during the year HK$'000
Property investment	-	-	-	1	1
Loans for the purchase of other RML	-	80	-	-	-
Individuals – Others	-	-	-	2	(122)
	-	80	-	3	(121)

(D) Overdue and rescheduled loans and advances

(i) Overdue loans and advances to customers

Loans and advances to customers with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid at the year end, loans repayable 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.

(ii) Rescheduled loans

Rescheduled loans are those loans which have been restructured or renegotiated because of 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 Company. Rescheduled loans to customers are stated net of any loans that have subsequently become overdue for over 3 months and reported as overdue loans in note (D)(i).

As at 31 December 2018 and 2017, there are no rescheduled loans included in loans and advances to customers.

(E) Repossessed assets

During the years ended 31 December 2018 and 2017, the Company has not taken possession of any collateral it holds as security, which are mainly real estates.

(F) 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 shown as follows.

			2018
	Banks HK$'000	Non-financial private sector HK$'000	Total HK$'000
Developed countries			
Offshore centres			
of which Hong Kong	-	5,917,155	5,917,155
Developing Asia-Pacific			
of which mainland China	-	2,046	2,046

			2017
	Banks HK$'000	Non-financial private sector HK$'000	Total HK$'000
Developed countries			
Offshore centres			
of which Hong Kong	-	6,079,201	6,079,201
Developing Asia-Pacific			
of which mainland China	-	2,261	2,261

(G) 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)	-	-	-
(2)	Local governments, local government-owned entities and their subsidiaries and JVs	-	-	-
(3)	PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	54,991	-	54,991
(4)	Other entities of central government not reported in item 1 above	-	-	-
(5)	Other entities of local governments not reported in item 2 above	-	-	-
(6)	PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	-	-	-
(7)	Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	205,638	-	205,638
	Total	260,629	-	260,629
	Total assets after provision	5,971,040		
	On-balance sheet exposures as percentage of total assets	4.36%		

(G) Mainland Activities (Continued)

	2017	On-statement of financial position exposure	Off-statement of financial position exposure	Total
		HK$'000	HK$'000	HK$'000
(1)	Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	-	-	-
(2)	Local governments, local government-owned entities and their subsidiaries and JVs	-	-	-
(3)	PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	69,841		69,841
(4)	Other entities of central government not reported in item 1 above	-	-	-
(5)	Other entities of local governments not reported in item 2 above	-	-	-
(6)	PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	-	-	-
(7)	Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	181,665	-	181,665
	Total	251,506	-	251,506
	Total assets after provision	6,144,933		
	On-balance sheet exposures as percentage of total assets	4.09%		

(H) Capital charge for operational risk

The capital charge for operational risk calculated in accordance with the basic indicator approach at the end of the reporting period is:

	2018	2017
	HK$'000	HK$'000
Capital charge for operational risk	11,534	15,449

(I) Corporate governance

The Company is committed to high standards of corporate governance and has complied, in all material respects) throughout the year with the module on "Corporate Governance of Locally Incorporated Authorised Institutions" under the Supervisory Policy Manual issued by the HKMA.