



INDUSTRIAL AND COMMERCIAL BANK OF CHINA (ASIA) LIMITED
中國工商銀行（亞洲）有限公司
(Incorporated in Hong Kong with limited liability)

**INTERIM FINANCIAL DISCLOSURE STATEMENTS
FOR THE SIX MONTHS ENDED
30 JUNE 2019**

TABLE OF CONTENTS

	Page
Interim Results and Financial Review	2
Consolidated Income Statement	4
Consolidated Statement of Comprehensive Income	5
Consolidated Statement of Financial Position	6
Consolidated Statement of Changes in Equity	7
Condensed Consolidated Statement of Cash Flows	9
Notes to the Interim Financial Disclosure Statements	10
Supplementary Financial Information	80

INTERIM RESULTS AND FINANCIAL REVIEW

The Board of Directors (the “Board”) of Industrial and Commercial Bank of China (Asia) Limited (the “Bank” or “ICBC (Asia)”) is pleased to present the interim financial disclosure statements of the Bank and its subsidiaries (the “Group”) for the six months ended 30 June 2019. The consolidated income statement, consolidated statement of comprehensive income, condensed consolidated statement of cash flows and consolidated statement of changes in equity of the Group for the six months ended 30 June 2019, and the consolidated statement of financial position as at 30 June 2019 of the Group, all of which are unaudited but have been reviewed by KPMG, in accordance with Hong Kong Standards on Review Engagements 2410, Review of interim financial information performed by the independent auditor of the entity, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), along with selected explanatory notes are set out on pages 4 to 79 of these interim financial disclosure statements.

Interim Results

The Board of Directors is pleased to announce that the unaudited consolidated profit attributable to the equity holders of the Bank for the six months ended 30 June 2019 was HK\$4,182 million. This represents a 2.13% increase over the same period last year (first half of 2018: HK\$4,095 million). Basic earnings per share for the six months ended 30 June 2019 were HK\$1.62 (first half of 2018: HK\$1.59). Return on average assets and return on average equity were 0.93% and 9.05% respectively (first half of 2018: 0.89% and 9.68% respectively).

Interim Dividend

The Board has not recommended the payment of interim dividend for the six months ended 30 June 2019 (2018 interim dividend: Nil).

Financial Review

In the first half of 2019, the Group achieved satisfactory results. Consolidated profit attributable to equity holders was HK\$4,182 million, representing an increase of HK\$87 million or 2.13% over HK\$4,095 million achieved for the corresponding period in 2018.

As a result of strong growth in interest-bearing assets, ICBC (Asia)’s net interest income increased by HK\$277 million or 4.80% to HK\$6,045 million. Net fee and commission income decreased by HK\$59 million or 4.85% to HK\$1,154 million.

Non-interest income decreased by HK\$129 million or 8.41% to HK\$1,407 million from HK\$1,537 million for the corresponding period in 2018. The ratio of non-interest income to total operating income was 18.89%, down by 2.15% compared with 21.04% for the corresponding period in 2018.

Operating expenses increased by HK\$144 million or 8.68% to HK\$1,799 million, compared with HK\$1,655 million for the corresponding period in 2018. The cost to income ratio was 24.13%, up by 1.48% compared with the corresponding period in 2018.

The net charges for expected credit losses on loans and advances for the period were HK\$807 million, out of which HK\$30 million was made as additional provision for non-credit impaired exposures and HK\$777 million was made as additional provision for credit-impaired exposures.

INTERIM RESULTS AND FINANCIAL REVIEW

Statement of Financial Position

The total assets of the Group amounted to HK\$951,308 million as at 30 June 2019, representing an increase of HK\$57,690 million or 6.46% over the financial position as at 31 December 2018.

Customer deposits amounted to HK\$561,549 million as at 30 June 2019 representing an increase of HK\$28,017 million or 5.25%, compared to HK\$533,532 million as at 31 December 2018. Loans and advances also increased by HK\$1,869 million or 0.39% to HK\$477,658 million as at 30 June 2019 compared to HK\$475,789 million as at 31 December 2018.

Total securities investment amounted to HK\$177,778 million as at 30 June 2019, which represents an increase of HK\$10,498 million or 6.28% compared to HK\$167,281 million as at 31 December 2018.

Total certificates of deposit issued decreased by HK\$12,595 million or 50.48% to HK\$12,353 million as at 30 June 2019, compared to HK\$24,948 million as at 31 December 2018.

Capital and Liquidity Management

The Group's capital adequacy ratio increased to 19.90% as at 30 June 2019 from 19.75% as at 31 December 2018. In the first half of 2019, the average liquidity coverage ratio amounted to 197.32% (first half of 2018: 158.96%).

Asset Quality

Under the Bank's prudent risk management policy, the asset quality remained continuously at a satisfactory level. Impaired loans and advances increased by HK\$797 million to HK\$4,693 million as at 30 June 2019, compared with HK\$3,896 million as at 31 December 2018. The impaired loan ratio was 0.97% as at 30 June 2019 (31 December 2018: 0.81%).

As at 30 June 2019, the cumulative loan impairment allowances amounted to HK\$5,856 million (31 December 2018: HK\$5,076 million), which included impairment allowance of HK\$2,966 million for non-credit impaired exposures and impairment allowance of HK\$2,890 million for credit-impaired exposures.

**CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2019
(UNAUDITED)**

		Restated	
		Six months ended	
	Notes	30 Jun 2019	30 Jun 2018
		HK\$'000	HK\$'000
Interest income	(6)	14,163,012	13,327,607
Interest expense	(6)	(8,117,823)	(7,559,114)
Net interest income	(6)	6,045,189	5,768,493
Fee and commission income	(7)	1,337,368	1,389,992
Fee and commission expense	(7)	(183,135)	(176,985)
Net fee and commission income	(7)	1,154,233	1,213,007
Net trading income	(8)	707,652	7,855
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss	(9)	(732,820)	282,110
Dividend income from financial investments	(10)	18,149	2,780
Other operating income	(11)	260,273	31,031
Operating income		7,452,676	7,305,276
Operating expenses	(12)	(1,798,642)	(1,654,964)
Operating profit before impairment losses		5,654,034	5,650,312
Net impairment losses on financial assets	(13)	(831,745)	(778,157)
Operating profit after impairment losses		4,822,289	4,872,155
Net loss on disposal of property, plant and equipment		(747)	(4,216)
Net loss on disposal of loans and advances		(5,289)	-
Net gain on disposal of financial assets at fair value through other comprehensive income		242,344	139,189
Operating profit		5,058,597	5,007,128
Share of profit of associates		19,154	26,020
Profit before tax		5,077,751	5,033,148
Income tax expense	(14)	(895,312)	(937,942)
Profit for the period and attributable to equity holders		4,182,439	4,095,206
Earnings per share – Basic and diluted	(16)	HK\$1.62	HK\$1.59

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2019
(UNAUDITED)**

	Six months ended	
	30 Jun 2019 HK\$'000	30 Jun 2018 HK\$'000
Profit for the period	<u>4,182,439</u>	<u>4,095,206</u>
Items that will not be reclassified to income statement:		
Change in fair value reserve of equity investments designated at fair value through other comprehensive income	59,392	(192,925)
Income tax effect	<u>(50,290)</u>	<u>31,833</u>
	<u>9,102</u>	<u>(161,092)</u>
Revaluation surplus on bank premises	4,204	4,143
Income tax effect	<u>(694)</u>	<u>(683)</u>
	<u>3,510</u>	<u>3,460</u>
Items that may be reclassified subsequently to income statement:		
Change in fair value of hedging instruments under cash flow hedges	(215,859)	95,311
Income tax effect	<u>15,613</u>	<u>(15,726)</u>
	<u>(200,246)</u>	<u>79,585</u>
Change in fair value reserve of investment securities measured at fair value through other comprehensive income	1,703,311	(1,129,865)
Income tax effect	<u>(253,093)</u>	<u>279,633</u>
	<u>1,450,218</u>	<u>(850,232)</u>
Exchange differences arising from translation of results of a foreign subsidiary	<u>(39,246)</u>	<u>(99,417)</u>
Other comprehensive income for the period, net of tax	<u>1,223,338</u>	<u>(1,027,696)</u>
Total comprehensive income for the period, net of tax	<u>5,405,777</u>	<u>3,067,510</u>
Attributable to:		
Equity holders of the Bank	<u>5,405,777</u>	<u>3,067,510</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019
(UNAUDITED)

	Notes	Unaudited 30 Jun 2019 HK\$'000	Audited 31 Dec 2018 HK\$'000	Unaudited 30 Jun 2018 HK\$'000
Assets				
Cash and balances with banks and other financial institutions	(17)	122,690,985	151,374,532	201,114,579
Placements with banks and other financial institutions	(18)	138,467,288	74,217,313	81,937,409
Financial assets held for trading	(19)	2,647,851	–	2,034,410
Financial assets at fair value through profit or loss	(20)	5,157,164	525,689	2,489,529
Derivative financial instruments	(21)	9,748,408	9,144,877	13,638,805
Advances and other accounts	(22)	477,657,641	475,789,393	485,742,014
Investment securities:		177,778,477	167,280,719	175,061,137
– measured at fair value through other comprehensive income	(23)	129,425,525	101,065,910	107,786,160
– measured at amortised cost	(23)	48,352,952	66,214,809	67,274,977
Interest in associates		194,094	97,984	431,805
Goodwill and other intangible assets		1,017,606	1,017,797	1,021,427
Investment properties	(24)	140,135	140,135	117,407
Property, plant and equipment	(25)	1,991,923	901,251	898,855
Deferred income tax assets	(29)	453,484	749,768	751,062
Other assets	(26)	13,363,116	12,378,929	9,964,349
Total assets		951,308,172	893,618,387	975,202,788
Liabilities				
Deposits from banks and other financial institutions	(27)	194,249,495	161,433,060	216,585,982
Derivative financial instruments	(21)	7,726,023	6,920,387	6,444,932
Deposits from customers	(28)	561,548,542	533,531,808	523,343,736
Certificates of deposit issued		12,353,273	24,948,381	72,291,099
Debt securities in issue		23,346,883	22,908,370	13,256,593
– Designated at fair value through profit or loss		3,248,299	2,642,190	5,990,903
– Measured at amortised cost		20,098,584	20,266,180	7,265,690
Current income tax liabilities		1,121,341	663,190	797,490
Subordinated debts measured at amortised cost	(30)	3,899,013	7,825,543	11,750,626
Other liabilities	(31)	17,186,359	18,070,159	16,299,868
Total liabilities		821,430,929	776,300,898	860,770,326
Equity				
Share capital	(32)	44,187,631	36,379,331	36,379,331
Retained earnings		54,820,925	51,287,301	47,756,335
Other reserves		3,232,980	2,015,150	2,661,089
Total equity attributable to shareholders of the Bank		102,241,536	89,681,782	86,796,755
Additional equity instruments	(33)	27,635,707	27,635,707	27,635,707
Total equity		129,877,243	117,317,489	114,432,462
Total equity and liabilities		951,308,172	893,618,387	975,202,788

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2019
(UNAUDITED)**

Note	Share capital	Bank premises revaluation reserve	Fair value reserve	Cash flow hedge reserve	Exchange reserve	General reserve	Retained earnings	Additional equity instrument	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2019	36,379,331	608,756	(1,842,704)	79,009	(437,823)	3,607,912	51,287,301	27,635,707	117,317,489
Profit for the period	-	-	-	-	-	-	4,182,439	-	4,182,439
Other comprehensive income for the period:									
Change in fair value of Investment securities measured at fair value through other comprehensive income	-	-	1,608,526	-	-	-	-	-	1,608,526
Reserve realised on disposal of Investment securities measured at fair value through other comprehensive income	-	-	122,160	-	-	-	-	-	122,160
Changes in fair value of cash flow hedge	-	-	-	(215,859)	-	-	-	-	(215,859)
Change in provision for ECL	-	-	32,017	-	-	-	-	-	32,017
Revaluation surplus on bank premises	-	4,204	-	-	-	-	-	-	4,204
Change in deferred tax	(29)	(694)	(303,383)	15,613	-	-	-	-	(288,464)
Exchange differences	-	-	-	-	(39,246)	-	-	-	(39,246)
Total comprehensive income for the period	-	3,510	1,459,320	(200,246)	(39,246)	-	4,182,439	-	5,405,777
Issuance of share capital	7,808,300	-	-	-	-	-	-	-	7,808,300
Partial transfer of retained earnings to general reserve	-	-	-	-	-	(5,508)	5,508	-	-
Other adjustments	-	-	-	-	-	-	(654,323)	-	(654,323)
At 30 June 2019	<u>44,187,631</u>	<u>612,266</u>	<u>(383,384)</u>	<u>(121,237)</u>	<u>(477,069)</u>	<u>3,602,404</u>	<u>54,820,925</u>	<u>27,635,707</u>	<u>129,877,243</u>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2018
(UNAUDITED)**

Note	Share capital	Bank premises revaluation reserve	Fair value reserve	Cash flow hedge reserve	Exchange reserve	General reserve	Retained earnings	Additional equity instrument	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2018	36,379,331	592,489	(989,636)	108,473	104,397	3,451,012	44,301,642	7,738,332	91,686,040
Impact of adopting HKFRS 9	-	-	263,061	-	-	-	(317,345)	-	(54,284)
	<u>36,379,331</u>	<u>592,489</u>	<u>(726,575)</u>	<u>108,473</u>	<u>104,397</u>	<u>3,451,012</u>	<u>43,984,297</u>	<u>7,738,332</u>	<u>91,631,756</u>
Profit for the period	-	-	-	-	-	-	4,095,206	-	4,095,206
Other comprehensive income for the period:									
Change in fair value of Investment securities measured at fair value through other comprehensive income	-	-	(1,373,672)	-	-	-	-	-	(1,373,672)
Reserve realised on disposal of Investment securities measured at fair value through other comprehensive income	-	-	26,279	-	-	-	-	-	26,279
Changes in fair value of cash flow hedge	-	-	-	95,311	-	-	-	-	95,311
Change in provision for ECL	-	-	24,603	-	-	-	-	-	24,603
Revaluation surplus on bank premises	-	4,143	-	-	-	-	-	-	4,143
Change in deferred tax	(29)	(683)	311,466	(15,726)	-	-	-	-	295,057
Exchange differences	-	-	-	-	(99,417)	-	-	-	(99,417)
	<u>-</u>	<u>3,460</u>	<u>(1,011,324)</u>	<u>79,585</u>	<u>(99,417)</u>	<u>-</u>	<u>4,095,206</u>	<u>-</u>	<u>3,067,510</u>
Total comprehensive income for the period	-	3,460	(1,011,324)	79,585	(99,417)	-	4,095,206	-	3,067,510
Issuance of additional equity instruments	-	-	-	-	-	-	-	19,897,375	19,897,375
Partial transfer of retained earnings to general reserve	-	-	-	-	-	158,989	(158,989)	-	-
Other adjustments	-	-	-	-	-	-	(164,179)	-	(164,179)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(164,179)</u>	<u>-</u>	<u>(164,179)</u>
At 30 June 2018	<u>36,379,331</u>	<u>595,949</u>	<u>(1,737,899)</u>	<u>188,058</u>	<u>4,980</u>	<u>3,610,001</u>	<u>47,756,335</u>	<u>27,635,707</u>	<u>114,432,462</u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2019
(UNAUDITED)**

	Note	Six months ended	
		30 Jun 2019 HK\$'000	30 Jun 2018 HK\$'000
Net cash flows used in operating activities		(40,382,471)	(21,390,810)
Net cash flows used in investing activities		(1,431,112)	(42,380)
Net cash flows generated from financing activities		4,214,711	24,754,124
Net (decrease)/increase in cash and cash equivalents		(37,598,872)	3,320,934
Cash and cash equivalents at 1 January		179,252,517	173,241,652
Effects of foreign exchange differences		194,765	(191,492)
Cash and cash equivalents at 30 June	(40)	<u>141,848,410</u>	<u>176,371,094</u>

Components of cash and cash equivalents in the condensed consolidated statement of cash flows:

For the purposes of the condensed consolidated statement of cash flows, cash and cash equivalents comprise the following balances with original maturity of three months or less:

	30 Jun 2019 HK\$'000	30 Jun 2018 HK\$'000
Cash and balances with banks and other financial institutions	39,333,595	27,683,374
Placements with banks and other financial institutions	102,514,815	148,687,720
	<u>141,848,410</u>	<u>176,371,094</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

1 Principal activities

The principal activities of the Bank are the provision of banking, financial and other financial related services.

2.1 Basis of preparation

The unaudited interim financial disclosure statements of the Group have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim Financial Reporting*, issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and fully comply with the requirements set out in the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority (the “HKMA”).

The accounting policies adopted in the preparation of the interim financial disclosure statements are consistent with those used in the preparation of the Group’s audited financial statements for the year ended 31 December 2018 except for the adoption of the HKFRSs and HKASs issued up to 30 June 2019 which are pertinent to the Group’s operations and relevant to these interim financial disclosure statements.

The unaudited interim financial disclosure statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2018.

The preparation of unaudited interim financial disclosure statements requires management to exercise its judgment and make estimates and assumptions in the process of applying the Group’s accounting policies and reporting amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. The significant judgments made by management were the same as those applied to the annual financial statements for the year ended 31 December 2018.

The financial information relating to the financial year ended 31 December 2018 that is included in the interim financial disclosure statements as comparative information does not constitute the Group’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Group has delivered the financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance. The Group’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

2.2 Basis of consolidation

The unaudited interim financial disclosure statements include the accounts of the Bank and all its subsidiaries, a controlled unit trust and attributable share of results and reserves of its associates. For regulatory reporting, the basis of consolidation is set out in Note 1 of the “Supplementary Financial Information” section.

List of subsidiaries and a unit trust, which are all 100% held by the Bank, included in the consolidation are:

- Chinese Mercantile Bank
- ICBC (Asia) Bullion Company Limited
- ICBC (Asia) Futures Company Limited
- ICBC Asset Management (Global) Company Limited
- ICBC (Asia) Nominee Limited
- ICBC (Asia) Securities Limited
- ICBC (Asia) Trustee Company Limited
- ICBC (Asia) Financial Services Company Limited
(Formerly known as “ICBC (Asia) Wa Pei Nominees Limited”
(with effect from 4 February 2019))
- ICBCA (C.I.) Limited
- SINO-CEEF Holding Company Limited
- Greater China Fund

3 Impact of new/revised Hong Kong Financial Reporting Standards (“HKFRSs”) and Hong Kong Accounting Standards (“HKASs”)

The HKICPA has issued a new HKFRS, HKFRS 16, Leases, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Except for HKFRS 16, Leases, none of the developments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, Leases

HKFRS 16 replaces HKAS 17, Leases, and the related interpretations, HK(IFRIC) 4, Determining whether an arrangement contains a lease, HK(SIC) 15, Operating leases incentives, and HK(SIC) 27, Evaluating the substance of transactions involving the legal form of a lease. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less (“short-term leases”) and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**3 Impact of new/revised Hong Kong Financial Reporting Standards (“HKFRSs”) and Hong Kong Accounting Standards (“HKASs”) (continued)****HKFRS 16, Leases (continued)**

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) Changes in the accounting policies*(i) New definition of a lease*

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalized leases are primarily in relation to property, plant and equipment as disclosed.

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. For the Group, low-value assets are typically copiers. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

3 Impact of new/revised Hong Kong Financial Reporting Standards (“HKFRSs”) and Hong Kong Accounting Standards (“HKASs”) (continued)

(a) Changes in the accounting policies (continued)

(ii) Lessee accounting (continued)

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses, except for the following types of right-of-use asset:

- right-of-use assets that meet the definition of investment property are carried at fair value;
- right-of-use assets related to leasehold land and buildings where the Group is the registered owner of the leasehold interest are carried at fair value.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group’s estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

3 Impact of new/revised Hong Kong Financial Reporting Standards (“HKFRSs”) and Hong Kong Accounting Standards (“HKASs”) (continued)

(a) Changes in the accounting policies (continued)

(iii) Leasehold investment property

Under HKFRS 16, the Group is required to account for all leasehold properties as investment properties when these properties are held to earn rental income and/or for capital appreciation (“leasehold investment properties”). The adoption of HKFRS 16 does not have a significant impact on the Group’s financial statements as the Group previously elected to apply HKAS 40, Investment properties, to account for all of its leasehold properties that were held for investment purposes as at 31 December 2018. Consequentially, these leasehold investment properties continue to be carried at fair value.

(iv) Lessor accounting

In addition to leasing out a number of items of properties as the lessor of operating leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17. Under HKFRS 16, when the Group acts as an intermediate lessor in a sublease arrangement, the Group is required to classify the sublease as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset. The adoption of HKFRS 16 does not have a significant impact on the Group’s financial statements in this regard.

(b) Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies

(i) Classification of interest in leasehold land and buildings held for own use

In accordance with HKAS 16, Property, plant and equipment, the Group chooses to apply either the cost model or the revaluation model as its accounting policy for items of property, plant and equipment held for own use on a class-by-class basis. In applying this policy, the Group has concluded that its registered ownership interests in leasehold properties and the right to use other properties leased under tenancy agreements are two separate groupings of assets which differ significantly in their nature and use. Accordingly, they are regarded by the Group as separate classes of asset for subsequent measurement policies in accordance with the above accounting policies. Specifically, registered ownership interests are carried under the revaluation model, while rights to use properties under tenancy agreements are carried at depreciated cost.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

3 Impact of new/revised Hong Kong Financial Reporting Standards (“HKFRSs”) and Hong Kong Accounting Standards (“HKASs”) (continued)

(b) Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies (continued)

(i) Classification of interest in leasehold land and buildings held for own use (continued)

In making this judgment, the Group has taken into account that, as the registered owner of a leasehold property, the Group is able to benefit fully from any changes in the valuation of these properties whether as holding gains or by selling the property interest to others, as well as being able to use the properties in its operation free of paying market rents. In contrast, the shorter term tenancy agreements are typically for periods of no more than 10 years and are subject to other restrictions, in particular on transferability of the Group’s tenancy rights to others. These shorter terms tenancy agreements are executed in order to retain operational flexibility and to reduce the Group’s exposure to the property market fluctuation. They may contain termination or extension clauses, and/or variable rental payment clauses linked to the level of sales generated by the Group’s use of premises, and are typically subject to market rent reviews every 2 to 5 years.

(ii) Determining the lease term

As explained in the above accounting policies, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favorable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group’s operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group’s control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

(c) Transitional impact

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

3 Impact of new/revised Hong Kong Financial Reporting Standards (“HKFRSs”) and Hong Kong Accounting Standards (“HKASs”) (continued)

(c) Transitional impact (continued)

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

- (i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;
- (ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and
- (iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as disclosed as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 HK\$'000
Operating lease commitment at 31 December 2018	1,040,071
Less: recognition exemption for leases with no more than 12 months of remaining lease term at transition	(21,755)
Less: leases that are outside the scope of HKFRS 16	(62,516)
Less: rental prepayments	(18,148)
Add: extension options reasonably certain to be exercised	437,576
	<hr/>
	1,375,228
Less: total future interest expenses	(84,104)
	<hr/>
Total lease liabilities recognised at 1 January 2019	<u><u>1,291,124</u></u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

3 Impact of new/revised Hong Kong Financial Reporting Standards (“HKFRSs”) and Hong Kong Accounting Standards (“HKASs”) (continued)

(c) Transitional impact (continued)

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

The Group presents right-of-use assets that do not meet the definition of investment property in ‘Property, plant and equipment’, and presents lease liabilities in ‘Other liabilities’.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group’s consolidated statement of financial position:

	Carrying amount at 31 December 2018 HK\$’000	Capitalization of operating lease contracts HK\$’000	Carrying amount at 1 January 2019 HK\$’000
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Property, plant and equipment	901,251	1,309,616	2,210,867
Other assets	12,378,929	(15,292)	12,363,637
Total assets	893,618,387	1,294,324	894,912,711
Other liabilities	18,070,159	1,294,324	19,364,483
Total liabilities	776,300,898	1,294,324	777,595,222
Net assets	117,317,489	–	117,317,489

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
3 Impact of new/revised Hong Kong Financial Reporting Standards (“HKFRSs”) and Hong Kong Accounting Standards (“HKASs”) (continued)
(c) Transitional impact (continued)

The analysis of the net book value of the Group’s right-of-use assets by class of underlying asset at the end of the reporting period and at the date of transition to HKFRS 16 is as follows:

	At 30 June 2019	At 1 January 2019
	HK\$’000	HK\$’000
Included in “Property, plant and equipment”:		
Right-of-use asset – Premises	1,087,808	1,308,753
Right-of-use asset – Other equipment	623	863
Right-of-use asset – Others	16,890	–
Total	<u>1,105,321</u>	<u>1,309,616</u>

(d) Lease liabilities

The remaining contractual maturities of the Group’s lease liabilities at the end of the reporting period and at the date of transition to HKFRS 16 are as follows:

	At 30 June 2019		At 1 January 2019	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Not later than 1 year	60,800	61,828	–	–
Later than 1 year and not later than 2 years	256,609	263,648	182,376	187,219
Later than 2 years and not later than 5 years	803,810	856,077	1,019,592	1,090,243
More than 5 years	–	–	89,156	97,766
Subtotal	1,060,419	1,119,725	1,291,124	1,375,228
Total	<u>1,121,219</u>	1,181,553	<u>1,291,124</u>	1,375,228
Less: total future interest expenses		(60,334)		(84,104)
Present value of lease liabilities		<u>1,121,219</u>		<u>1,291,124</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management

4.1 Analysis of assets and liabilities by remaining maturity

The table below summarises the Group's assets and liabilities into relevant maturity Groupings based on the remaining period at the end of the reporting period to the contractual maturity date.

At 30 June 2019	Repayable on demand HK\$'000	Up to 1 month HK\$'000	1-3 months HK\$'000	3-12 months HK\$'000	1-5 years HK\$'000	Over 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
Assets								
Cash and balances with banks and other financial institutions	39,333,595	83,357,390	-	-	-	-	-	122,690,985
Placements with banks and other financial institutions	-	-	63,895,612	74,571,676	-	-	-	138,467,288
Financial assets held for trading								
– treasury bills	-	-	268,773	-	-	-	-	268,773
– certificates of deposit held	-	-	226,839	2,058,594	-	-	-	2,285,433
– other debt securities	-	-	-	-	93,645	-	-	93,645
Financial assets at fair value through profit or loss								
– investment funds	-	-	-	-	-	-	4,538,930	4,538,930
– others	-	-	-	-	-	618,234	-	618,234
Derivative financial instruments	239,067	996,325	713,857	1,509,126	5,014,461	1,275,572	-	9,748,408
Advances and other accounts	5,329,138	38,982,736	40,582,408	94,229,293	211,153,150	84,007,806	3,373,110	477,657,641
Financial investments measured at fair value through other comprehensive income								
– treasury bills	-	7,199,466	9,959,402	1,950,604	-	1,405,440	-	20,514,912
– equity securities	-	-	-	-	-	-	2,307,005	2,307,005
– certificates of deposit held	-	-	-	-	148,006	-	-	148,006
– other debt securities	35,122	651,941	782,482	13,978,691	44,115,745	46,891,621	-	106,455,602
Financial investments measured at amortised cost								
– treasury bills	-	-	-	-	8,302,566	2,687,485	-	10,990,051
– certificates of deposit held	-	22,657	-	1,484,449	-	-	-	1,507,106
– other debt securities	-	782,771	867,922	13,237,682	12,545,242	8,422,178	-	35,855,795
Interest in associates	-	-	-	-	-	-	194,094	194,094
Goodwill and other intangible assets	-	-	-	-	-	-	1,017,606	1,017,606
Investment properties	-	-	-	-	-	-	140,135	140,135
Property, plant and equipment	-	-	-	-	-	-	1,991,923	1,991,923
Other assets, including current and deferred income tax assets	720,406	2,359,296	1,418,507	2,771,261	6,089,793	120,131	337,206	13,816,600
Total assets	45,657,328	134,352,582	118,715,802	205,791,376	287,462,608	145,428,467	13,900,009	951,308,172
Liabilities								
Deposits from banks and other financial institutions	37,822,543	55,297,235	42,095,493	35,377,523	23,656,701	-	-	194,249,495
Derivative financial instruments	100,967	1,055,862	655,842	1,349,607	2,830,088	1,733,657	-	7,726,023
Deposits from customers	158,418,553	127,461,823	142,621,312	123,408,931	9,637,923	-	-	561,548,542
Certificates of deposit issued	-	2,419,751	8,491,440	1,442,082	-	-	-	12,353,273
Debt securities in issue								
– Designated at fair value through profit or loss	-	-	-	106,487	3,141,812	-	-	3,248,299
– At amortised cost	-	-	-	2,600,000	17,498,584	-	-	20,098,584
Subordinated debts measured at amortised cost	-	-	-	-	3,899,013	-	-	3,899,013
Other liabilities, including current and deferred income tax liabilities	2,512,503	5,701,479	2,741,182	2,590,509	1,304,950	3,456,786	291	18,307,700
Total liabilities	198,854,566	191,936,150	196,605,269	166,875,139	61,969,071	5,190,443	291	821,430,929
Net liquidity gap	(153,197,238)	(57,583,568)	(77,889,467)	38,916,237	225,493,537	140,238,024	13,899,718	129,877,243

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
4 Financial risk management (continued)
4.1 Analysis of assets and liabilities by remaining maturity (continued)

31 December 2018	Repayable on demand HK\$'000	Up to one month HK\$'000	1-3 months HK\$'000	3-12 months HK\$'000	1-5 years HK\$'000	Over 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
Assets								
Cash and balances with banks and other								
financial institutions	50,252,489	101,122,043	-	-	-	-	-	151,374,532
Placements with banks and other								
financial institutions	-	-	63,630,572	10,586,741	-	-	-	74,217,313
Financial assets at fair value through profit or loss								
- others	-	-	-	-	-	525,689	-	525,689
Derivative financial instruments	227,548	784,736	858,874	2,078,651	4,236,853	958,215	-	9,144,877
Advances and other accounts	10,705,007	15,433,226	25,037,054	104,805,533	205,738,792	114,069,781	-	475,789,393
Financial investment measured at fair value through other comprehensive income								
- treasury bills	-	1,565,389	-	1,167,886	1,556,020	3,443,325	-	7,732,620
- equity securities	-	-	-	-	-	1,748,449	2,786,702	4,535,151
- certificates of deposit held	-	-	-	-	149,291	-	-	149,291
- other debt securities	-	1,163,332	1,317,069	6,753,685	49,902,692	29,512,070	-	88,648,848
Financial investment measured at amortised cost								
- treasury bills	-	2,510,861	8,926,081	995,045	6,874,918	733,080	-	20,039,985
- certificates of deposit held	-	2,740,418	6,797,249	562,400	-	-	-	10,100,067
- other debt securities	-	107,826	604,272	7,648,287	19,731,341	7,983,031	-	36,074,757
Interests in associates	-	-	-	-	-	-	97,984	97,984
Goodwill and other intangible assets	-	-	-	-	-	-	1,017,797	1,017,797
Investment properties	-	-	-	-	-	-	140,135	140,135
Property, plant and equipment	-	-	-	-	-	-	901,251	901,251
Other assets, including current and deferred income tax assets	298,548	3,678,836	1,336,240	4,325,554	3,032,867	124,679	331,973	13,128,697
Total assets	61,483,592	129,106,667	108,507,411	138,923,782	291,222,774	159,098,319	5,275,842	893,618,387
Liabilities								
Deposits from banks and other financial institutions	39,618,050	37,408,489	15,685,605	41,250,888	27,470,028	-	-	161,433,060
Derivative financial instruments	32,807	883,170	1,003,093	2,207,693	2,102,567	691,057	-	6,920,387
Deposits from customers	139,899,282	145,373,608	111,879,440	125,656,796	10,722,682	-	-	533,531,808
Certificates of deposit issued	-	2,546,806	11,282,534	11,119,041	-	-	-	24,948,381
Debt securities in issue								
- Designated at fair value through profit or loss	-	-	-	108,794	2,533,396	-	-	2,642,190
- At amortised cost	-	1,173,513	4,660,270	4,438,807	9,993,590	-	-	20,266,180
Subordinated debt measured at amortised cost	-	-	-	-	3,909,718	3,915,825	-	7,825,543
Other liabilities, including current and deferred income tax liabilities	2,699,136	8,013,534	1,208,061	5,097,200	469,846	293,163	952,409	18,733,349
Total liabilities	182,249,275	195,399,120	145,719,003	189,879,219	57,201,827	4,900,045	952,409	776,300,898
Net liquidity gap	(120,765,683)	(66,292,453)	(37,211,592)	(50,955,437)	234,020,947	154,198,274	4,323,433	117,317,489

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.2 Fair values of financial assets and liabilities

Financial instruments measured at fair value using a valuation technique

Fair values of standardized financial assets and financial liabilities that are traded in active market are based on quoted market prices. For all other financial instruments, the Group determines fair values using valuation techniques. In general, quoted prices in active market will be used if available. When quoted prices in active markets are not available, an appropriate valuation technique will be employed.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price of the financial instrument that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the reporting date.

The Group uses widely recognised valuation models for determining the fair value of the common financial instruments. The market data inputs are independent and observable in the market which avoids any manipulation of the fair values. The Group has also an established Valuation Committee to set up control framework with respect to the measurement of fair values. Valuation Committee is responsible for review of all market prices and rate sources used as well as curves, methodology and models for valuation of financial instruments.

A Credit Valuation Adjustment (CVA) is applied to the Group's over-the-counter derivative exposures to take into account the counterparty's risk of default when measuring the fair value of the derivatives. CVA is the mark-to-market adjustment to the fair value to reflect potential credit risk from counterparties in the Group's over-the-counter derivative portfolio. CVA is calculated by multiplying the expected loss rates and the exposure value of the instruments at deal level.

The Group estimates the expected loss rates by referencing the historical loss rates of the counterparties at similar internal credit grading level. A Debit Valuation Adjustment (DVA) is applied to incorporate the Group's own credit risk in the fair value of derivatives, using same methodology as for CVA.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**4 Financial risk management (continued)****4.2 Fair values of financial assets and liabilities (continued)***Determination of fair value hierarchy*

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 valuations: Fair value measured using unobservable inputs. Unobservable inputs are used to measure fair value to the extent that relevant observable inputs are not available.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.2 Fair values of financial assets and liabilities (continued)

30 June 2019	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Recurring fair value measurements				
Financial assets				
Derivative financial instruments				
Forward foreign exchange contracts	–	2,608,822	–	2,608,822
Structured foreign exchange contracts	–	2,547	–	2,547
Currency swaps	–	1,219,412	–	1,219,412
FX options	–	179,191	–	179,191
Interest rate swaps	–	2,239,680	–	2,239,680
Interest rate futures	–	1,018	–	1,018
Commodity forward	–	180,867	–	180,867
Equity swap	–	3,316,745	–	3,316,745
Equity options	–	126	–	126
	–	9,748,408	–	9,748,408
Loans and advances to customers, banks and trade bills measured at fair value through other comprehensive income				
Advances to customers	–	1,886,374	–	1,886,374
Trade bills	–	8,951,479	–	8,951,479
	–	10,837,853	–	10,837,853
Financial assets held for trading				
Debt securities	362,418	2,285,433	–	2,647,851
	362,418	2,285,433	–	2,647,851
Financial assets at fair value through profit or loss				
Investment funds	2,128,237	1,286,396	1,124,297	4,538,930
Others	–	618,234	–	618,234
	2,128,237	1,904,630	1,124,297	5,157,164
Investment securities measured at fair value through other comprehensive income				
Debt securities	95,169,398	31,949,122	–	127,118,520
Equity securities	–	234,210	2,072,795	2,307,005
	95,169,398	32,183,332	2,072,795	129,425,525
Total financial assets	97,660,053	56,959,656	3,197,092	157,816,801

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
4 Financial risk management (continued)
4.2 Fair values of financial assets and liabilities (continued)

30 June 2019	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial liabilities				
Derivative financial instruments				
Forward foreign exchange contracts	–	2,330,178	–	2,330,178
Structured foreign exchange contracts	–	2,547	–	2,547
Currency swaps	–	1,151,301	–	1,151,301
FX options	–	177,316	–	177,316
Interest rate swaps	–	3,197,404	–	3,197,404
Interest rate futures	–	4,525	–	4,525
Commodity forward	–	181,130	–	181,130
Equity swap	–	681,496	–	681,496
Equity options	–	126	–	126
	–	<u>7,726,023</u>	–	<u>7,726,023</u>
Financial liabilities designated at fair value through profit or loss				
Debt securities in issue	–	3,248,299	–	3,248,299
	–	<u>3,248,299</u>	–	<u>3,248,299</u>
Total financial liabilities	–	<u><u>10,974,322</u></u>	–	<u><u>10,974,322</u></u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.2 Fair values of financial assets and liabilities (continued)

31 December 2018	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Recurring fair value measurements				
Financial assets				
Derivative financial instruments				
Forward foreign exchange contracts	–	3,338,499	–	3,338,499
Structured foreign exchange contracts	–	391	–	391
Currency swaps	–	1,185,796	–	1,185,796
FX options	–	192,274	–	192,274
Interest rate swaps	–	1,677,753	–	1,677,753
Interest rate futures	–	2,305	–	2,305
Commodity forward	–	3,889	–	3,889
Equity swap	–	2,743,970	–	2,743,970
Equity options	–	–	–	–
	–	9,144,877	–	9,144,877
Loans and advances to customers, banks and trade bills measured at fair value through other comprehensive income				
Advances to customers	–	700,946	–	700,946
Trade bills	–	11,854,473	–	11,854,473
	–	12,555,419	–	12,555,419
Financial assets held for trading				
Debt securities	–	–	–	–
	–	–	–	–
Financial assets at fair value through profit or loss				
Investment funds	–	139,622	–	139,622
Others	–	386,067	–	386,067
	–	525,689	–	525,689
Investment securities measured at fair value through other comprehensive income				
Debt securities	86,951,383	9,579,376	–	96,530,759
Equity securities	790,024	882,954	2,862,173	4,535,151
	87,741,407	10,462,330	2,862,173	101,065,910
Total financial assets	87,741,407	32,688,315	2,862,173	123,291,895

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.2 Fair values of financial assets and liabilities (continued)

31 December 2018	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial liabilities				
Derivative financial instruments				
Forward foreign exchange contracts	–	3,356,026	–	3,356,026
Structured foreign exchange contracts	–	391	–	391
Currency swaps	–	1,356,306	–	1,356,306
FX options	–	204,960	–	204,960
Interest rate swaps	–	1,319,190	–	1,319,190
Interest rate futures	–	6,669	–	6,669
Commodity forward	–	4,077	–	4,077
Equity swap	–	672,768	–	672,768
Equity options	–	–	–	–
	–	<u>6,920,387</u>	–	<u>6,920,387</u>
Financial liabilities designated at fair value through profit or loss				
Debt securities in issue	–	2,642,190	–	2,642,190
	–	<u>2,642,190</u>	–	<u>2,642,190</u>
Total financial liabilities	–	<u><u>9,562,577</u></u>	–	<u><u>9,562,577</u></u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.2 Fair values of financial assets and liabilities (continued)

Movements in level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amounts of Level 3 financial assets which are recorded at fair value:

	At 1 January 2019 HK\$'000	Addition/ (disposal) HK\$'000	Re-class HK\$'000	Total gains/ (losses) recorded in equity HK\$'000	Total gains recorded in the income statement HK\$'000	At 30 June 2019 HK\$'000
Financial assets						
Financial assets at FVTPL						
– Investment funds	–	–	1,102,439	–	21,858	1,124,297
Financial investment measured at FVTOCI						
– Equities	2,862,173	243,652	(1,102,439)	69,409	–	2,072,795
Total Level 3 financial assets	<u>2,862,173</u>	<u>243,652</u>	<u>–</u>	<u>69,409</u>	<u>21,858</u>	<u>3,197,092</u>

	At 1 January 2018 HK\$'000	Addition/ (disposal) HK\$'000	Re-class HK\$'000	Total gains/ (losses) recorded in equity HK\$'000	At 31 December 2018 HK\$'000
Financial assets					
Financial investment measured at FVTOCI					
– Equities	250,364	2,940,803	–	(328,994)	2,862,173
Total Level 3 financial assets	<u>250,364</u>	<u>2,940,803</u>	<u>–</u>	<u>(328,994)</u>	<u>2,862,173</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.2 Fair values of financial assets and liabilities (continued)

Significant transfers between Level 1 and 2

The following tables show significant transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets and liabilities which are recorded at fair value:

	Transfers from Level 1 to Level 2	
	30 Jun 2019	30 Jun 2018
	HK\$'000	HK\$'000

Investment securities measured at FVTOCI

Debt securities	222,501	–
-----------------	---------	---

The above financial assets were transferred from Level 1 to Level 2 as they ceased to be actively traded during the period and fair values were consequently obtained using valuation techniques using observable market inputs.

	Transfers from Level 2 to Level 1	
	30 Jun 2019	30 Jun 2018
	HK\$'000	HK\$'000

Investment securities measured at FVTOCI

Debt securities	45,406	433,174
-----------------	--------	---------

The above financial assets were transferred from Level 2 to Level 1 as they have been actively traded during the period and fair values were no longer obtained using valuation techniques using observable market inputs.

Transfers between levels of the fair value hierarchy are deemed to occur at the end of the reporting period.

4.3 Fair values of non-financial assets and liabilities

Fair value hierarchy

The following table presents the fair value of the Group's bank premises and properties and investment properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.3 Fair values of non-financial assets and liabilities (continued)

Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

Level 3 valuations: Fair value measured using significant unobservable inputs.

Fair value at 30 June 2019

	HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Recurring fair value measurement				
Bank premises and properties	623,743	–	–	623,743
Investment properties	140,135	–	–	140,135

Fair value at 31 December 2018

	HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Recurring fair value measurement				
Bank premises and properties	627,090	–	–	627,090
Investment properties	140,135	–	–	140,135

During the half year ended 30 June 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All of the Group's investment properties and bank premises and properties were revalued as at 30 June 2019. The valuations on the Banks's investment properties and bank premises and properties were carried out by an independent professionally qualified valuer, A.G. Wilkinson & Associates. The valuation on investment properties and bank premises and properties of the Bank's subsidiary were carried out by an independent professionally qualified valuer in the Mainland China, Shenzhen GuoZhongLian Asset and Real Estate Appraisal Consulting Co., Ltd. The valuers are with recent experience in the location and category of property being valued. The Group's management has discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.3 Fair values of non-financial assets and liabilities (continued)

Information about Level 3 fair value measurements

	Valuation techniques	Unobservable input	Range
<i>Investment properties</i>			
- Hong Kong	Investment method	Market yield	2.65% - 2.95%
- Mainland China	Discounted cash flow	Risk adjusted discount rate	4.7%
		Expected market rental growth	3% - 5%
		Expected occupancy rate	95%
<i>Bank premises and properties</i>			
- Hong Kong	Direct comparison approach	Premium/(discount) on characteristic of the properties	9.87% - (17.54%)
- Mainland China method 1	Discounted cash flow	Risk adjusted discount rate	4.5%
		Expected market rental growth	5%
		Expected occupancy rate	97%
- Mainland China method 2	Direct comparison approach	Market value discount rate	6%

For investment properties classified under level 3, the fair values are valued by:

- i) investment method of valuation and have assessed the contractual rental income and the expected future market rental income after allowing for outgoings and maintenance requirements at appropriate market yields as perceived in the actual market; and
- ii) discounting a projected cash flow series associated with the properties using risk adjusted discount rates. The valuation takes into account expected market rental growth and occupancy rate of the respective properties. The discount rates used have been adjusted for the quality and location of the buildings and the tenant credit quality. The fair value measurement is positively correlated to the expected market rental growth and the occupancy rate, and negatively correlated to the risk-adjusted discount rates.

For bank premises and properties classified under level 3, the fair values are determined by:

- i) discounting a projected cash flow series associated with the properties using risk adjusted discount rates. The valuation takes into account expected market rental growth and occupancy rate of the respective properties. The discount rates used have been adjusted for the quality and location of the buildings and the tenant credit quality. The fair value measurement is positively correlated to the expected market rental growth and the occupancy rate, and negatively correlated to the risk-adjusted discount rates; and
- ii) using direct comparison approach to value properties in their respective existing states and uses on the market basis assuming sale with immediate vacant possession and by making reference to comparable sales evidence. The valuations take into account the characteristic of the properties which included the location, size, shape, view, floor level, year of completion and others factors collectively. Higher premium for properties with higher characteristic will result in a higher fair value measurement.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.3 Fair values of non-financial assets and liabilities (continued)

Information about Level 3 fair value measurements (continued)

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

Bank premises and properties:	HK\$'000
At 1 January 2019	627,090
Addition for the period	–
Exchange rate and other adjustment	1,415
Depreciation charge for the period	(8,966)
Surplus on revaluation	4,204
	<hr/>
At 30 June 2019	<u>623,743</u>
Investment properties:	HK\$'000
At 1 January 2019	140,135
Fair value adjustment	–
Exchange adjustment	–
	<hr/>
At 30 June 2019	<u>140,135</u>
Bank premises and properties:	HK\$'000
At 1 January 2018	645,804
Addition for the year	–
Transferred to investment properties	(24,000)
Exchange rate and other adjustment	1,581
Depreciation charge for the year	(17,253)
Surplus on revaluation	20,958
	<hr/>
At 31 December 2018	<u>627,090</u>
Investment properties:	HK\$'000
At 1 January 2018	117,407
Transferred from bank premises and properties	24,000
Fair value adjustment	700
Exchange adjustment	(1,972)
	<hr/>
At 31 December 2018	<u>140,135</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
4 Financial risk management (continued)
4.4 Amounts arising from Expected Credit Loss (ECL)

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument:

Loans and advances to customers, banks and trade bills measured at amortised cost

30 June 2019	12-month ECL HK\$'000	Lifetime ECL not credit- impaired HK\$'000	Lifetime ECL credit- impaired HK\$'000	Total HK\$'000
Movement in impairment:				
Balance at 1 January 2019	2,279,440	667,189	2,129,299	5,075,928
Transfer to 12-month ECL	221,814	(221,814)	–	–
Transfer to Lifetime ECL not credit-impaired	(7,604)	7,604	–	–
Transfer to Lifetime ECL credit-impaired	(9,624)	(40,862)	50,486	–
Net remeasurement of loss allowance (including exchange adjustments)	(53,286)	98,787	740,798	786,299
New financial assets originated or purchased	630,975	189,117	–	820,092
Financial assets that have been derecognised	(599,398)	(196,246)	(21,463)	(817,107)
Write-off	–	–	(10,208)	(10,208)
Recoveries of amount previously written off	–	–	677	677
At 30 June 2019	<u>2,462,317</u>	<u>503,775</u>	<u>2,889,589</u>	<u>5,855,681</u>
Deducted from:				
Advances to customers	2,455,663	503,191	2,889,589	5,848,443
Advances to banks	2,471	–	–	2,471
Trade bills	4,183	584	–	4,767
	<u>2,462,317</u>	<u>503,775</u>	<u>2,889,589</u>	<u>5,855,681</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.4 Amounts arising from Expected Credit Loss (ECL) (continued)

31 December 2018	12-month ECL HK\$'000	Lifetime ECL not credit- impaired HK\$'000	Lifetime ECL credit- impaired HK\$'000	Total HK\$'000
Movement in impairment:				
Restated at 1 January 2018	2,447,088	107,646	2,107,457	4,662,191
Transfer to 12-month ECL	15,041	(15,041)	–	–
Transfer to Lifetime ECL not credit-impaired	(8,427)	8,427	–	–
Transfer to Lifetime ECL credit-impaired	(1,914)	(523)	2,437	–
Net remeasurement of loss allowance (including exchange adjustments)	(583,608)	610,901	796,366	823,659
New financial assets originated or purchased	1,126,681	311,488	–	1,438,169
Financial assets that have been derecognised	(715,421)	(355,709)	(169,034)	(1,240,164)
Write-off	–	–	(609,824)	(609,824)
Recoveries of amount previously written off	–	–	1,897	1,897
At 31 December 2018	<u>2,279,440</u>	<u>667,189</u>	<u>2,129,299</u>	<u>5,075,928</u>
Deducted from:				
Advances to customers	2,266,469	666,696	2,129,299	5,062,464
Advances to banks	8,966	–	–	8,966
Trade bills	4,005	493	–	4,498
	<u>2,279,440</u>	<u>667,189</u>	<u>2,129,299</u>	<u>5,075,928</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
4 Financial risk management (continued)
4.4 Amounts arising from ECL (continued)
Financial investment measured at fair value through other comprehensive income

30 June 2019	12-month ECL HK\$'000	Lifetime ECL not credit- impaired HK\$'000	Lifetime ECL credit- impaired HK\$'000	Total HK\$'000
Movement in impairment:				
Balance at 1 January 2019	83,606	2,539	–	86,145
Transfer to 12-month ECL	2,539	(2,539)	–	–
Transfer to Lifetime ECL not credit-impaired	–	–	–	–
Transfer to Lifetime ECL credit-impaired	–	–	–	–
Net remeasurement of loss allowance (including exchange adjustments)	16,258	–	–	16,258
New financial assets originated or purchased	38,203	–	–	38,203
Financial assets that have been derecognised	(34,265)	–	–	(34,265)
At 30 June 2019	<u>106,341</u>	<u>–</u>	<u>–</u>	<u>106,341</u>
31 December 2018	12-month ECL HK\$'000	Lifetime ECL not credit- impaired HK\$'000	Lifetime ECL credit- impaired HK\$'000	Total HK\$'000
Movement in impairment allowances:				
Restated at 1 January 2018	57,892	–	–	57,892
Transfer to 12-month ECL	–	–	–	–
Transfer to Lifetime ECL not credit-impaired	(2,539)	2,539	–	–
Transfer to Lifetime ECL credit-impaired	–	–	–	–
Net remeasurement of loss allowance (including exchange adjustments)	1,010	–	–	1,010
New financial assets originated or purchased	37,263	–	–	37,263
Financial assets that have been derecognised	(10,020)	–	–	(10,020)
At 31 Dec 2018	<u>83,606</u>	<u>2,539</u>	<u>–</u>	<u>86,145</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.4 Amounts arising from ECL (continued)

Financial investment measured at amortised cost

30 June 2019	12-month ECL HK\$'000	Lifetime ECL not credit- impaired HK\$'000	Lifetime ECL credit- impaired HK\$'000	Total HK\$'000
Movement in impairment:				
Balance at 1 January 2019	34,649	14,498	–	49,147
Transfer to 12-month ECL	776	(776)	–	–
Transfer to Lifetime ECL not credit-impaired	–	–	–	–
Transfer to Lifetime ECL credit-impaired	–	–	–	–
Net remeasurement of loss allowance (including exchange adjustments)	12,606	2,104	–	14,710
New financial assets originated or purchased	6,001	–	–	6,001
Financial assets that have been derecognised	(18,578)	–	–	(18,578)
At 30 June 2019	<u>35,454</u>	<u>15,826</u>	<u>–</u>	<u>51,280</u>
31 December 2018	12-month ECL HK\$'000	Lifetime ECL not credit- impaired HK\$'000	Lifetime ECL credit- impaired HK\$'000	Total HK\$'000
Movement in impairment allowances:				
Restated at 1 January 2018	43,531	7,438	–	50,969
Transfer to 12-month ECL	(89)	89	–	–
Transfer to Lifetime ECL not credit-impaired	–	–	–	–
Transfer to Lifetime ECL credit-impaired	–	–	–	–
Net remeasurement of loss allowance (including exchange adjustments)	(16,520)	6,971	–	(9,549)
New financial assets originated or purchased	18,578	–	–	18,578
Financial assets that have been derecognised	(10,851)	–	–	(10,851)
At 31 Dec 2018	<u>34,649</u>	<u>14,498</u>	<u>–</u>	<u>49,147</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
4 Financial risk management (continued)
4.4 Amounts arising from ECL (continued)
Cash, placement with banks and other financial institutions

30 June 2019	12-month ECL HK\$'000	Lifetime ECL not credit- impaired HK\$'000	Lifetime ECL credit- impaired HK\$'000	Total HK\$'000
Movement in impairment:				
Balance at 1 January 2019	25,991	–	–	25,991
Net remeasurement of loss allowance (including exchange adjustments)	(35)	–	–	(35)
New financial assets originated or purchased	50,754	–	–	50,754
Financial assets that have been derecognised	(19,895)	–	–	(19,895)
At 30 June 2019	<u>56,815</u>	<u>–</u>	<u>–</u>	<u>56,815</u>
31 December 2018	12-month ECL HK\$'000	Lifetime ECL not credit- impaired HK\$'000	Lifetime ECL credit- impaired HK\$'000	Total HK\$'000
Movement in impairment allowances:				
Restated at 1 January 2018	19,178	39	–	19,217
Net remeasurement of loss allowance (including exchange adjustments)	(358)	(39)	–	(397)
New financial assets originated or purchased	23,191	–	–	23,191
Financial assets that have been derecognised	(16,020)	–	–	(16,020)
At 31 Dec 2018	<u>25,991</u>	<u>–</u>	<u>–</u>	<u>25,991</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.4 Amounts arising from ECL (continued)

Loan commitments and financial guarantee contracts

30 June 2019	12-month ECL HK\$'000	Lifetime ECL not credit- impaired HK\$'000	Lifetime ECL credit- impaired HK\$'000	Total HK\$'000
Movement in impairment:				
Balance at 1 January 2019	133,889	2,596	–	136,485
Transfer to 12-month ECL	17	(17)	–	–
Transfer to Lifetime ECL not credit-impaired	(319)	319	–	–
Transfer to Lifetime ECL credit-impaired	–	–	–	–
Net remeasurement of loss allowance (including exchange adjustments)	(17,715)	(2,070)	–	(19,785)
New financial assets originated or purchased	21,301	706	–	22,007
Financial assets that have been derecognised	(35,458)	(363)	–	(35,821)
At 30 June 2019	<u>101,715</u>	<u>1,171</u>	<u>–</u>	<u>102,886</u>
31 December 2018	12-month ECL HK\$'000	Lifetime ECL not credit- impaired HK\$'000	Lifetime ECL credit- impaired HK\$'000	Total HK\$'000
Movement in impairment allowances:				
Restated at 1 January 2018	88,769	1,054	–	89,823
Transfer to 12-month ECL	24	(24)	–	–
Transfer to Lifetime ECL not credit-impaired	(74)	74	–	–
Transfer to Lifetime ECL credit-impaired	–	–	–	–
Net remeasurement of loss allowance (including exchange adjustments)	(23,213)	(25)	–	(23,238)
New financial assets originated or purchased	97,555	2,548	–	100,103
Financial assets that have been derecognised	(29,172)	(1,031)	–	(30,203)
At 31 Dec 2018	<u>133,889</u>	<u>2,596</u>	<u>–</u>	<u>136,485</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

5 Segment reporting

5.1 Class of business

The Group comprises seven operating segments. Asia Pacific Business represents the banking business in Asia Pacific Region. Corporate and investment banking mainly comprises corporate banking, the provision of debt capital market and investment banking. Commercial banking represents commercial lending and trade financing. Retail banking represents retail banking, hire purchase and leasing, and credit card business. Global markets and trading represents foreign exchange, money market and capital market activities. Institutional banking represents financial institution business. Chinese Mercantile Bank represents the business of the Bank's subsidiary in Mainland China. Unallocated items mainly comprise the central management unit, bank premises, inter-segment elimination entries and any items which cannot be reasonably allocated to specific operating segments.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

5 Segment reporting (continued)

5.1 Class of business (continued)

30 June 2019	Asia-Pacific Business HK\$'000	Corporate and investment banking HK\$'000	Commercial banking HK\$'000	Retail banking HK\$'000	Global markets and trading HK\$'000	Institutional banking HK\$'000	Chinese Mercantile Bank HK\$'000	Unallocated HK\$'000	Total HK\$'000
Net interest income	169,237	778,024	1,146,583	819,899	323,671	475,426	1,141,272	1,191,077	6,045,189
Fee and commission income	31,868	343,558	252,840	478,138	2	114,122	42,189	74,651	1,337,368
Fee and commission expense	(476)	(7,129)	(1,470)	(161,082)	-	(594)	(12,384)	-	(183,135)
Net fee and commission income	31,392	336,429	251,370	317,056	2	113,528	29,805	74,651	1,154,233
Net trading income/(expense)	12,328	35,552	80,393	74,195	725,003	8,697	55,575	(284,091)	707,652
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss	-	-	-	-	(652,357)	-	(80,538)	75	(732,820)
Dividend income from financial investments	-	-	-	-	-	-	-	18,149	18,149
Other operating income	-	123,395	19	169	-	2,463	3,305	130,922	260,273
Operating income	212,957	1,273,400	1,478,365	1,211,319	396,319	600,114	1,149,419	1,130,783	7,452,676
Operating expenses	(48,274)	(118,673)	(328,582)	(700,828)	(164,663)	(127,900)	(210,641)	(99,081)	(1,798,642)
Operating profit before impairment losses	164,683	1,154,727	1,149,783	510,491	231,656	472,214	938,778	1,031,702	5,654,034
Write back/(charge for) impairment losses on financial assets	(3,136)	6,666	(632,375)	(22,334)	(9,300)	75,374	40,836	(287,476)	(831,745)
Operating profit after impairment losses	161,547	1,161,393	517,408	488,157	222,356	547,588	979,614	744,226	4,822,289
Net gain on disposal of loans and advances	-	-	(1,928)	-	-	(3,361)	-	-	(5,289)
Net loss on disposal of property, plant and equipment	-	(6)	(18)	(473)	(11)	(5)	-	(234)	(747)
Net gain on disposal financial assets at fair value through other comprehensive income	-	-	-	-	219,483	-	22,861	-	242,344
Operating profit	161,547	1,161,387	515,462	487,684	441,828	544,222	1,002,475	743,992	5,058,597
Share of profits of associates	-	-	-	-	-	-	-	19,154	19,154
Profit before tax	161,547	1,161,387	515,462	487,684	441,828	544,222	1,002,475	763,146	5,077,751
Segment assets	28,306,669	93,385,115	127,398,268	85,965,795	166,251,826	28,501,407	148,145,788	273,159,210	951,114,078
Interest in associates	-	-	-	-	-	-	-	194,094	194,094
Total assets	28,306,669	93,385,115	127,398,268	85,965,795	166,251,826	28,501,407	148,145,788	273,353,304	951,308,172
Total liabilities	30,265,827	96,998,168	118,118,373	227,676,409	12,193,456	86,758,820	133,746,267	115,673,609	821,430,929
Capital expenditure	20	87	4,544	546,590	4,149	85	98,860	727,705	1,382,040
Depreciation and amortization charge	2,352	5,845	11,892	148,407	5,956	3,389	27,282	86,022	291,145

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

5 Segment reporting (continued)

5.1 Class of business (continued)

Restated 30 June 2018	Asia-Pacific	Corporate and investment banking	Commercial banking	Retail banking	Global markets and trading	Institutional banking	Chinese Mercantile Bank	Unallocated	Total
	Business HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net interest income	172,517	558,651	1,394,953	874,618	560,758	510,935	1,189,203	506,858	5,768,493
Fee and commission income	45,932	269,494	345,931	448,669	1	149,913	86,673	43,379	1,389,992
Fee and commission expense	-	(2,766)	(4,026)	(168,691)	-	-	(1,502)	-	(176,985)
Net fee and commission income	45,932	266,728	341,905	279,978	1	149,913	85,171	43,379	1,213,007
Net trading income/(expense)	4,324	46,040	114,823	90,990	(176,769)	18,711	(47,521)	(42,743)	7,855
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss	-	-	-	-	270,123	-	11,987	-	282,110
Dividend income from financial investments	-	-	-	-	-	-	-	2,780	2,780
Other operating income	-	-	77	92	-	-	5,154	25,708	31,031
Operating income	222,773	871,419	1,851,758	1,245,678	654,113	679,559	1,243,994	535,982	7,305,276
Operating expenses	(47,038)	(105,583)	(308,956)	(678,081)	(172,788)	(114,556)	(203,040)	(24,922)	(1,654,964)
Operating profit before impairment losses	175,735	765,836	1,542,802	567,597	481,325	565,003	1,040,954	511,060	5,650,312
Write back/(charge for) impairment losses on financial assets	(7,668)	(54,663)	(240,821)	(33,969)	(16,967)	(49,451)	(203,367)	(171,251)	(778,157)
Operating profit after impairment losses	168,067	711,173	1,301,981	533,628	464,358	515,552	837,587	339,809	4,872,155
Net loss on disposal of property, plant and equipment	-	-	(4)	(2,009)	-	-	(777)	(1,426)	(4,216)
Net gain on disposal financial assets at fair value through other comprehensive income	-	-	-	-	122,516	-	16,673	-	139,189
Operating profit	168,067	711,173	1,301,977	531,619	586,874	515,552	853,483	338,383	5,007,128
Share of profits of associates	-	-	-	-	-	-	-	26,020	26,020
Profit before tax	168,067	711,173	1,301,977	531,619	586,874	515,552	853,483	364,403	5,033,148
Segment assets	19,809,865	97,443,185	135,581,391	77,463,090	166,236,528	42,197,591	154,999,679	281,039,654	974,770,983
Interest in associates	-	-	-	-	-	-	-	431,805	431,805
Total assets	19,809,865	97,443,185	135,581,391	77,463,090	166,236,528	42,197,591	154,999,679	281,471,459	975,202,788
Total liabilities	15,654,609	78,508,719	118,690,136	190,151,826	8,747,602	102,723,858	141,749,762	204,543,814	860,770,326
Capital expenditure	20	63	313	19,723	418	73	5,313	22,141	48,064
Depreciation and amortization charge	39	51	448	20,850	1,420	84	8,744	20,253	51,889

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

5 Segment reporting (continued)

5.2 Geographical area

The Group operates predominantly in Hong Kong. The geographical analysis, which has been classified by the location of the principal operations, is as follows:

For the six months ended 30 June 2019

	Hong Kong HK\$'000	Asia Pacific (excluding Hong Kong) HK\$'000	Consolidated HK\$'000
Operating income	6,301,731	1,150,945	7,452,676
Profit before tax	4,072,372	1,005,379	5,077,751
Total assets	803,167,477	148,140,695	951,308,172
Total liabilities	687,688,291	133,742,638	821,430,929
Contingent liabilities and commitments	197,125,644	27,256,976	224,382,620
Capital expenditure during the period	1,283,180	98,860	1,382,040

For the six months ended 30 June 2018

	Hong Kong HK\$'000	Asia Pacific (excluding Hong Kong) HK\$'000	Consolidated HK\$'000
Operating income	6,060,246	1,245,030	7,305,276
Profit before tax	4,176,666	856,482	5,033,148
Total assets	820,210,932	154,991,856	975,202,788
Total liabilities	719,020,732	141,749,594	860,770,326
Contingent liabilities and commitments	205,471,943	38,945,318	244,417,261
Capital expenditure during the period	42,751	5,313	48,064

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

6 Net interest income

	30 Jun 2019	30 Jun 2018
	HK\$'000	HK\$'000
Interest income on:		
Cash and balances with banks and other financial institutions	1,575,544	768,729
Placements with banks and other financial institutions	939,037	1,310,659
Advances and other accounts	9,007,877	8,685,257
Investment securities measured at fair value through other comprehensive income	1,705,298	1,722,948
Investment securities measured at amortised cost	935,256	840,014
	<u>14,163,012</u>	<u>13,327,607</u>
Interest expense on:		
Deposits from banks and other financial institutions	2,099,227	2,412,020
Deposits from customers	5,196,976	3,909,926
Certificates of deposit issued	291,006	914,367
Debt securities in issue	255,451	5,353
Subordinated debts measured at amortised cost	189,014	279,428
Others	86,149	38,020
	<u>8,117,823</u>	<u>7,559,114</u>
Net interest income	<u><u>6,045,189</u></u>	<u><u>5,768,493</u></u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

7 Net fee and commission income

	30 Jun 2019	Restated 30 Jun 2018
	HK\$'000	HK\$'000
Loans, overdrafts and guarantees	650,946	682,208
Securities and brokerage	175,337	185,415
Trade finance	75,616	72,623
Credit card	196,857	199,691
Remittance	44,699	45,976
Insurance	69,971	43,883
Other retail and commercial banking services	23,047	48,509
Securities arrangement fee	10,863	36,889
Others	90,032	74,798
	<hr/>	<hr/>
Fee and commission income	1,337,368	1,389,992
Fee and commission expense	(183,135)	(176,985)
	<hr/>	<hr/>
Net fee and commission income	<u>1,154,233</u>	<u>1,213,007</u>
Of which:		
Net fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor at FVTPL	726,562	754,831
Net fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	25,052	15,441
Of which:		
Fee and commission income by product line constituting not less than 10% of the total amount of fee and commission income, as follows:		
– syndication loan	375,027	423,177
– credit card	196,857	199,691
– securities and brokerage	175,337	185,415
– term loan	124,463	141,700

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
8 Net trading income

	30 Jun 2019	30 Jun 2018
	HK\$'000	HK\$'000
Equity investments	38,338	–
Debt securities – Financial assets held for trading	11,418	12,472
– Investment securities at FVTOCI	–	6,663
Derivatives	772,690	(166,109)
Foreign exchange	(103,949)	149,069
	<u>718,497</u>	<u>2,095</u>
(Loss)/gain from hedging activities		
Fair value hedges		
– Net gain/(loss) on hedged items attributable to the hedged risk	703,105	(267,350)
– Net (loss)/gain on hedging instruments	(713,950)	273,110
	<u>(10,845)</u>	<u>5,760</u>
Total net trading income	<u>707,652</u>	<u>7,855</u>

There is no gain or loss on financial liabilities measured at amortised cost included in total net trading income for first half of 2019 (first half of 2018: Nil).

9 Net (loss)/gain on financial assets and liabilities at fair value through profit or loss

	30 Jun 2019	30 Jun 2018
	HK\$'000	HK\$'000
Financial assets at FVTPL	68,855	(351,181)
Financial liabilities at FVTPL	(801,675)	633,291
Total net (loss)/gain on financial assets and liabilities at FVTPL	<u>(732,820)</u>	<u>282,110</u>

10 Dividend income from financial investments

	30 Jun 2019	30 Jun 2018
	HK\$'000	HK\$'000
Dividend income from unlisted equity securities at fair value through other comprehensive income	18,149	2,780
Total dividend income from financial investments	<u>18,149</u>	<u>2,780</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

11 Other operating income

	30 Jun 2019 HK\$'000	Restated 30 Jun 2018 HK\$'000
Management fee income	123,848	23,850
Rental income	8,141	–
Rental income from investment properties	1,835	558
Less: Direct operating expenses arising from investment properties that generated rental income during the period	–	(44)
Others	126,449	6,667
	<u>260,273</u>	<u>31,031</u>
Total other operating income	<u>260,273</u>	<u>31,031</u>

12 Operating expenses

	30 Jun 2019 HK\$'000	30 Jun 2018 HK\$'000
Staff costs		
– Salaries and other costs	1,031,812	884,966
– Retirement benefit costs	58,146	46,430
	<u>1,089,958</u>	<u>931,396</u>
Premises and equipment expenses, excluding depreciation and amortisation		
– Rental of premises	28,697	244,638
– Others	82,742	93,760
	<u>111,439</u>	<u>338,398</u>
Depreciation and amortisation expenses	291,145	51,889
Auditors' remuneration	2,340	2,340
General administration expenses	45,158	55,296
Business promotion expenses	50,683	78,328
Communication expenses	45,636	49,056
Other operating expenses	162,283	148,261
	<u>1,798,642</u>	<u>1,654,964</u>
Total operating expenses	<u>1,798,642</u>	<u>1,654,964</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

13 Net impairment losses on financial assets

	30 Jun 2019	30 Jun 2018
	HK\$'000	HK\$'000
Charge for impairment losses on loans and advances	806,658	695,444
Charge for impairment losses on other financial assets	25,087	82,713
	<hr/>	<hr/>
Net impairment losses on financial assets	831,745	778,157
	<hr/> <hr/>	<hr/> <hr/>

14 Taxation

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable for overseas branches and subsidiaries have been calculated at the rates of tax prevailing in the countries in which the Group operates.

The amount of tax charged to the consolidated income statement represents:

	30 Jun 2019	30 Jun 2018
	HK\$'000	HK\$'000
Current tax – Provision for Hong Kong profits tax for the period	612,255	772,077
– Provision for overseas tax for the period	264,161	245,705
Under provision in respect of prior years	11,466	13,007
Deferred taxation	7,430	(92,847)
	<hr/>	<hr/>
	895,312	937,942
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

14 Taxation (continued)

The difference between the tax expense for the Group's profit before tax and the theoretical amount that would arise using the current tax rate is as follows:

	30 Jun 2019	30 Jun 2018
	HK\$'000	HK\$'000
Profit before tax	5,077,751	5,033,148
Calculated at a tax rate of 16.5% (2018: 16.5%)	837,829	830,470
Effect of different tax rates in other countries	121,255	79,815
Income not subject to tax	(87,462)	(29,782)
Expenses not deductible for tax purposes	15,384	48,725
Adjustments in respect of current tax of previous periods	11,466	13,007
Share of tax of associates	(3,160)	(4,293)
	<hr/>	<hr/>
Tax charge	<u>895,312</u>	<u>937,942</u>

15 Interim dividend

At a meeting held on 23 August 2019, the Board does not recommend the payment of interim dividend for the six months ended 30 June 2019 (first half of 2018: Nil).

16 Earnings per share

Basic earnings per share amount is calculated by dividing the profit for the period attributable to shareholders of the Group by the weighted average number of ordinary shares in issue during the period.

	30 Jun 2019	30 Jun 2018
Profit attributable to shareholders (HK\$'000)	4,182,439	4,095,206
Weighted average number of ordinary shares in issue (thousands)	2,579,851	2,577,000
Basic earnings per share	HK\$1.62	HK\$1.59

Diluted earnings per share amount for the periods ended 30 June 2019 and 30 June 2018 were the same as basic earnings per share, as the Group had no potential dilutive ordinary shares in issue during those periods.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

17 Cash and balances with banks and other financial institutions

	30 Jun 2019	31 Dec 2018
	HK\$'000	HK\$'000
Cash on hand	560,586	542,862
Balances with central banks	10,185,764	11,269,602
Balances with other banks and financial institutions	28,587,552	38,440,397
Placements with banks and other financial institutions maturing within one month	83,357,390	101,122,043
Less: impairment allowances		
– 12-month ECL	(307)	(372)
	<u>122,690,985</u>	<u>151,374,532</u>

18 Placements with banks and other financial institutions

	30 Jun 2019	31 Dec 2018
	HK\$'000	HK\$'000
Placements with banks and other financial institutions maturing between one and twelve months	138,523,796	74,242,932
Less: impairment allowances		
– 12-month ECL	(56,508)	(25,619)
	<u>138,467,288</u>	<u>74,217,313</u>

19 Financial assets held for trading

	30 Jun 2019	31 Dec 2018
	HK\$'000	HK\$'000
Debt securities, at fair value:		
– Listed in Hong Kong	93,645	–
– Listed outside Hong Kong	–	–
– Unlisted	2,554,206	–
Financial assets held for trading	<u>2,647,851</u>	<u>–</u>
Financial assets held for trading are analysed by category of issuer as follows:		
– Central governments and central banks	268,773	–
– Public sector entities	–	–
– Banks and other financial institutions	2,301,063	–
– Corporate entities	78,015	–
	<u>2,647,851</u>	<u>–</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

20 Financial assets at fair value through profit or loss

	30 Jun 2019 HK\$'000	31 Dec 2018 HK\$'000
Financial assets at fair value through profit or loss:	–	–
Financial assets mandatorily measured at fair value through profit or loss:		
Investment funds		
– Listed in Hong Kong	2,128,237	–
– Listed outside Hong Kong	–	–
– Unlisted	<u>2,410,693</u>	–
	<u>4,538,930</u>	–
Others		
– Listed in Hong Kong	–	–
– Listed outside Hong Kong	–	–
– Unlisted	<u>618,234</u>	<u>525,689</u>
	<u>618,234</u>	<u>525,689</u>
	<u><u>5,157,164</u></u>	<u><u>525,689</u></u>
Financial assets at fair value through profit or loss are analysed by category of issuer as follows:		
– Central governments and central banks	–	–
– Public sector entities	–	–
– Banks and other financial institutions	4,538,929	–
– Corporate entities	<u>618,235</u>	<u>525,689</u>
	<u><u>5,157,164</u></u>	<u><u>525,689</u></u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**21 Derivative financial instruments**

The Group enters into the following equity, foreign exchange and interest rate related derivative financial instruments for trading and risk management purposes:

Currency forwards represent commitments to purchase and sell foreign currencies on a future date.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an exchange of currencies, interest rates (for example, fixed rate for floating rate), or a combination of all these (i.e., cross-currency interest rate swaps). Except for certain currency swap contracts, no exchange of principal takes place.

Foreign currency, interest rate and equity options are contractual agreements under which the seller (writer) grants the purchaser (holder) the rights, but not an obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of the financial instrument at a predetermined price. In consideration for the assumption of foreign exchange and interest rate risk, the seller receives a premium from the purchaser. Options are negotiated OTC between the Group and its counterparty or traded through the stock exchange (for example, exchange-traded stock options).

The contractual/notional amounts and fair values of derivative financial instruments held by the Group are set out in the following tables. The contractual/notional amounts of these instruments indicate the volume of transactions outstanding at the end of the reporting periods and certain of them provide a basis for comparison with fair value instruments recognised on the consolidated statement of financial position. However, they do not necessarily indicate the amounts of future cash flows involved or the current fair values of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates and equity relative to their terms. The aggregate fair values of derivative financial instruments (assets and liabilities) can fluctuate significantly from time to time.

The Group trades derivative products (both exchange-traded or OTC) mainly for customer business. The Group strictly follows risk management policies in providing derivative products to the customers and in trading derivative products in the interbank market.

Derivatives are also used to manage the interest rate risk of the banking book. A derivative instrument must be included in the approved product list before any transactions for that instrument can be made. There are limits to control the notional amount of exposure arising from derivative transactions and the maximum tenor of the deal and management alert limit in profit or loss is set. Every derivative transaction must be input into the relevant system for settlement, mark to market revaluation, reporting and control.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

21 Derivative financial instruments (continued)

The following tables summarise the contractual/notional amounts of each significant type of derivative financial instrument as at 30 June 2019 and 31 December 2018:

As at 30 June 2019	Contractual/ notional amount HK\$'000	Fair value assets HK\$'000	Fair value liabilities HK\$'000
(1) Derivatives held for trading			
(a) Foreign exchange derivatives			
– Currency forwards	905,551,004	3,828,234	(3,481,479)
– OTC currency options purchased	74,712,817	179,191	–
– OTC currency options written	77,467,910	–	(177,316)
– Structured foreign exchange instruments	181,582	2,547	(2,547)
Total foreign exchange derivatives		<u>4,009,972</u>	<u>(3,661,342)</u>
(b) Interest rate derivatives			
– Interest rate swaps	343,402,565	2,158,631	(2,086,130)
– Interest rate futures	5,898,226	1,018	(4,525)
Total interest rate derivatives		<u>2,159,649</u>	<u>(2,090,655)</u>
(c) Equity derivatives			
– Equity options	4,657	126	(126)
– Equity swaps	13,533,859	3,316,745	(681,496)
Total equity derivatives		<u>3,316,871</u>	<u>(681,622)</u>
(d) Commodity contract	6,487,640	180,867	(181,130)
Total derivative assets/(liabilities) held for trading		<u>9,667,359</u>	<u>(6,614,749)</u>
(2) Derivatives held for hedging			
(a) Derivatives designated as fair value hedges			
– Interest rate swaps	26,337,725	15,460	(924,117)
(b) Derivatives designated as cash flow hedges			
– Interest rate swaps	14,332,505	65,589	(187,157)
Total derivative assets/(liabilities) held for hedging		<u>81,049</u>	<u>(1,111,274)</u>
Total recognised derivative assets/(liabilities)		<u>9,748,408</u>	<u>(7,726,023)</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
21 Derivative financial instruments (continued)

As at 31 December 2018	Contractual/ notional amount HK\$'000	Fair value assets HK\$'000	Fair value liabilities HK\$'000
(1) Derivatives held for trading			
(a) Foreign exchange derivatives			
– Currency forwards	603,137,209	4,524,295	(4,712,332)
– OTC currency options purchased	43,378,407	192,274	(2)
– OTC currency options written	45,021,852	–	(204,958)
– Structured foreign exchange instruments	84,577	391	(391)
Total foreign exchange derivatives		<u>4,716,960</u>	<u>(4,917,683)</u>
(b) Interest rate derivatives			
– Interest rate swaps	223,789,703	1,366,984	(1,076,990)
– Interest rate futures	12,500,097	2,305	(6,669)
Total interest rate derivatives		<u>1,369,289</u>	<u>(1,083,659)</u>
(c) Equity derivatives			
– Equity options	–	–	–
– Equity swaps	14,195,256	2,743,970	(672,768)
Total equity derivatives		<u>2,743,970</u>	<u>(672,768)</u>
(d) Commodity contract	1,142,380	3,889	(4,077)
Total derivative assets/(liabilities) held for trading		<u>8,834,108</u>	<u>(6,678,187)</u>
(2) Derivatives held for hedging			
(a) Derivatives designated as fair value hedges			
– Interest rate swaps	18,426,121	182,602	(207,952)
(b) Derivatives designated as cash flow hedges			
– Interest rate swaps	14,369,159	128,167	(34,248)
Total derivative assets/(liabilities) held for hedging		<u>310,769</u>	<u>(242,200)</u>
Total recognised derivative assets/(liabilities)		<u>9,144,877</u>	<u>(6,920,387)</u>

The contractual or notional amounts of contingent liabilities and commitments and derivative financial instruments provide only an indication of the volume of business outstanding at the end of the reporting period and bear little relation to the underlying risks of the exposures.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

21 Derivative financial instruments (continued)

Among the above derivative financial instruments, certain of them were designated as hedging instruments.

Fair value hedges are used by the Group to protect it against changes in the fair value of financial assets due to movements in market interest rates. The financial instruments hedged for interest rate risk mainly include debt securities. The Bank uses interest rate swaps to hedge interest rate risk.

The effectiveness of the hedge based on changes in fair value of the derivatives and the hedged items attributable to the hedged risk recognised in the income statement during the period is presented as follows:

	30 Jun 2019 HK\$'000	30 Jun 2018 HK\$'000
Gain/(loss) arising from fair value hedge, net:		
– Hedging instruments	(713,950)	(267,350)
– Hedged items attributable to the hedged risk	<u>703,105</u>	<u>273,110</u>
	<u>(10,845)</u>	<u>5,760</u>

Cash flow hedge consists of interest rate swaps entered into that are used to protect the Group against exposures to variability of floating-rate assets and liabilities. Gains and losses on the effective portion of the swaps are initially recognised directly in equity, in the cash flow hedge reserve, and are transferred to the income statement when the forecast cash flows affect the income statement. The gains and losses on ineffective portions of such derivatives are recognised immediately in the income statement. During the period, there was no ineffectiveness recognised in the income statement that arose from cash flow hedges (first half of 2018: Nil).

Below is a schedule indicating as at 30 June 2019 and 31 December 2018, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss:

	Within 1 year HK\$ million	1-3 years HK\$ million	3-8 years HK\$ million	Over 8 years HK\$ million
30 June 2019				
Cash inflows (assets)	100	42	–	–
Cash outflows (liabilities)	<u>(240)</u>	<u>(313)</u>	<u>(209)</u>	<u>–</u>
Net cash flows	(140)	(271)	(209)	–
31 December 2018				
Cash inflows (assets)	107	98	–	–
Cash outflows (liabilities)	<u>(259)</u>	<u>(390)</u>	<u>(289)</u>	<u>–</u>
Net cash flows	(152)	(292)	(289)	–

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
21 Derivative financial instruments (continued)

During the period, realised gain amounting to HK\$16,853,000 previously recognised in equity under the cash flow hedge reserve was transferred to the income statement and included in the net interest income (first half of 2018: realised gain of HK\$14,230,000).

There were no transactions for which cash flow hedge accounting had to be ceased in the first half of 2019 as a result of the highly probable cash flows no longer being expected to occur.

The aggregate replacement costs and credit risk weighted amounts of the above contingent liabilities and commitments and derivative financial instruments are:

	30 Jun 2019		31 Dec 2018	
	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000
Contingent liabilities and commitments	–	29,539,466	–	31,943,840
Exchange rate contracts				
– Forwards	1,049,527	951,889	1,850,229	1,061,268
– Swaps	663,311	994,688	769,614	1,156,169
– Options purchased	7,577	11,863	66,819	56,859
– Options written	22,812	316,732	27,877	127,509
– Structured FX	2,547	362,296	307	219,985
	<u>1,745,774</u>	<u>2,637,468</u>	<u>2,714,846</u>	<u>2,621,790</u>
Interest rate contracts				
– Swaps	1,264,606	1,229,929	640,866	722,369
– Eurodollar Futures Product	460	4,364	436	2,002
	<u>1,265,066</u>	<u>1,234,293</u>	<u>641,302</u>	<u>724,371</u>
Equity contracts				
– Options written	126	50	–	–
– Swaps	3,768,146	4,534,074	3,121,683	3,908,522
	<u>3,768,272</u>	<u>4,534,124</u>	<u>3,121,683</u>	<u>3,908,522</u>
Debt securities or other commodities				
– Forward	180,866	488,211	3,889	123,105
– US Treasury Futures Product	558	72,773	1,869	56,769
	<u>181,424</u>	<u>560,984</u>	<u>5,758</u>	<u>179,874</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

21 Derivative financial instruments (continued)

	30 Jun 2019		31 Dec 2018	
	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000
OTC with netting				
– Forwards	169,915	677,381	76,612	364,614
– Swaps	133,284	325,408	47,304	191,029
– Options purchased	40,854	67,798	17,915	19,451
– Options written	31,024	17,954	19,696	14,592
– Structured FX	–	35,112	84	11,461
	<u>375,077</u>	<u>1,123,653</u>	<u>161,611</u>	<u>601,147</u>
Total	<u>7,335,613</u>	<u>39,629,988</u>	<u>6,645,200</u>	<u>39,979,544</u>

The replacement costs and credit risk weighted amounts of the exposures do not take into account the effects of bilateral netting arrangements.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
22 Advances and other accounts
22.1 Loans and advances to customers, banks and other accounts

	30 Jun 2019	31 Dec 2018
	HK\$'000	HK\$'000
Loans and advances to customers, banks and other accounts measured at amortised cost		
– Advances to customers	449,619,452	453,051,639
– Advances to banks	14,373,129	6,736,971
– Trade bills	7,306,862	7,239,951
	<hr/>	<hr/>
Gross loans and advances to customers, banks and other accounts measured at amortised cost	471,299,443	467,028,561
Accrued interest	1,376,026	1,281,341
	<hr/>	<hr/>
	472,675,469	468,309,902
Less: impairment allowances		
– 12-month ECL	(2,462,317)	(2,279,440)
– Lifetime ECL not credit-impaired	(503,775)	(667,189)
– Lifetime ECL credit-impaired	(2,889,589)	(2,129,299)
	<hr/>	<hr/>
	466,819,788	463,233,974
Loans and advances to customers, banks and other accounts measured at fair value through other comprehensive income		
– Advances to customers	1,886,374	700,946
– Trade bills	8,951,479	11,854,473
	<hr/>	<hr/>
	477,657,641	475,789,393
	<hr/>	<hr/>
	30 Jun 2019	31 Dec 2018
	HK\$'000	HK\$'000
Gross impaired loans and advances	4,692,635	3,895,829
Impairment allowances made in respect of such loans	2,889,589	2,129,299
Gross impaired loans and advances as a percentage of total gross loans and advances	0.97%	0.81%
Market value of collateral	4,841,408	2,322,395
	<hr/>	<hr/>

Impaired loans and advances are defined as those loans which are individually determined to have objective evidence of impairment as a result of one or more events that have a detrimental impact on the estimated future cash flows of the loans have occurred.

Movement of the impairment allowances is included in Note 4.4 above. The comparative amounts of net remeasurement of loan allowance (including exchange adjustments) and new financial assets originated or purchased have been amended to conform with current year's presentation.

The impaired loan ratio of advances to customers was 1.04% as at 30 June 2019 (31 December 2018: 0.86%).

There were no advances to banks and trade bills classified as stage 3 as at 30 June 2019 (31 December 2018: Nil).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

22 Advances and other accounts (continued)

22.2 Overdue advances to customers and banks (excluding trade bills and receivables)

The gross amount of the Group's advances to customers (excluding trade bills and receivables) which have been overdue is analysed as follows:

	Gross advances HK\$'000	% of advances to customers	Market value of collateral HK\$'000	Amount of secured balance HK\$'000	Amount of unsecured balance HK\$'000	Lifetime ECL credit-impaired impairment allowance HK\$'000
As at 30 Jun 2019						
Overdue for:						
Six months or less but over three months	1,471,832	0.3	2,998,223	1,431,791	40,041	615,719
One year or less but over six months	72,850	0.0	52,952	10,678	62,172	47,183
Over one year	2,170,416	0.5	683,455	491,984	1,678,432	1,949,847
	<u>3,715,098</u>	<u>0.8</u>	<u>3,734,630</u>	<u>1,934,453</u>	<u>1,780,645</u>	<u>2,612,749</u>
As at 31 Dec 2018						
Overdue for:						
Six months or less but over three months	438,878	0.1	526,304	420,449	18,429	7,294
One year or less but over six months	1,597,447	0.4	1,420,429	1,186,771	410,676	547,006
Over one year	1,426,355	0.3	31,717	9,133	1,417,222	1,387,525
	<u>3,462,680</u>	<u>0.8</u>	<u>1,978,450</u>	<u>1,616,353</u>	<u>1,846,327</u>	<u>1,941,825</u>

The criteria for eligible collateral are as follows:

- The market value of the collateral is readily determinable or can be reasonably established and verified;
- The collateral is marketable and there exists a readily available secondary market for disposing of the collateral;
- The Bank's rights to repossess the collateral is legally enforceable and without impediment; and
- If the collateral is a movable asset, it should be under the Bank's custody, or its whereabouts can be located by the Bank.

The eligible collaterals are mainly properties, deposits and shares.

There were no advances to banks (excluding trade bills and receivables) which were overdue for over 3 months as at 30 June 2019 and 31 December 2018.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
22 Advances and other accounts (continued)
22.3 Other overdue assets

	30 Jun 2019		31 Dec 2018	
	Accrued interest HK\$'000	Other assets HK\$'000	Accrued interest HK\$'000	Other assets HK\$'000
Six months or less but over three months	-	-	234	-
One year or less but over six months	3,111	-	25,466	-
Over one year	76,684	-	27,791	-
	<u>79,795</u>	<u>-</u>	<u>53,491</u>	<u>-</u>

Other assets refer to trade bills and receivables.

22.4 Rescheduled advances

	30 Jun 2019	% of	31 Dec 2018	% of
	HK\$'000	advances to customers	HK\$'000	advances to customers
Rescheduled advances (excluding overdue loans over three months)	226,798	0.05	238,704	0.05

Rescheduled advances which have been overdue for more than three months under the revised repayment terms are included in the analysis of overdue advances in Note 22.2 above.

There were no rescheduled advances to banks as at 30 June 2019 and 31 December 2018.

22.5 Repossessed assets

There were no repossessed assets of the Group as at 30 June 2019 (31 December 2018: HK\$18,780,000). Repossessed assets only comprise properties which the Group has acquired access or control (e.g. through legal actions or voluntary actions by the borrowers concerned) for releasing in full or in part on the obligations of the borrowers.

22.6 Cash collateral on securities borrowed and reverse repurchase agreements

In respect of reverse repurchase transactions, there were no collateral held by the Group which were permitted to be sold or repledged as at 30 June 2019 (31 December 2018: Nil). No collateral has been actually sold or repledged by the Group as at 30 June 2019 and 31 December 2018. The transactions are conducted on terms that are usual and customary to standard lending activities.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

23 Investment securities

	30 Jun 2019		
	Measured at FVTOCI HK\$'000	Measured at amortised cost HK\$'000	Total HK\$'000
Investment securities			
Debt securities:			
– Listed in Hong Kong	44,100,575	9,922,936	54,023,511
– Listed outside Hong Kong	40,111,980	18,940,961	59,052,941
– Unlisted	42,905,965	19,489,055	62,395,020
	<u>127,118,520</u>	<u>48,352,952</u>	<u>175,471,472</u>
Equity securities			
– Listed outside Hong Kong	–	–	–
– Unlisted	2,307,005	–	2,307,005
	<u>2,307,005</u>	<u>–</u>	<u>2,307,005</u>
Total investment securities	<u>129,425,525</u>	<u>48,352,952</u>	<u>177,778,477</u>
Market value of listed securities	<u>84,212,555</u>	<u>71,505,926</u>	<u>155,718,481</u>
Debt securities are comprised of the following items			
– Treasury bills	20,514,912	10,990,051	31,504,963
– Certificates of deposit held	148,006	1,507,106	1,655,112
– Other debt securities	106,455,602	35,855,795	142,311,397
	<u>127,118,520</u>	<u>48,352,952</u>	<u>175,471,472</u>
Investment securities are analysed by category of issuer as follows			
– Central governments and central banks	24,307,211	18,227,360	42,534,571
– Public sector entities	781,157	1,863,496	2,644,653
– Banks and other financial institutions	46,474,574	18,731,633	65,206,207
– Corporate entities	57,862,583	9,530,463	67,393,046
	<u>129,425,525</u>	<u>48,352,952</u>	<u>177,778,477</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
23 Investment securities (continued)

	31 Dec 2018		
	Measured at FVTOCI HK\$'000	Measured at amortised cost HK\$'000	Total HK\$'000
Investment securities			
Debt securities:			
– Listed in Hong Kong	46,502,895	11,088,548	57,591,443
– Listed outside Hong Kong	40,735,516	24,603,957	65,339,473
– Unlisted	9,292,348	30,522,304	39,814,652
	<u>96,530,759</u>	<u>66,214,809</u>	<u>162,745,568</u>
Equity securities			
– Listed outside Hong Kong	–	–	–
– Unlisted	4,535,151	–	4,535,151
	<u>4,535,151</u>	<u>–</u>	<u>4,535,151</u>
Total investment securities	<u>101,065,910</u>	<u>66,214,809</u>	<u>167,280,719</u>
Market value of listed securities	<u>87,238,411</u>	<u>35,710,640</u>	<u>122,949,051</u>
Debt securities are comprised of the following items			
– Treasury bills	7,732,620	20,039,985	27,772,605
– Certificates of deposit held	149,291	10,100,067	10,249,358
– Other debt securities	88,648,848	36,074,757	124,723,605
	<u>96,530,759</u>	<u>66,214,809</u>	<u>162,745,568</u>
Investment securities are analysed by category of issuer as follows			
– Central governments and central banks	12,621,679	31,334,258	43,955,937
– Public sector entities	599,294	2,327,045	2,926,339
– Banks and other financial institutions	40,304,845	25,463,660	65,768,505
– Corporate entities	47,540,092	7,089,846	54,629,938
	<u>101,065,910</u>	<u>66,214,809</u>	<u>167,280,719</u>

24 Investment properties

	30 Jun 2019 HK\$'000	31 Dec 2018 HK\$'000
Carrying amount at 1 January	140,135	117,407
Transferred from bank premises and properties	–	24,000
Net revaluation gain	–	700
Exchange difference	–	(1,972)
Carrying amount at 30 June/31 December	<u>140,135</u>	<u>140,135</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

25 Property, plant and equipment

	Bank premises and properties HK\$'000	Leasehold improvements HK\$'000	Furniture and equipment HK\$'000	Right-of-use asset HK\$'000	Total HK\$'000
At 31 December 2018 and 1 January 2019:					
Cost or valuation	818,178	446,927	457,419	–	1,722,524
Accumulated depreciation and impairment	(191,088)	(292,077)	(338,108)	–	(821,273)
Net book value at 31 December 2018	627,090	154,850	119,311	–	901,251
Impact on initial application of HKFRS 16 (Note)	–	–	–	1,309,616	1,309,616
At 1 January 2019	627,090	154,850	119,311	1,309,616	2,210,867
Additions	–	10,790	24,299	32,353	67,442
Disposals	–	(7,089)	(927)	(91)	(8,107)
Revaluation	4,204	–	–	–	4,204
Depreciation provided during the year	(8,966)	(19,360)	(18,845)	(236,557)	(283,728)
Exchange rate and other adjustments	1,415	(2)	(168)	–	1,245
Net book value at 30 June 2019	623,743	139,189	123,670	1,105,321	1,991,923
At 30 June 2019:					
Cost or valuation	821,700	406,301	461,140	1,341,969	3,031,110
Accumulated depreciation and impairment	(197,957)	(267,112)	(337,470)	(236,648)	(1,039,187)
Net book value at 30 June 2019	623,743	139,189	123,670	1,105,321	1,991,923
The analysis of cost or valuation of the above assets is as follows:					
At 30 Jun 2019:					
At cost	–	406,301	461,140	1,341,969	2,209,410
At valuation	623,743	–	–	–	623,743
	623,743	406,301	461,140	1,341,969	2,833,153

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
25 Property, plant and equipment (continued)

	Bank premises and properties HK\$'000	Leasehold improvements HK\$'000	Furniture and equipment HK\$'000	Total HK\$'000
At 31 December 2017 and 1 January 2018:				
Cost or valuation	827,563	410,947	436,593	1,675,103
Accumulated depreciation and impairment	(181,759)	(261,455)	(326,121)	(769,335)
Net book value at 31 December 2017 and 1 January 2018	<u>645,804</u>	<u>149,492</u>	<u>110,472</u>	<u>905,768</u>
Additions	–	48,032	54,153	102,185
Disposals	–	(3,051)	(7,363)	(10,414)
Transferred to investment properties	(24,000)	–	–	(24,000)
Revaluation	20,958	–	–	20,958
Depreciation provided during the year	(17,253)	(39,623)	(41,590)	(98,466)
Exchange rate and other adjustments	1,581	–	3,639	5,220
Net book value at 31 December 2018	<u>627,090</u>	<u>154,850</u>	<u>119,311</u>	<u>901,251</u>
At 31 December 2018:				
Cost or valuation	818,178	446,927	457,419	1,722,524
Accumulated depreciation and impairment	(191,088)	(292,077)	(338,108)	(821,273)
Net book value at 31 December 2018	<u>627,090</u>	<u>154,850</u>	<u>119,311</u>	<u>901,251</u>
The analysis of cost or valuation of the above assets is as follows:				
At 31 December 2018:				
At cost	–	446,927	457,419	904,346
At valuation	<u>627,090</u>	–	–	<u>627,090</u>
	<u>627,090</u>	<u>446,927</u>	<u>457,419</u>	<u>1,531,436</u>

Note: The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balance at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. See note 3(c).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

26 Other assets

	30 Jun 2019 HK\$'000	31 Dec 2018 HK\$'000
Interest receivable	4,674,634	3,599,468
Prepayments	233,977	231,854
Settlement accounts	1,154,936	2,190,106
Margin deposit paid	5,456,096	4,064,303
Factoring	1,053,292	1,349,260
Others	814,672	966,385
	<u>13,387,607</u>	<u>12,401,376</u>
Less: impairment allowances for loan commitment and financial guarantees – 12-month ECL	<u>(24,491)</u>	<u>(22,447)</u>
	<u><u>13,363,116</u></u>	<u><u>12,378,929</u></u>

27 Deposits from banks and other financial institutions

	30 Jun 2019 HK\$'000	31 Dec 2018 HK\$'000
Deposits from banks and other financial institutions	<u>194,249,495</u>	<u>161,433,060</u>

In respect of repurchase transactions, the fair value of collateral which were permitted to be sold or repledged from the Group was HK\$25,174,414,000 as at 30 June 2019 (2018: HK\$27,253,616,000). The transactions are conducted on terms that are usual and customary to standard lending activities.

28 Deposits from customers

	30 Jun 2019 HK\$'000	31 Dec 2018 HK\$'000
Demand deposits and current accounts	35,122,293	43,480,452
Savings deposits	117,149,237	91,244,639
Time, call and notice deposits	409,277,012	398,806,717
	<u>561,548,542</u>	<u>533,531,808</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

29 Deferred income tax

The movements in the deferred income tax asset/(liabilities) accounts are as follows:

	30 Jun 2019	31 Dec 2018
	HK\$'000	HK\$'000
At 1 January	749,768	320,505
Opening adjustment in accordance with HKFRS 9	<u>–</u>	<u>48,867</u>
	749,768	369,372
(Debited)/credited to income statement	(7,430)	95,358
(Debited)/credited to equity	(288,464)	298,616
Exchange and other adjustments	<u>(390)</u>	<u>(13,578)</u>
At 30 June/31 December	<u>453,484</u>	<u>749,768</u>

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated statement of financial position.

The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	30 Jun 2019	31 Dec 2018
	HK\$'000	HK\$'000
Net deferred income tax assets recognised in the consolidated statement of financial position	453,484	749,768
Net deferred income tax liabilities recognised in the consolidated statement of financial position	<u>–</u>	<u>–</u>
At 30 June/31 December	<u>453,484</u>	<u>749,768</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

30 Subordinated debts measured at amortised cost

	30 Jun 2019		31 Dec 2018	
	HK\$'000	Interest rate%	HK\$'000	Interest rate%
Subordinated fixed rate notes				
– with a final maturity on 30 November 2020	3,899,013	5.125%	3,909,718	5.125%
– with a final maturity on 30 December 2024 (callable on 30 December 2019)	–	4.5%	3,915,825	4.5%
	<u>3,899,013</u>		<u>7,825,543</u>	

Subordinated debts were issued by the Bank for the development and expansion of business. Fixed rate debts have been fully subscribed by the ultimate holding company. These notes have been qualified and included as the Bank's supplementary capital in accordance with the Capital Rules.

On 28 June 2019, the Bank repurchased in full the subordinated notes with nominal amount of USD500,000,000 at a fixed rate of 4.5% per annum with maturity date due on 30 December 2024 from its ultimate holding company.

The Bank has not had any defaults of principal or interest or other breaches with respect to the subordinated debts during the period (2018: Nil).

31 Other liabilities

	30 Jun 2019 HK\$'000	31 Dec 2018 HK\$'000
Interest payable	7,607,198	5,876,389
Salaries and welfare payable	684,849	679,312
Settlement accounts	4,614,937	5,896,924
Margin deposit received	929,243	881,542
Factoring	1,053,292	1,349,260
Others	2,193,954	3,250,247
	<u>17,083,473</u>	<u>17,933,674</u>
Impairment allowances for loan commitment and financial guarantees		
– 12-month ECL	101,715	133,889
– Lifetime ECL not credit impaired	1,171	2,596
	<u>17,186,359</u>	<u>18,070,159</u>

The Group has not had any defaults of principal, interest or other breaches with respect to their liabilities during the period (2018: Nil).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

32 Share capital

	Number of shares (in thousands)	Ordinary shares HK\$'000
At 1 January 2019	2,577,000	36,379,331
Capital injection	<u>172,000</u>	<u>7,808,300</u>
At 30 June 2019	<u><u>2,749,000</u></u>	<u><u>44,187,631</u></u>

During the 2019, the Bank received capital injection of HK\$7,808.3 million from the holding company by issuing 172,000,000 ordinary shares to further enhance the Bank's capital base.

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Bank do not have a par value.

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 Bank. All ordinary shares rank equally with regard to the Bank's residual assets.

33 Additional Equity Instruments

	30 Jun 2019 HK\$'000	31 Dec 2018 HK\$'000
US\$1 billion undated non-cumulative subordinated additional tier 1 capital securities	7,738,332	7,738,332
US\$2.536 billion undated non-cumulative subordinated additional tier 1 capital securities	<u>19,897,375</u>	<u>19,897,375</u>
	<u><u>27,635,707</u></u>	<u><u>27,635,707</u></u>

On 21 July 2016, the Bank issued Basel III-compliant Non-Cumulative Subordinated Additional Tier 1 Capital Securities (the "Additional Tier 1 Capital Securities") in the aggregate amount of US\$1 billion (equivalent to approximately HK\$7,738 million net of related issuance costs). The Additional Tier 1 Capital Securities bear a 4.25% distribution until the first call date on 21 July 2021. If the Additional Tier 1 Capital Securities are not called, the distribution will be reset based on the then-prevailing 5-year US Treasury yield plus a fixed initial spread (3.135% per annum) every 5 years.

The distribution shall be payable semi-annually, with the first distribution payment date being 21 January 2017. The Bank has the right to cancel distribution payment (subject to the requirement as set out in the terms and conditions of the US\$1 billion Additional Tier 1 Capital Securities) and the distribution cancelled shall not be cumulative. In addition, the Bank must cancel distribution payment (subject to the requirements set out in the terms and conditions of the US\$1 billion Additional Tier 1 Capital Securities) if (a) the distribution scheduled to be paid together with other distributions scheduled to be paid on any parity obligations during the Bank's then current fiscal year would cause the Bank to exceed its distributable reserves; or (b) the HKMA directs the Bank to cancel such distribution, or an applicable Hong Kong banking regulation or other requirement of the HKMA prevents the payment in full of dividends or other distributions when due on any other parity obligation.

The Bank has a call option to redeem all the outstanding capital securities from 21 July 2021 or any subsequent distribution payment date thereafter.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

33 Additional Equity Instruments (continued)

On 21 March 2018, the Bank issued Basel III-compliant Non-Cumulative Subordinated Additional Tier 1 Capital Securities (the “Additional Tier 1 Capital Securities”) in the aggregate amount of US\$2.536 billion (equivalent to approximately HK\$19,897 million net of related issuance costs). The US\$2.536 billion Additional Tier 1 Capital Securities bear a 4.90% distribution until the first call date on 21 March 2023. If the Additional Tier 1 Capital Securities are not called, the distribution will be reset based on the then-prevailing 5-year US Treasury yield plus a fixed initial spread (2.25% Per annum) every 5 years.

The distribution shall be payable semi-annually, with the first distribution payment date being 21 September 2018. The Bank has the right to cancel distribution payment (subject to the requirements set out in the terms and conditions of the US\$2.536 billion Additional Tier 1 Capital Securities) and the distribution cancelled shall not be cumulative. In addition, the Bank must cancel distribution payment (subject to the requirements set out in the terms and conditions of the US\$2.536 billion Additional Tier 1 Capital Securities) if (a) the distribution scheduled to be paid together with other distributions scheduled to be paid on any parity obligations during the Bank’s then current fiscal year would cause the Bank to exceed its distributable reserves; or (b) the HKMA directs the Bank to cancel such distribution, or an applicable Hong Kong banking regulation or other requirement of the HKMA prevents the payment in full of dividends or other distributions when due on any other parity obligation.

The Bank has a call option to redeem all the outstanding US\$2.536 billion Additional Tier 1 capital securities from 21 March 2023 or any subsequent distribution payment date thereafter.

The principal of the Additional Tier 1 Capital Securities will be written off up to the amount as directed by the HKMA if the HKMA notifies the Bank that in the opinion of the HKMA or a relevant government body, the Bank would become non-viable if there is no written off of the principal. The Additional Tier 1 Capital Securities also contain Hong Kong Bail-in Power. Each holder of the Additional Tier 1 Capital Securities shall be subject to the exercise by the Hong Kong Resolution Authority to any or a combination of the following:

- (a) reduction or cancellation of all or a part of the principal and/or distribution of the Additional Tier 1 Capital Securities;
- (b) the conversion of all or a part of the principal and/or distribution of the Additional Tier 1 Capital Securities into shares of the Bank or another person; and/or
- (c) the amendment of the maturity, distribution payment date and/or the distribution amount of the Additional Tier 1 Capital Securities.

34 Reserves

The general reserve of the Group for the period is comprised of:

- the transfer of retained earnings which is distributable to the shareholders of the Group; and
- a statutory surplus reserve of a subsidiary representing 10% of the profit after tax appropriation and 1.5% of the book value of risk assets as required by law and regulation in PRC. This reserve is used to offset accumulated losses or increase in capital.

As at 30 June 2019, the Group has earmarked a “Regulatory Reserve” of HK\$1,510,967,000 (31 December 2018: HK 2,185,982,000) from retained earnings. The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purpose. Movements in the reserve are made directly through retained earnings and in consultation with the Hong Kong Monetary Authority.

The consolidated profit attributable to shareholders of the Group includes a profit of HK\$3,213,058,000 (31 December 2018: HK\$7,024,364,000) which has been dealt with in the accounts of the Bank.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

35 Related-party transactions

Listed out below is a summary of the balances and transactions entered into during the ordinary course of business with the ultimate holding company and fellow subsidiaries and associates, including the acceptance of placement of interbank deposits, corresponding banking transactions and off-balance sheet transactions. The activities were priced at the relevant market rates at the time of transactions.

35.1 Ultimate holding company

	Six months ended	
	30 Jun 2019	30 Jun 2018
	HK\$'000	HK\$'000
Interest income	1,339,528	1,364,698
Interest expense	905,517	1,236,181
Operating income ^{1,2}	740,566	121,563
Operating expenses ^{3,4}	335,696	577
	30 Jun 2019	31 Dec 2018
	HK\$'000	HK\$'000
Amounts due from	131,350,776	96,349,522
Amounts due to	147,649,459	137,712,471

1. In accordance with the agreements dated 20 June 2017 and 17 December 2018, management fee income was received from the Hong Kong Branch of ICBC (the "Branch") for the provision of services such as accounting and budgeting, internal audit, marketing and back office settlement and clearing.
2. In accordance with the custodian and trustee services agreement dated 4 September 2007 and the supplemental custodian and trustee services agreements dated 16 May 2008 and 31 December 2009, services fees were paid by the ultimate holding company to the Bank for providing custodian, settlement and clearing services in relation to the investments outside the PRC in certain investment products by the customers of the ultimate holding company in connection with the Qualified Domestic Institutional Investor Scheme of the PRC.
3. In accordance with the service level agreement with the Bank dated 21 February 2002 (as amended and supplemented by supplemental agreements), and the service levels agreement with subsidiary of the Bank dated 19 March 2008, service fee expense was paid to the ultimate holding company for the provision of data processing services to the Bank and its subsidiaries.
4. In accordance with the tenancy agreement dated 23 May 2012, rental expense was paid to the ultimate holding company for the leasing of property located in Hong Kong.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

35 Related-party transactions (continued)

35.1 Ultimate holding company (continued)

i. Certificate of deposit issued

The transactions with the ultimate holding company included the issuance of fixed rate certificates of deposit and subordinated fixed rate notes, which were both fully subscribed by the ultimate holding company and its branches. As at 30 June 2019, the Bank has issued certificates of deposit with a nominal value of RMB80,000,000 to the branch of the ultimate holding company (first half of 2018: certificates of deposit with a nominal value of US\$4,200,000,000, HK\$11,500,000,000 and RMB300,000,000).

ii. Additional Tier 1 Capital Securities issued

On 21 March 2018, the Bank issued Basel III-compliant Non-Cumulative Subordinated Additional Tier 1 Capital Securities (the “Additional Tier 1 Capital Securities”) in the aggregate amount of US\$2.536 billion (equivalent to approximately HK\$19,897 million net of related issuance costs) to the ultimate holding company.

iii. Committed facilities

As at 30 June 2019, the Bank has committed facilities to the ultimate holding company in the amount of RMB700,000,000 (2018: RMB700,000,000). The Bank also received conglomerate guarantee on loan from the ultimate holding company in the amount of HK\$11,509,865,000 (2018: HK\$17,996,654,000).

iv. Undertaking from the ultimate holding company

To demonstrate its support to the Bank, a Letter of Comfort dated 3 July 2001 was executed by the ultimate holding company, pursuant to which it will provide the Bank with such funding as may be required by the Bank to ensure that it will maintain sufficient capital and liquidity levels.

Simultaneously on 3 July 2001, the ultimate holding company and the Bank entered into a guarantee agreement whereby the ultimate holding company agreed to guarantee to the extent of HK\$9,000,000,000, being the payment obligations of certain customers whose “large exposures” were transferred to the Bank pursuant to the business transfer agreement and to indemnify the Bank in respect of any losses incurred if any obligation of such customers becomes unenforceable. There are no on-balance sheet large exposures of the Bank covered by this guarantee as at 30 June 2019 (first half of 2018: HK\$ Nil).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

35 Related-party transactions (continued)

35.1 Ultimate holding company (continued)

v. *Sub-participation of loans*

During the period, the Bank entered into various capital market transactions with the Branch, which include arranging participation/sub-participation in loans, acquiring and disposing of interests in syndicated or individual loans, subscribing to and/or issuing of debt securities and tax efficient financing. These transactions included sub-participation in loans of the Bank by the ultimate holding company and/or the Branch for a total of HK\$9,508,016,000 (first half of 2018: HK\$3,719,611,000). For both the first half of 2019 and 2018, there was no sub-participation in loans of the Branch by the Bank. The total fee attributable to the above transactions of approximately HK\$6,577,000 (first half of 2018: HK\$4,033,000) was paid by the Bank to the Branch. These transactions were priced based either on the terms of the underlying loan agreement, if applicable, or prevailing market rates if such comparable rates were available, or on terms that were no less favorable than those available to other independent loan members.

35.2 Fellow subsidiaries

	Six months ended	
	30 Jun 2019	30 Jun 2018
	HK\$'000	HK\$'000
Interest income	170,785	46,833
Interest expense	16,343	8,794
Net operating income	126,307	(44,417)
	30 Jun 2019	31 Dec 2018
	HK\$'000	HK\$'000
Amounts due from	12,307,082	9,176,945
Amounts due to	2,335,952	1,866,661

35.3 Associates

	Six months ended	
	30 Jun 2019	30 Jun 2018
	HK\$'000	HK\$'000
Interest income	211	–
Interest expense	499	321
	30 Jun 2019	31 Dec 2018
	HK\$'000	HK\$'000
Amounts due from	–	37,083
Amounts due to	7,918	12,897

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

35 Related-party transactions (continued)

35.4 Transactions with other state-controlled entities and government authorities

Transactions with the following state-controlled entities and government authorities are considered as individually significant or collectively significant to the Group:

- The Ministry of Finance of the PRC
- Central Huijin Investment Limited (“Huijin”)
- Other banks and financial institutions under the direction of the PRC government in which Huijin has equity interests

	Six months ended	
	30 Jun 2019	30 Jun 2018
	HK\$'000	HK\$'000
Interest income	1,225,765	617,603
Interest expense	87,254	50,232
Net operating income	7,864	(19,276)
	30 Jun 2019	31 Dec 2018
	HK\$'000	HK\$'000
Amounts due from	88,296,397	63,764,386
Amounts due to	7,266,969	1,909,014

In addition, the Group may also enter into transactions with other state-controlled entities and government authorities, including but not limited to lending, deposit taking and the provision of financial products or services. In the opinion of management, transactions with these state-controlled entities and government authorities were conducted in the ordinary course of business under normal terms and conditions and at market rates. As a result, none of these transactions are considered individually significant.

35.5 Key management personnel remuneration

Remuneration for key management personnel, including the Bank’s directors’ emoluments, is as follows:

	Six months ended	
	30 Jun 2019	30 Jun 2018
	HK\$'000	HK\$'000
Employee benefits	12,763	9,138

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

35 Related-party transactions (continued)

35.6 Material transactions with key management personnel

During the period, the Group entered into certain banking transactions consisting of loans and advances, deposits and other financial related transactions with related parties in the normal course of business. The related parties include key management personnel of the Bank, their close family members and companies controlled or significantly influenced by them.

	Six months ended	
	30 Jun 2019	30 Jun 2018
	HK\$'000	HK\$'000
Interest income	68	44
Interest expense	852	331
	30 Jun 2019	31 Dec 2018
	HK\$'000	HK\$'000
Loans and advances	10,964	3,500
Deposits	123,527	90,744

36 Transferred financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets.

Repurchase transactions and securities lending transactions

Transferred financial assets that do not qualify for derecognition mainly include debt securities held by counterparties as collateral under repurchase agreements and debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities sold under agreements to repurchase in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may in certain circumstances require or be required to pay additional cash collateral. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, it recognises a financial liability for cash received as collateral.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

36 Transferred financial assets (continued)

The following table analyses the carrying amount of the above mentioned financial assets transferred to third parties that did not qualify for derecognition and their associated financial liabilities:

	30 Jun 2019		31 Dec 2018	
	Carrying amount of transferred assets HK\$'000	Carrying amount of associated liabilities HK\$'000	Carrying amount of transferred assets HK\$'000	Carrying amount of associated liabilities HK\$'000
Repurchase agreements	4,988,153	5,037,344	3,273,892	3,345,308
Securities lending agreements	25,174,414	23,078,838	23,954,810	22,010,401

Discounted bills transactions

The Group enters into discounted bills transactions in the normal course of business by which it transfers discounted bills to third parties in the PRC with recourse term which would give rise to the Group's continuing involvement in the transferred assets. As at 30 June 2019, the Group retained obligation on those PRC discounted bills transferred but not matured with a carrying amount of HK\$5,080,368,000 (31 December 2018: HK\$1,765,770,000).

37 Off-balance sheet exposures

37.1 Contingent liabilities and commitments

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

	30 Jun 2019	30 Jun 2019	31 Dec 2018	31 Dec 2018
	Contractual amount HK\$'000	Credit risk weighted amount HK\$'000	Contractual amount HK\$'000	Credit risk weighted amount HK\$'000
Direct credit substitutes	5,722,556	3,408,709	11,175,509	6,241,122
Transaction-related contingencies	98,243	44,811	101,163	47,032
Trade-related contingencies	7,242,120	1,397,866	9,296,278	1,789,909
Other commitments with an original maturity of:				
– Unconditionally cancellable	160,909,606	–	168,190,251	–
– With original maturity of less than one year	–	–	4,376	875
– With original maturity of over one year	50,410,095	24,688,080	48,720,704	23,864,902
	<u>224,382,620</u>	<u>29,539,466</u>	<u>237,488,281</u>	<u>31,943,840</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

37 Off-balance sheet exposures (continued)

37.2 Capital commitments

Capital commitments for property, plant and equipment outstanding as at 30 June 2019 and 31 December 2018 not provided for in the financial statements are as follows:

	30 Jun 2019	31 Dec 2018
	HK\$'000	HK\$'000
Expenditure contracted, but not provided for	2,659	6,914
Expenditure authorized, but not contracted for	4,115	29,683
	<u>6,774</u>	<u>36,597</u>

37.3 Operating lease commitments

At 30 June 2019, the total future lease payments under non-cancellable operating leases were payable as follows:

	30 Jun 2019	31 Dec 2018
	HK\$'000	HK\$'000
Land and buildings		
– Not later than one year	16,363	529,687
– Later than one year and not later than five years	6	506,259
– More than five years	–	4,125
	<u>16,369</u>	<u>1,040,071</u>

The Group is the lessee in respect of a number of properties and items of plant and machinery and office equipment held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 3). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 3.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

37 Off-balance sheet exposures (continued)

37.4 Operating lease arrangements

The Group leases its investment properties (see Note 24) under operating lease arrangements, with leases negotiated for terms ranging from two to eight years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the prevailing market conditions.

At 30 June 2019, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 Jun 2019 HK\$'000	31 Dec 2018 HK\$'000
Within one year	624	2,094
In the second to fifth years, inclusive	31	–
After five years	–	–
	<u>655</u>	<u>2,094</u>

During the period, the Group had no unrecognised contingent rentals receivable (2018: Nil).

38 Offsetting of financial assets and financial liabilities

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements are as follows:

	Gross amounts of recognized financial assets HK\$'000	Gross amounts offset in the balance sheet HK\$'000	Net amounts presented in the balance sheet HK\$'000	Amounts not set off in the balance sheet		
				Financial instruments HK\$'000	Cash collateral received HK\$'000	Net amount HK\$'000
At 30 June 2019						
Derivatives financial assets	7,232,342	–	7,232,342	(1,956,569)	(332,971)	4,942,802
Other assets	818,307	–	818,307	(527,580)	–	290,727
	<u>8,050,649</u>	<u>–</u>	<u>8,050,649</u>	<u>(2,484,149)</u>	<u>(332,971)</u>	<u>5,233,529</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
38 Offsetting of financial assets and financial liabilities (continued)

At 30 June 2019	Gross amounts of recognized financial liabilities		Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet	Amounts not set off in the balance sheet		Net amount
	HK\$'000	HK\$'000			Financial instruments	Cash collateral pledged	
Derivatives financial liabilities	2,677,892	–	2,677,892	(1,956,569)	(896,372)	(175,049)	
Other liabilities	768,842	–	768,842	(527,580)	–	241,262	
	<u>3,446,734</u>	<u>–</u>	<u>3,446,734</u>	<u>(2,484,149)</u>	<u>(896,372)</u>	<u>66,213</u>	

At 31 Dec 2018	Gross amounts of recognized financial assets		Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet	Amounts not set off in the balance sheet		Net amount
	HK\$'000	HK\$'000			Financial instruments	Cash collateral received	
Derivatives financial assets	5,600,032	–	5,600,032	(2,301,106)	(212,473)	3,086,453	
Other assets	437,968	–	437,968	(376,203)	–	61,765	
	<u>6,038,000</u>	<u>–</u>	<u>6,038,000</u>	<u>(2,677,309)</u>	<u>(212,473)</u>	<u>3,148,218</u>	

At 31 Dec 2018	Gross amounts of recognized financial liabilities		Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet	Amounts not set off in the balance sheet		Net amount
	HK\$'000	HK\$'000			Financial instruments	Cash collateral pledged	
Derivatives financial liabilities	4,366,962	–	4,366,962	(2,301,106)	(1,810,689)	255,167	
Other liabilities	461,767	–	461,767	(376,202)	–	85,565	
	<u>4,828,729</u>	<u>–</u>	<u>4,828,729</u>	<u>(2,677,308)</u>	<u>(1,810,689)</u>	<u>340,732</u>	

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

38 Offsetting of financial assets and financial liabilities (continued)

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Derivatives and reverse repurchase/repurchase agreements included in amounts not set off in the balance sheet relate to transactions where:

- the counterparty has an offsetting exposure with the Group and a master netting or similar arrangement is in place with a right of set off only in the event of default, insolvency or bankruptcy, or the offset criteria are otherwise not satisfied; and
- cash collateral received/pledged in respect of the transactions described above.

The tables below reconcile the “net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position”, as set out above, to the derivative assets, other assets, derivative liabilities and other liabilities presented in the consolidated statement of financial position.

	30 Jun 2019		31 Dec 2018	
	Derivative assets HK\$'000	Other assets HK\$'000	Derivative assets HK\$'000	Other assets HK\$'000
Net amount of financial assets after offsetting as stated above	7,232,342	818,307	5,600,032	437,968
Financial assets not in scope of offsetting disclosure	<u>2,516,066</u>	<u>12,544,809</u>	<u>3,544,845</u>	<u>11,940,961</u>
	<u>9,748,408</u>	<u>13,363,116</u>	<u>9,144,877</u>	<u>12,378,929</u>

	30 Jun 2019		31 Dec 2018	
	Derivative liabilities HK\$'000	Other liabilities HK\$'000	Derivative liabilities HK\$'000	Other liabilities HK\$'000
Net amount of financial liabilities after offsetting as stated above	2,677,892	768,842	4,366,962	461,767
Financial liabilities not in scope of offsetting disclosure	<u>5,048,131</u>	<u>16,417,517</u>	<u>2,553,425</u>	<u>17,608,392</u>
	<u>7,726,023</u>	<u>17,186,359</u>	<u>6,920,387</u>	<u>18,070,159</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

39 Involvement with unconsolidated structured entities

The Group holds an interest in some structured entities sponsored by third party institutions through investments in the notes issued by these structured entities. Such structured entities include investment funds and segregated asset management plans and the Group does not consolidate these structured entities. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors and are financed through the issue of notes to investors.

The following table sets out an analysis of the carrying amounts of interests held by the Group in the structured entities sponsored by third party institutions:

	30 June 2019	
	Carrying amount HK\$'000	Maximum exposure HK\$'000
Investment funds	4,130,394	4,130,394
Segregated asset management plans	166,833	166,833
	<u>4,297,227</u>	<u>4,297,227</u>
	31 December 2018	
	Carrying amount HK\$'000	Maximum exposure HK\$'000
Investment funds	7,568,844	7,568,844
Segregated asset management plans	139,622	139,622
	<u>7,708,466</u>	<u>7,708,466</u>

The following table sets out an analysis of the line items in the statement of financial position as in which assets were recognised relating to the Group's interests in structured entities sponsored by third parties:

	30 June 2019		
	Loans HK\$'000	Financial assets at FVTPL HK\$'000	Derivative financial assets HK\$'000
Investment funds	362,248	451,401	3,316,745
Segregated asset management plans	—	166,833	—
	<u>362,248</u>	<u>618,234</u>	<u>3,316,745</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

39 Involvement with unconsolidated structured entities (continued)

	31 December 2018		
	Loans	Financial	Derivative
	at FVTPL	assets	financial assets
	HK\$'000	at FVTPL	HK\$'000
		HK\$'000	HK\$'000
Investment funds	4,438,807	386,067	2,743,970
Segregated asset management plans	–	139,622	–
	<u>4,438,807</u>	<u>525,689</u>	<u>2,743,970</u>

40 Notes on condensed consolidated statement of cash flows

Reconciliation with the consolidated statement of financial position:

	30 Jun 2019	30 Jun 2018
	HK\$'000	HK\$'000
Cash and balances with banks and other financial institutions	122,690,985	201,114,579
Placement with banks and other financial institutions	<u>138,467,288</u>	<u>81,937,409</u>
Amounts shown in the consolidated statement of financial position	261,158,273	283,051,988
Less: amounts with original maturity of beyond three months	<u>(119,309,863)</u>	<u>(106,680,894)</u>
Cash and cash equivalents in the condensed consolidated cash flow statement	<u>141,848,410</u>	<u>176,371,094</u>

41 Comparative amounts

- (a) During the year, management reviewed the presentation of “Management fee income” in the consolidated income statement and determined that it is more appropriate to classify it as Other operating income rather than fee and commission income as previously disclosed. Management fee income was classified as Other operating income in the current period and accordingly the comparative figure amounted to HK\$23,850,000 was reclassified from Net fee and commission income to Other operating income to conform with the current period’s presentation.
- (b) In addition to the above items, certain comparative amounts have been amended to conform with current period’s presentation.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

The following information is disclosed as part of the accompanying information to the interim financial disclosure statements and does not form part of the interim financial disclosure statements.

1 Capital adequacy and capital base

Capital adequacy ratios were compiled in accordance with the Banking (Capital) Rules (the “Capital Rules”) issued by the HKMA. The ratios were compiled in accordance with the amended Capital Rules effective from 1st January, 2013 for the implementation of the “Basel III” capital accord. In view of the Capital Rules, the Bank has adopted the “standardized (credit risk) approach” for the calculation of the risk-weighted assets for credit risk, “basic indicator approach” for the calculation of the operational risk and the “standardized (market risk) approach” for the calculation of market risk.

The basis of consolidation for financial accounting purposes is in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), as described in Note 2 to the interim financial disclosure statements. Subsidiaries included in the consolidation for regulatory purposes are specified in a notice from the HKMA in accordance with section 3C (1) of the Capital Rules.

Under the Capital Rules, the basis of consolidation in calculating the capital ratios follows that of the financial reporting with the exclusion of subsidiaries which are “regulated financial entities” (e.g., insurance and securities companies) as defined by the Capital Rules. Accordingly, the investment costs of these unconsolidated subsidiaries are deducted from the capital base. There is no capital shortfall of these unconsolidated subsidiaries.

A list of these unconsolidated subsidiaries is shown below:

	Principal activities	At 30 June 2019	
		Total assets HK\$'000	Total equity HK\$'000
ICBC (Asia) Bullion Company Limited	Inactive	7,314	7,301
ICBC (Asia) Futures Company Limited	Provision of futures business	102,849	102,790
ICBC Asset Management (Global) Company Limited*	Provision of asset management services	397,608	365,800
ICBC (Asia) Securities Limited	Provision of securities brokerage services	1,486,149	1,016,312
ICBC (Asia) Trustee Company Limited	Provision of trustee services	71,551	67,194
ICBC (Asia) Financial Services Company Limited (Formerly known as “ICBC (Asia) Wa Pei Nominees Limited” (with effect from 4 February 2019))	Provision of trustee and company services		
Greater China Fund	Trust fund	4,839,442	4,837,546

* Included a consolidated subsidiary in the name of ICBC (Asia) Investment Management (Shenzhen) Co. Ltd.

As at 30 June, 2019, there are no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation but the method of consolidation differs. There are also no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)
1 Capital adequacy and capital base (continued)

The Group operates a subsidiary in other countries and territories where capital is governed by local rules and there may be restrictions on the transfer of regulatory capital and funds between members of the Group.

	30 Jun 2019	Restated
	HK\$'000	31 Dec 2018 HK\$'000
Common Equity Tier 1 (“CET1”) Capital		
CET1 capital instruments	44,187,631	36,379,331
Share premium arising from CET1 capital instruments	–	–
Retained earnings	53,449,365	50,113,313
of which: unaudited profit or loss of the current financial year and profit or loss of the immediately preceding financial year pending audit completion	3,984,867	8,415,000
Disclosed reserves	3,105,775	1,908,483
of which: fair value through other comprehensive income – financial assets/available-for-sale investment reserve	(580,278)	(1,995,499)
CET1 Capital before deductions	100,742,771	88,401,127
Deduct:		
Cumulative cash flow hedge reserves that relate to the hedging of financial instruments that are not fair valued on the balance sheet	101,233	(79,010)
Cumulative fair value gain or losses on liabilities of the institution that are fair-valued and result from changes in the own credit risk	–	–
Cumulative fair value gains arising from the revaluation of land and buildings	(635,861)	(627,637)
Regulatory reserve for general banking risk	(1,510,967)	(2,185,982)
Goodwill (net of related deferred tax liability)	(980,154)	(980,154)
Other intangible assets (net of related deferred tax liability)	(15,996)	(16,186)
Deferred tax assets in excess of deferred tax liabilities	(453,484)	(749,768)
Cumulative losses below depreciated cost arising from the Institution’s holdings of land and building	(259)	(290)
Debit valuation adjustments in respect of derivative contracts	(4,017)	(3,462)
CET1 Capital after deductions	97,243,266	83,758,638
Add:		
Additional Tier 1 Capital after deductions	27,593,433	27,680,380
Tier 1 Capital after deductions	124,836,699	111,439,018
Common Equity Tier 2 (“CET 2”) Capital		
Tier 2 capital instruments issued and share premium	1,165,050	5,474,120
of which: amount that is subject to phase out	1,165,050	1,558,295
Reserve attributable to fair value gains on revaluation of holdings of land and buildings	286,138	282,437
Regulatory reserve for general banking risks and collective provisions included in Tier 2 Capital (limited to 1.25% of risk-weighted amount)	4,829,506	5,452,006
Tier 2 Capital before deductions	6,280,694	11,208,563
Deductions	–	–
Tier 2 Capital after deductions	6,280,694	11,208,563
Total capital base after deductions	131,117,393	122,647,581

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

1 Capital adequacy and capital base (continued)

	30 Jun 2019	31 Dec 2018
	HK\$'000	HK\$'000
Risk-weighted assets		
Credit risk	611,656,986	576,730,100
Market risk	21,742,350	19,733,863
Operational risk	25,731,438	24,984,000
Deduct: Portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 capital	–	–
Portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 capital	(349,723)	(345,200)
	<u>658,781,051</u>	<u>621,102,763</u>
Total risk-weighted assets		
	30 Jun 2019	31 Dec 2018
CET1 capital ratio	14.76%	13.49%
Tier 1 capital ratio	18.95%	17.94%
Total capital ratio	19.90%	19.75%
Capital conservation buffer ratio	2.5%	1.88%

To comply with the Banking (Disclosure) Rules, the Group established a section “Regulatory Capital Disclosure” on its website to house all the information relating to the disclosure of regulatory capital instruments and the reconciliation to the Group’s published interim financial disclosure statements.

The disclosure will be published on its website (www.icbcasia.com) according to the Banking (Disclosure) Rules and will include the following information:

- A description of the main features and the full terms and conditions of the Group’s CET1 capital, Additional Tier 1 capital and Tier 2 capital.
- A detailed breakdown of the Group’s CET1 capital, Additional Tier 1 capital, Tier 2 capital and regulatory deductions, using the standard template as specified by the HKMA.
- A full reconciliation between the Group’s accounting and regulatory balance sheets, using the standard template as specified by the HKMA.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

2 Liquidity Coverage Ratio

The Group complies with the minimum requirement of 90% of Liquidity Coverage Ratio (“LCR”) on a daily basis with effective from 1 January 2018 onwards, in accordance with the Banking (Liquidity) Rules issued by the HKMA.

	2019	2018
Average liquidity coverage ratio		
– First quarter	184.02%	167.17%
– Second quarter	210.62%	150.74%
– Third quarter	Not applicable	162.07%
– Fourth quarter	Not applicable	185.90%

Liquidity disclosures as required by section 103 and 103A of the Banking (Disclosure) Rules are available in the section of Regulatory Disclosures of our website www.icbcasia.com.

3 Segmental information

3.1 Advances to customers by geographical areas

The Group’s gross advances to customers by country or geographical area after taking into account any risk transfers are as follows:

30 June 2019	Gross advances to customers HK\$’000	Overdue advances for over three months HK\$’000	Impaired loans and advances HK\$’000	Lifetime ECL credit impaired HK\$’000	Non-credit impaired ECL HK\$’000
Hong Kong	245,043,863	2,009,833	2,797,725	2,409,336	1,533,772
Mainland China	180,938,334	1,705,265	1,894,910	480,253	1,311,473
Macau	2,905,909	–	–	–	111
Asia Pacific Region (excluding Hong Kong, Mainland China and Macau)	10,206,590	–	–	–	81,932
Others	12,411,130	–	–	–	38,804
	<u>451,505,826</u>	<u>3,715,098</u>	<u>4,692,635</u>	<u>2,889,589</u>	<u>2,966,092</u>

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)
3 Segmental information (continued)
3.1 Advances to customers by geographical areas (continued)

31 December 2018	Gross advances to customers HK\$'000	Overdue advances for over three months HK\$'000	Impaired loans and advances HK\$'000	Lifetime ECL credit impaired HK\$'000	Non-credit impaired ECL HK\$'000
Hong Kong	252,074,237	1,822,609	2,068,694	469,774	1,423,929
Mainland China	177,867,503	1,640,071	1,827,135	1,659,525	1,348,097
Macau	2,998,144	–	–	–	–
Asia Pacific Region (excluding Hong Kong, Mainland China and Macau)	10,008,905	–	–	–	97,686
Others	10,803,796	–	–	–	76,917
	<u>453,752,585</u>	<u>3,462,680</u>	<u>3,895,829</u>	<u>2,129,299</u>	<u>2,946,629</u>

Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

3.2 International claims

The information on international claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any recognised risk transfer. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country. Only regions constituting 10% or more of the aggregate international claims after taking into account any recognised risk transfer are disclosed.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

3 Segmental information (continued)

3.2 International claims (continued)

Analysis of the Bank's international claims by location and by type of counterparty is as follows:

	Banks	Official	Non-bank private sector		Total
	HK\$ million	sector	Non-bank	Non-financial	
		HK\$ million	financial	private	HK\$ million
			institution	sector	
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
30 June 2019					
Developed countries	30,606	12,525	3,098	28,293	74,522
Offshore centres	23,570	20,749	10,206	294,355	348,880
Developing Europe	90	–	–	–	90
Developing Latin America and Caribbean	12	–	–	–	12
Developing Africa and Middle East	178	–	–	1,178	1,356
Developing Asia-Pacific	244,601	21,068	47,383	165,255	478,307
of which: China	243,808	21,068	47,382	160,669	472,927
Others	793	–	1	4,586	5,380
International organisations	–	2,978	–	–	2,978
	<u>299,057</u>	<u>57,320</u>	<u>60,687</u>	<u>489,081</u>	<u>906,145</u>
			Non-bank private sector		
			Non-bank	Non-financial	Total
	Banks	Official	financial	private sector	
	HK\$ million	sector	institution	HK\$ million	HK\$ million
		HK\$ million	HK\$ million	HK\$ million	HK\$ million
31 December 2018					
Developed countries	54,209	29,328	3,879	12,237	99,653
Offshore centres	12,201	–	7,699	295,772	315,672
Developing Europe	29	–	–	–	29
Developing Latin America and Caribbean	14	2	–	12	28
Developing Africa and Middle East	317	24,845	–	–	25,162
Developing Asia-Pacific	194,885	24,845	44,949	170,173	434,852
of which: China	194,469	22,813	44,949	165,596	427,827
Others	416	2,032	–	4,577	7,025
International organisations	–	3,941	–	–	3,941
	<u>261,655</u>	<u>82,961</u>	<u>56,527</u>	<u>478,194</u>	<u>879,337</u>

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)
3 Segmental information (continued)
3.3 Mainland activities

The analysis of non-bank Mainland China exposures is based on the categories of non-bank counterparties and the types of direct exposures defined by the HKMA under the Banking (Disclosure) Rules with reference to the Part 3 of the “Return of Mainland China exposures – MA(BS) 20”, which includes the Mainland China exposures extended by the Bank and its overseas subsidiary and branch.

30 June 2019	On-balance sheet exposure HK\$'000	Contingent Liabilities HK\$'000	FX and derivatives contract HK\$'000	Total exposures HK\$'000
Type of counterparties				
(a) Central government central government owned entities and their subsidiaries and JVs	106,515,433	1,457,802	92,948	108,066,183
(b) Local government, local government owned entities and their subsidiaries and JVs	29,597,744	3,236,255	33,893	32,867,892
(c) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	112,753,311	4,446,745	122,031	117,322,087
(c) (i) Of which, PRC nationals residing in Mainland China or entities beneficially owned by Mainland interest	88,486,270	3,965,599	122,031	92,573,900
(d) Other entities of central government not reported in item (a) above	15,278,279	5,360	–	15,283,639
(e) Other entities of local government not reported in item (b) above	3,236,310	120,695	1,350	3,358,355
(f) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	19,320,091	529,744	30,521	19,880,356
(g) Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	23,317,699	1,392,159	35,288	24,745,146
	<u>310,018,867</u>	<u>11,188,760</u>	<u>316,031</u>	<u>321,523,658</u>

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)
3 Segmental information (continued)
3.3 Mainland activities (continued)

	On-balance sheet exposure HK\$'000	Contingent liabilities HK\$'000	FX and derivatives contract HK\$'000	Total exposures HK\$'000
31 December 2018				
Type of counterparties	107,092,534	1,555,824	49,640	108,697,998
(a) Central government central government owned entities and their subsidiaries and JVs				
(b) Local government, local government owned entities and their subsidiaries and JVs	26,214,213	4,071,354	18,424	30,303,991
(c) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	116,235,038	10,191,914	43,482	126,470,434
(c) (i) Of which, PRC nationals residing in Mainland China or entities beneficially owned by Mainland interest	83,884,664	5,294,514	1,853	89,181,031
(d) Other entities of central government not reported in item (a) above	13,733,369	1,502	–	13,734,871
(e) Other entities of local government not reported in item (b) above	3,100,389	392,950	496	3,493,835
(f) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	19,937,356	602,835	10,240	20,550,431
(g) Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	28,452,577	1,563,499	24,044	30,040,120
	<u>314,765,476</u>	<u>18,379,878</u>	<u>146,326</u>	<u>333,291,680</u>

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)
4 Advances to customers by industry sector

	30 Jun 2019	30 Jun 2019	31 Dec 2018	31 Dec 2018
	Gross loans	% of secured	Gross loans	% of secured
	and advances	advances	and advances	advances
	HK\$'000		HK\$'000	
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	37,795,160	45.59%	37,218,684	32.63%
– Property investment	29,330,820	49.23%	28,778,438	58.69%
– Financial concerns	35,318,001	0.01%	42,185,479	0.03%
– Stockbrokers	3,799,192	0.00%	4,036,352	1.24%
– Wholesale and retail trade	12,266,224	54.22%	13,777,536	50.97%
– Civil engineering works	1,338,716	37.81%	2,000,929	20.07%
– Manufacturing	9,170,462	19.50%	8,062,904	18.03%
– Transport and transport equipment	24,703,448	59.36%	25,811,920	48.40%
– Electricity and gas	2,407,401	0.00%	687,512	0.00%
– Information technology	1,157,542	9.74%	4,204,464	2.78%
– Recreational activities	54,371	99.69%	59,157	98.14%
– Hotels, boarding houses and catering	1,879,691	78.31%	1,705,762	53.23%
– Others	32,797,618	28.29%	32,968,958	28.06%
Individuals				
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	344,351	97.84%	353,557	97.56%
– Loans for the purchase of other residential properties	41,255,269	99.67%	40,016,667	98.56%
– Credit card advances	464,949	0.00%	446,718	0.00%
– Others	17,284,278	34.88%	13,517,549	87.43%
Trade finance	15,053,051	25.97%	14,393,505	23.46%
Loans for use outside Hong Kong	<u>185,085,282</u>	<u>33.05%</u>	<u>183,526,494</u>	<u>34.62%</u>
	<u>451,505,826</u>	<u>39.59%</u>	<u>453,752,585</u>	<u>39.52%</u>

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

4 Advances to customers by industry sector (continued)

Individually impaired loans, overdue loans and advances over three months, impairment allowances and impaired loans and advances written off in respect of industry sectors that constitute 10% or more of the total advances to customers are as follows:

	30 Jun 2019 HK\$'000	31 Dec 2018 HK\$'000
(a) Loans for use outside Hong Kong		
Individually impaired loans	3,296,160	2,060,024
Overdue loans and advances over three months	3,200,332	1,640,059
Lifetime ECL credit-impaired	2,368,061	1,829,945
Lifetime ECL not credit-impaired	93,262	205,543
12-month ECL	1,581,325	1,356,619
New impairment allowances charged to income statement	650,541	187,156
Impaired loans and advances written off during the period/year	–	–

5 Currency concentration

Currency concentrations – the table below summarises the net foreign currency positions of the Group. The net positions in foreign currency is disclosed when the currency constitutes 10% or more of the total net position of all foreign currencies. A sensitivity analysis calculates the effect of a reasonably possible movement in a currency rate against the Hong Kong dollar, with all other variables in the income statement and equity held constant.

Group	US\$	RMB	Other foreign currencies	Total
30 June 2019	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-structural position				
Spot assets	386,326,387	179,067,667	50,401,196	615,795,250
Spot liabilities	(353,351,347)	(168,473,203)	(37,648,059)	(559,472,609)
Forward purchases	355,016,700	145,579,249	90,342,722	590,938,671
Forward sales	(412,907,866)	(153,911,159)	(102,917,166)	(669,736,191)
Net option position	<u>602,558</u>	<u>(913,501)</u>	<u>(479,410)</u>	<u>(790,353)</u>
Net long/(short) position	<u>(24,313,568)</u>	<u>1,349,053</u>	<u>(300,717)</u>	<u>(23,265,232)</u>
Net structural position	214,203	11,473,586	–	11,687,789

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

5 Currency concentration (continued)

Group	US\$	RMB	Other foreign	Total
31 December 2018	HK\$'000	HK\$'000	currencies HK\$'000	HK\$'000
Non-structural position				
Spot assets	357,846,235	187,367,371	46,548,962	591,762,568
Spot liabilities	(354,743,734)	(170,001,278)	(27,814,538)	(552,559,550)
Forward purchases	234,399,727	112,525,197	37,734,250	384,659,174
Forward sales	(266,760,554)	(126,243,308)	(55,673,937)	(448,677,799)
Net option position	<u>(301,036)</u>	<u>(1,167,090)</u>	<u>(474,739)</u>	<u>(1,942,865)</u>
Net long/(short) position	<u>(29,559,362)</u>	<u>2,480,892</u>	<u>319,998</u>	<u>(26,758,472)</u>
Net structural position	214,878	10,762,811	–	10,977,689

Foreign currency exposures include those arising from the trading position. The net option position is calculated on the basis of the delta-weighted position of option contracts. The net structural position of the Group is the structural positions of the Bank's capital investment in overseas subsidiary Chinese Mercantile Bank.

6 Leverage Ratio

The leverage ratio was compiled in accordance with the Leverage Ratio Framework issued by the HKMA.

	30 Jun 2019	31 Dec 2018
Leverage Ratio	<u>12.38%</u>	<u>11.68%</u>

Leverage ratio disclosures as required by section 16FH of the Banking (Disclosure) Rule are available in the section of Regulatory Disclosures of our website www.icbcasia.com.

7 Countercyclical Capital Buffer Ratio

	30 Jun 2019	31 Dec 2018
Countercyclical Capital Buffer Ratio	<u>1.43%</u>	<u>1.11%</u>

The relevant disclosures pursuant to section 16FG of the Banking (Disclosure) Rules are available in the section of Regulatory Disclosures of our website www.icbcasia.com.

8 Net Stable Funding Ratio

	30 Jun 2019	31 Dec 2018
Net Stable Funding Ratio	<u>119.09%</u>	<u>118.56%</u>

The relevant disclosures pursuant to section 103AB of the Banking (Disclosure) Rules are available in the section of Regulatory Disclosures of our website www.icbcasia.com.