

# Report of the Directors

The Directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2018.

## Principal Place of Business

The Bank is incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 83 Des Voeux Road Central, Hong Kong.

## Principal Activities and Business Review

The Bank and its subsidiaries (the "Group") are engaged in the provision of banking and related financial services. Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a fair review of the business and a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2018, an indication of likely future development in the Group's business, a discussion of the Group's environmental policies and performance, and its compliance with the relevant laws and regulations that have a significant impact on the Group and an account of the Group's key relationships with its employees, customers and suppliers that have a significant impact on the Group can be found in the sections "Five-Year Financial Summary", "Chairman's Statement", "Chief Executive's Report", "Management Discussion and Analysis", "Corporate Sustainability" and "Corporate Governance Report" of this Annual Report. The aforesaid form part of this report.

## Profits and Dividends

The consolidated profit of the Bank and its subsidiaries and associates for the year is set out under the consolidated income statement of this Annual Report.

The Directors declared and paid the first to third interim dividends of HK\$3.90 (2017: HK\$3.60) per share totalling HK\$7,455m (2017: HK\$6,882m) during the year. The Directors also declared the fourth interim dividend of HK\$3.60 per share totalling HK\$6,883m (2017: HK\$3.10 per share totalling HK\$5,927m), which will be paid on 22 March 2019.

## Major Customers

The Directors believe that the five largest customers of the Bank accounted for less than 30% of the total interest income and other operating income of the Bank for the year.

## Subsidiaries

Particulars of the Bank's principal subsidiaries as at 31 December 2018 are set out in note 31 to the financial statements for the year ended 31 December 2018.

## Share Capital

Details of share capital of the Bank during the year are set out in note 43 to the financial statements for the year ended 31 December 2018.

## Equity-linked Agreements

For the year ended 31 December 2018, the Bank has not entered into any equity-linked agreement.

## Purchase, Sale or Redemption of the Bank's Listed Securities

There was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of the Bank's listed securities during the year.

## Reserves

Profit attributable to shareholders, before dividends, of HK\$24,211m (2017: 20,018m) has been transferred to reserves. Distributable reserve of the Bank as at 31 December 2018 amounted to HK\$86,400m (2017: HK\$78,463m). Other movements in reserves are set out in the consolidated statement of changes in equity of this Annual Report.

## Donations

Charitable donations made by the Bank and its subsidiaries during the year amounted to HK\$31m. For further details of the Bank's corporate social responsibility activities and expenditures, please refer to the section "Corporate Sustainability" of this Annual Report.

## Directors

The Directors of the Bank, who were in office on the date of this report, were Dr Raymond K F Ch'ien, Ms Louisa Cheang, Dr John C C Chan, Mr Nixon L S Chan, Ms L Y Chiang, Ms Margaret W H Kwan, Ms Irene Y L Lee, Ms Sarah C Legg, Dr Eric K C Li, Dr Vincent H S Lo, Mr Kenneth S Y Ng, Mr Peter T S Wong and Mr Michael W K Wu. They had served on the Board of the Bank throughout the year.

Dr Henry K S Cheng and Mr Richard Y S Tang retired from the Board with effect from the conclusion of the Bank's 2018 Annual General Meeting ("AGM") held on 10 May 2018. Further, Dr Fred Zulu Hu resigned from the Board with effect from 9 May 2018.

The Directors retiring by rotation in accordance with the Bank's Articles of Association at the Bank's 2019 AGM to be held on 9 May 2019 are Dr John C C Chan, Dr Eric K C Li and Dr Vincent H S Lo.

No Director proposed for re-election at the 2019 AGM has a service contract with the Bank which is not determinable by the Bank within one year without payment of compensation (other than statutory compensation).

The biographical details of the Directors of the Bank are set out in the section "Biographical Details of Directors and Senior Management" of this Annual Report.

## Directors of Subsidiaries

The names of all Directors who have served on the boards of the Bank's subsidiaries during the period from 1 January 2018 to the date of this report (unless otherwise stated) are provided in the section "Directors of Subsidiaries" of this Annual Report.

## Status of Independent Non-executive Directors

The Bank has received from each Independent Non-executive Director an annual confirmation of his/her independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules" and the "Stock Exchange" respectively). The Bank still considers all the Independent Non-executive Directors to be independent.

## Directors' and Alternate Chief Executives' Interests

As at 31 December 2018, the interests of the Directors and Alternate Chief Executives in the shares, underlying shares of equity derivatives and debentures of the Bank and its associated corporations (all within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) disclosed in accordance with the Listing Rules were detailed below.

### Interests in shares

	Personal Interests (held as beneficial owner)	Family Interests (interests of spouse or child under 18)	Corporate Interests (interests of controlled corporation)	Other Interests	Total Interests	Total Interests as % of the relevant shares in issue/issued share capital
<b>Number of ordinary shares in the Bank</b>						
<b>Directors:</b>						
Dr John C C Chan	1,000 <sup>(1)</sup>	–	–	–	1,000	0.00
Ms Margaret W H Kwan	65	–	–	–	65	0.00
<b>Number of ordinary shares of US\$0.50 each in HSBC Holdings plc</b>						
<b>Directors:</b>						
Dr Raymond K F Ch'ien	59,799	–	–	–	59,799	0.00
Ms Louisa Cheang	369,493	–	–	199,074 <sup>(2)</sup>	568,567	0.00
Dr John C C Chan	24,605 <sup>(1)</sup>	–	–	–	24,605	0.00
Mr Nixon L S Chan	140,852	–	–	11,773 <sup>(2)</sup>	152,625	0.00
Ms Margaret W H Kwan	37,513	10,041	–	14,224 <sup>(2)</sup>	61,778	0.00
Ms Irene Y L Lee	11,172	–	–	–	11,172	0.00
Ms Sarah C Legg	163,888	2,695	–	123,713 <sup>(2)</sup>	290,296	0.00
Dr Eric K C Li	–	60,812	–	–	60,812	0.00
Mr Kenneth S Y Ng	433,947	–	–	7,474 <sup>(2)</sup>	441,421	0.00
Mr Peter T S Wong	1,829,242	25,749	–	1,264,573 <sup>(2)</sup>	3,119,564	0.02
<b>Alternate Chief Executives:</b>						
Mrs Eunice L C Y Chan	9,441	–	–	11,883 <sup>(2)</sup>	21,324	0.00
Mr Donald Y S Lam	123,024	–	–	19,824 <sup>(2)</sup>	142,848	0.00
Mr Andrew W L Leung	12,737	–	–	17,448 <sup>(2)</sup>	30,185	0.00

Notes:

(1) 1,000 shares in the Bank and 4,371 shares in HSBC Holdings plc were jointly held by Dr John C C Chan and his wife.

(2) These included interests in conditional awards of ordinary shares of US\$0.50 each in HSBC Holdings plc under the HSBC Share Plans made in favour of Directors and Alternate Chief Executives.

## Conditional Awards of Shares

During the year, the Directors and Alternate Chief Executives as set out below were eligible to be granted conditional awards over ordinary shares of US\$0.50 each in HSBC Holdings plc by that company (being the ultimate holding company of the Bank) under various HSBC Share Plans. The details of the interests of the Directors and Alternate Chief Executives in the conditional awards of ordinary shares in HSBC Holdings plc under the HSBC Share Plans, as at 31 December 2018, were as follows:

	Awards held as at 1 January 2018	Awards made during the Director's/ Alternate Chief Executive's term of office in 2018	Awards released during the Director's/ Alternate Chief Executive's term of office in 2018	Awards held as at 31 December 2018
<b>Directors:</b>				
Ms Louisa Cheang	246,178	79,656	136,777	199,074 <sup>(1)</sup>
Mr Nixon L S Chan	24,800	–	14,128	11,773 <sup>(1)</sup>
Ms Margaret W H Kwan	9,411	19,762	15,338	14,224 <sup>(1)</sup>
Ms Sarah C Legg	115,650	47,042	44,477	123,713 <sup>(1)</sup>
Mr Kenneth S Y Ng	19,582	–	12,762	7,474 <sup>(1)</sup>
Mr Peter T S Wong	1,063,868	179,627	567,514	718,038 <sup>(1)</sup>
<b>Alternate Chief Executives:</b>				
Mrs Eunice L C Y Chan	13,356	4,779	6,921	11,883 <sup>(1)</sup>
Mr Donald Y S Lam	19,263	19,452	19,667	19,824 <sup>(1)</sup>
Mr Andrew W L Leung	21,198	6,230	10,994	17,448 <sup>(1)</sup>

Note:

(1) These included additional shares arising from scrip dividends.

During the year, Ms Sarah C Legg, Mrs Eunice L C Y Chan and Mr Donald Y S Lam also acquired and were awarded ordinary shares of HSBC Holdings plc under the HSBC International Employee Share Purchase Plan. Their interests in ordinary shares of HSBC Holdings plc under this plan have been included in their "Personal Interests" disclosed in the table under "Interests in shares".

All the interests stated above represented long positions. As at 31 December 2018, no short positions were recorded in the Register of Directors' and Alternate Chief Executives' Interests and Short Positions required to be kept under section 352 of the SFO.

Save as disclosed in the preceding paragraphs, neither the Bank nor any of its holding companies or its subsidiaries or fellow subsidiaries was a party to any arrangement to enable the Directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate as at the end of the year or at any time during the year.

No right to subscribe for equity or debt securities of the Bank has been granted by the Bank to, nor have any such rights been exercised by, any person during the year ended 31 December 2018.

### Directors' Interests in Transactions, Arrangements or Contracts

No transaction, arrangement or contract (that is significant in relation to the Bank's business), to which the Bank or any of its holding companies or any of its subsidiaries or fellow subsidiaries was a party and in which a Director of the Bank or an entity connected with a Director had, directly or indirectly, a material interest, subsisted as at the end of the year or at any time during the year.

### Management Contracts

Save for service contracts, no other contracts, relating to the management and/or administration of the whole or any substantial part of the business of the Bank were entered into or subsisting during the year.

### Directors' Interests in Competing Businesses

Pursuant to Rule 8.10 of the Listing Rules, as at the date of this report, the following Directors had declared interests in the following entities which compete or are likely to compete, either directly or indirectly, with the businesses of the Bank:

Ms Louisa Cheang is a Group General Manager of HSBC Holdings plc and a Director of The Hongkong and Shanghai Banking Corporation Limited ("HBAP").

Ms Sarah C Legg is a Group General Manager and Group Financial Controller of HSBC Holdings plc.

Mr Kenneth S Y Ng is a Director of HSBC Bank Australia Limited, and the Chairman of the Board of Supervision of HSBC Bank (Vietnam) Ltd. Both companies are wholly-owned subsidiaries, directly or indirectly, of HBAP.

Mr Peter T S Wong is a Group Managing Director and a member of Group Management Board of HSBC Holdings plc. He is also the Deputy Chairman, Chief Executive and Executive Director of HBAP; and Chairman and Non-executive Director of HSBC Bank (China) Company Limited, which is a wholly-owned subsidiary of HBAP. Further, he is the Vice-Chairman and Non-executive Director of Bank of Communications Co., Ltd., which conducts general banking business.

HSBC Holdings plc, through its subsidiaries and associated undertakings, including HBAP, the immediate holding company of the Bank, is engaged in providing a comprehensive range of banking, insurance and related financial services.

The entities in which the Directors have declared interests are managed by separate boards of directors and management, which are accountable to their respective shareholders.

The Board of the Bank includes six Independent Non-executive Directors whose views carry significant weight in the Board's decisions. The Audit Committee and Risk Committee of the Bank, each of which consists of not less than three Independent Non-executive Directors, meet regularly to assist the Board of Directors in reviewing the financial performance, internal control and risk management systems of the Bank and its subsidiaries. The Bank is, therefore, capable of carrying on its businesses in the best interests of all shareholders as a whole and has put in place adequate mechanisms to ensure that the Directors discharge their duties vis-a-vis all shareholders, including in respect of the Bank's dealings with the businesses in which Directors have declared interests.

## Directors' Emoluments

The emoluments of the Directors of the Bank on a named basis are set out in note 15 to the financial statements for the year ended 31 December 2018.

## Indemnity Provision

Details of the Bank's permitted indemnity provision are set out in the section "Corporate Governance Report" of this Annual Report.

## Substantial Interests in Share Capital

The register maintained by the Bank pursuant to the SFO recorded that, as at 31 December 2018, the following corporations had interests or short positions in the shares or underlying shares (as defined in the SFO) in the Bank set opposite their respective names:

Name of Corporation	Number of Ordinary Shares in the Bank (Percentage of total)
The Hongkong and Shanghai Banking Corporation Limited ("HBAP")	1,188,057,371 (62.14%)
HSBC Asia Holdings Limited	1,188,057,371 (62.14%)
HSBC Holdings plc	1,188,057,371 (62.14%)

Due to an internal legal entity restructuring of the HSBC Group, HSBC Asia Holdings BV, HSBC Asia Holdings (UK) Limited, HSBC Holdings BV and HSBC Finance (Netherlands) have ceased as controlling shareholders of the Bank, and HSBC Asia Holdings Limited, being a wholly-owned subsidiary of HSBC Holdings plc, has become an intermediate holding company of the Bank as a result of it holding 100% of the ordinary shares of HBAP, with effect from 20 November 2018.

The Directors regard HSBC Holdings plc to be the beneficial owner of 1,188,057,371 ordinary shares in the Bank (62.14%).

All the interests stated above represented long positions. As at 31 December 2018, no short positions were recorded in the Register of Interests in Shares and Short Positions required to be kept under section 336 of the SFO.

## **Report of the Directors**

### **Public Float**

As at the date of this report, the Bank has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Bank and within the knowledge of the Directors of the Bank.

### **Corporate Governance Principles and Practices**

Details of the Bank's corporate governance practices are set out in the section "Corporate Governance Report" in this Annual Report.

### **Auditor**

The financial statements for the year ended 31 December 2018 have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Bank will be proposed at the 2019 AGM.

On behalf of the Board

#### **Raymond Ch'ien**

Chairman

Hong Kong, 19 February 2019