



**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 2020**

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## **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 2020. 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 2020, and the consolidated statement of financial position as at 30 June 2020 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 2020 was HK\$3,331 million. This represents a 20.3% decrease over the same period last year (first half of 2019: HK\$4,182 million). Basic earnings per share for the six months ended 30 June 2020 were HK\$1.21 (first half of 2019: HK\$1.62). Return on average assets and return on average equity were 0.71% and 6.24% respectively (first half of 2019: 0.93% and 9.05% respectively).

### **Interim Dividend**

The Board has not recommended the payment of interim dividend for the six months ended 30 June 2020 (2019 interim dividend: Nil).

### **Financial Review**

In the first half of 2020, the Group’s consolidated profit attributable to equity holders was HK\$3,331 million, representing a decrease of HK\$851 million or 20.3% over HK\$4,182 million achieved for the corresponding period in 2019.

Net interest income decreased by HK\$801 million or 13.2% to HK\$5,244 million. Net fee and commission income decreased by HK\$116 million or 10.0% to HK\$1,039 million.

Non-interest income decreased by HK\$56 million or 4.0% to HK\$1,351 million from HK\$1,407 million for the corresponding period in 2019. The ratio of non-interest income to total operating income was 20.5%, up by 1.6% compared with the corresponding period in 2019.

Operating expenses increased by HK\$90 million or 5.0% to HK\$1,889 million, compared with HK\$1,799 million for the corresponding period in 2019. The cost to income ratio was 28.6%, up by 4.5% compared with the corresponding period in 2019.

The net charges for expected credit losses on loans and advances for the period were HK\$899 million, out of which HK\$305 million was made as additional provision for non-credit impaired exposures and HK\$594 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\$948,214 million as at 30 June 2020, representing a decrease of HK\$5,350 million or 0.6% over the financial position as at 31 December 2019.

Customer deposits amounted to HK\$561,329 million as at 30 June 2020 representing an increase of HK\$26,051 million or 4.9%, compared to HK\$535,277 million as at 31 December 2019. Loans and advances also increased by HK\$12,551 million or 2.6% to HK\$487,538 million as at 30 June 2020 compared to HK\$474,986 million as at 31 December 2019.

Total securities investment amounted to HK\$188,949 million as at 30 June 2020, which represents a decrease of HK\$10,024 million or 5.0% compared to HK\$198,973 million as at 31 December 2019.

Total certificates of deposit issued increased by HK\$1,569 million or 18.1% to HK\$10,214 million as at 30 June 2020, compared to HK\$8,646 million as at 31 December 2019.

### Capital and Liquidity Management

The Group's capital adequacy ratio decreased to 20.51% as at 30 June 2020 from 20.56% as at 31 December 2019. In the first half of 2020, the average liquidity coverage ratio amounted to 213.26% (first half of 2019: 197.32%).

### Asset Quality

Under the Bank's prudent risk management policy, the asset quality remained continuously at a satisfactory level. Impaired loans and advances decreased by HK\$72 million to HK\$4,912 million as at 30 June 2020, compared with HK\$4,984 million as at 31 December 2019. The impaired loan ratio was 1.00% as at 30 June 2020 (31 December 2019: 1.04%).

As at 30 June 2020, the cumulative loan impairment allowances amounted to HK\$6,316 million (31 December 2019: HK\$5,548 million), which included impairment allowance of HK\$3,356 million for non-credit impaired exposures and impairment allowance of HK\$2,960 million for credit-impaired exposures.

**CONSOLIDATED INCOME STATEMENT**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2020**  
**(UNAUDITED)**

		<b>Six months ended</b>	
	Notes	<b>30 Jun 2020</b>	30 Jun 2019
		<b>HK\$'000</b>	HK\$'000
Interest income	(6)	<b>11,744,233</b>	14,163,012
Interest expense	(6)	<b>(6,499,809)</b>	(8,117,823)
<b>Net interest income</b>	(6)	<b>5,244,424</b>	6,045,189
Fee and commission income	(7)	<b>1,157,053</b>	1,337,368
Fee and commission expense	(7)	<b>(118,435)</b>	(183,135)
<b>Net fee and commission income</b>	(7)	<b>1,038,618</b>	1,154,233
Net trading income	(8)	<b>338,135</b>	707,652
Net loss on financial assets and liabilities at fair value through profit or loss	(9)	<b>(191,547)</b>	(732,820)
Dividend income from financial investments	(10)	<b>11,125</b>	18,149
Other operating income	(11)	<b>154,606</b>	260,273
<b>Operating income</b>		<b>6,595,361</b>	7,452,676
Operating expenses	(12)	<b>(1,888,729)</b>	(1,798,642)
<b>Operating profit before impairment losses</b>		<b>4,706,632</b>	5,654,034
Net impairment losses on financial assets	(13)	<b>(1,077,292)</b>	(831,745)
<b>Operating profit after impairment losses</b>		<b>3,629,340</b>	4,822,289
Revaluation loss on investment properties		<b>(2,958)</b>	–
Net loss on disposal of property, plant and equipment		<b>(198)</b>	(747)
Net loss on disposal of loans and advances		–	(5,289)
Net gain on disposal of financial assets at fair value through other comprehensive income		<b>408,358</b>	242,344
<b>Operating profit</b>		<b>4,034,542</b>	5,058,597
Share of (loss)/profit of associates		<b>(5,288)</b>	19,154
<b>Profit before tax</b>		<b>4,029,254</b>	5,077,751
Income tax expense	(14)	<b>(697,765)</b>	(895,312)
<b>Profit for the period and attributable to equity holders</b>		<b>3,331,489</b>	4,182,439
<b>Earnings per share – Basic and diluted</b>	(16)	<b>HK\$1.21</b>	HK\$1.62

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2020**  
**(UNAUDITED)**

	<b>Six months ended</b>	
	<b>30 Jun 2020</b>	<b>30 Jun 2019</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Profit for the period	<b><u>3,331,489</u></b>	<b><u>4,182,439</u></b>
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	<b>(923,611)</b>	59,392
Income tax effect	<b>–</b>	(50,290)
	<b><u>(923,611)</u></b>	<b><u>9,102</u></b>
Revaluation (deficit)/surplus on bank premises	<b>(12,472)</b>	4,204
Income tax effect	<b>1,306</b>	(694)
	<b><u>(11,166)</u></b>	<b><u>3,510</u></b>
Items that may be reclassified subsequently to income statement:		
Change in fair value of hedging instruments under cash flow hedges	<b>(342,516)</b>	(215,859)
Income tax effect	<b>(349,921)</b>	15,613
	<b><u>(692,437)</u></b>	<b><u>(200,246)</u></b>
Change in fair value reserve of investment securities measured at fair value through other comprehensive income	<b>(55,164)</b>	1,703,311
Income tax effect	<b>11,218</b>	(253,093)
	<b><u>(43,946)</u></b>	<b><u>1,450,218</u></b>
Exchange differences arising from translation of results of a foreign subsidiary	<b>(281,232)</b>	(39,246)
Other comprehensive income for the period, net of tax	<b><u>(1,952,392)</u></b>	<b><u>1,223,338</u></b>
Total comprehensive income for the period, net of tax	<b><u>1,379,097</u></b>	<b><u>5,405,777</u></b>
Attributable to:		
Equity holders of the Bank	<b><u>1,379,097</u></b>	<b><u>5,405,777</u></b>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2020**  
**(UNAUDITED)**

	Notes	Unaudited 30 Jun 2020 HK\$'000	Audited 31 Dec 2019 HK\$'000	Unaudited 30 Jun 2019 HK\$'000
<b>Assets</b>				
Cash and balances with banks and other financial institutions	(17)	121,066,590	138,338,758	122,690,985
Placements with banks and other financial institutions	(18)	106,247,122	104,951,872	138,467,288
Financial assets held for trading	(19)	451,799	492,484	2,647,851
Financial assets at fair value through profit or loss	(20)	5,277,181	5,047,582	5,157,164
Derivative financial instruments	(21)	14,724,889	10,190,659	9,748,408
Advances and other accounts	(22)	487,537,575	474,986,476	477,657,641
Investment securities:		188,949,342	198,972,985	177,778,477
– measured at fair value through other comprehensive income	(23)	143,140,951	152,374,354	129,425,525
– measured at amortised cost	(23)	45,808,391	46,598,631	48,352,952
Investments in associates		239,955	170,244	194,094
Goodwill and other intangible assets		1,013,889	1,016,481	1,017,606
Investment properties	(24)	132,276	135,234	140,135
Property, plant and equipment	(25)	2,243,208	1,896,067	1,991,923
Current income tax assets		530	–	–
Deferred income tax assets	(29)	340,870	379,507	453,484
Other assets	(26)	19,988,561	16,985,407	13,363,116
<b>Total assets</b>		<b>948,213,787</b>	<b>953,563,756</b>	<b>951,308,172</b>
<b>Liabilities</b>				
Deposits from banks and other financial institutions	(27)	179,913,370	207,074,805	194,249,495
Derivative financial instruments	(21)	12,660,268	7,768,074	7,726,023
Deposits from customers	(28)	561,328,565	535,277,097	561,548,542
Certificates of deposit issued		10,214,484	8,645,518	12,353,273
Debt securities in issue		28,178,458	30,872,769	23,346,883
– Designated at fair value through profit or loss		8,623,061	8,425,301	3,248,299
– Measured at amortised cost		19,555,397	22,447,468	20,098,584
Current income tax liabilities		662,666	1,697,004	1,121,341
Deferred income tax liabilities	(29)	200,364	–	–
Subordinated debts measured at amortised cost	(30)	3,873,736	3,889,974	3,899,013
Other liabilities	(31)	16,594,661	24,483,421	17,186,359
<b>Total liabilities</b>		<b>813,626,572</b>	<b>819,708,662</b>	<b>821,430,929</b>
<b>Equity</b>				
Share capital	(32)	44,187,631	44,187,631	44,187,631
Retained earnings		60,847,205	58,162,741	54,820,925
Other reserves		1,916,672	3,869,015	3,232,980
Total equity attributable to shareholders of the Bank		106,951,508	106,219,387	102,241,536
Additional equity instruments	(33)	27,635,707	27,635,707	27,635,707
<b>Total equity</b>		<b>134,587,215</b>	<b>133,855,094</b>	<b>129,877,243</b>
<b>Total equity and liabilities</b>		<b>948,213,787</b>	<b>953,563,756</b>	<b>951,308,172</b>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED 30 JUNE 2020  
(UNAUDITED)**

Note	Share capital	Bank premises revaluation reserve	Fair value reserve (recycling)	Fair value reserve (non-recycling)	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	HK\$'000
At 1 January 2020	44,187,631	608,522	249,096	90,869	(137,772)	(669,457)	3,727,757	58,162,741	27,635,707	133,855,094
Profit for the period	-	-	-	-	-	-	-	3,331,489	-	3,331,489
Other comprehensive income for the period:										
Change in fair value of Investment securities measured at fair value through other comprehensive income	-	-	(61,564)	(923,611)	-	-	-	-	-	(985,175)
Reserve realised on disposal of Investment securities measured at fair value through other comprehensive income	-	-	(4,400)	-	-	-	-	-	-	(4,400)
Changes in fair value of cash flow hedge	-	-	-	-	(342,516)	-	-	-	-	(342,516)
Change in provision for ECL	-	-	10,800	-	-	-	-	-	-	10,800
Revaluation deficit on bank premises	-	(12,472)	-	-	-	-	-	-	-	(12,472)
Change in deferred tax (29)	-	1,306	11,218	-	(349,921)	-	-	-	-	(337,397)
Exchange differences	-	-	-	-	-	(182,499)	(98,684)	(49)	-	(281,232)
Total comprehensive income for the period	-	(11,166)	(43,946)	(923,611)	(692,437)	(182,499)	(98,684)	3,331,440	-	1,379,097
Issuance of share capital	-	-	-	-	-	-	-	-	-	-
Partial transfer of retained earnings to general reserve	-	-	-	-	-	-	-	-	-	-
Other adjustments	-	-	-	-	-	-	-	(646,976)	-	(646,976)
At 30 June 2020	<u>44,187,631</u>	<u>597,356</u>	<u>205,150</u>	<u>(832,742)</u>	<u>(830,209)</u>	<u>(851,956)</u>	<u>3,629,073</u>	<u>60,847,205</u>	<u>27,635,707</u>	<u>134,587,215</u>

**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 (recycling)	Fair value reserve (non-recycling)	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	HK\$'000
At 1 January 2019	36,379,331	608,756	(1,570,996)	(271,708)	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	-	-	1,549,134	59,392	-	-	-	-	-	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)	(253,093)	(50,290)	15,613	-	-	-	-	(288,464)
Exchange differences	-	-	-	-	-	(39,246)	-	-	-	(39,246)
Total comprehensive income for the period	-	3,510	1,450,218	9,102	(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>(120,778)</u>	<u>(262,606)</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>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2020**  
**(UNAUDITED)**

	Note	Six months ended	
		30 Jun 2020 HK\$'000	30 Jun 2019 HK\$'000
Net cash flows used in operating activities		(24,335,105)	(40,382,471)
Net cash flows used in investing activities		(741,432)	(1,431,112)
Net cash flows (used in)/generated from financing activities		(3,634,083)	4,214,711
Net decrease in cash and cash equivalents		(28,710,620)	(37,598,872)
Cash and cash equivalents at 1 January		140,766,069	179,252,517
Effects of foreign exchange differences		(261,027)	194,765
Cash and cash equivalents at 30 June	(40)	<u>111,794,422</u>	<u>141,848,410</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 2020 HK\$'000	30 Jun 2019 HK\$'000
Cash and balances with banks and other financial institutions	50,511,905	39,333,595
Placements with banks and other financial institutions	<u>61,282,517</u>	<u>102,514,815</u>
	<u>111,794,422</u>	<u>141,848,410</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 2019 except for the adoption of the HKFRSs and HKASs issued up to 30 June 2020 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 2019.

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 2019.

The financial information relating to the financial year ended 31 December 2019 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 2019 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
- ICBCA (C.I.) Limited
- SINO-CEEF Holding Company Limited
- Greater China Fund
- 工銀亞投股權投資管理（深圳）有限公司

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

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group:

- Amendments to HKFRS 3, *Definition of a Business*
- Amendments to HKFRS 9, HKAS 39 and HKFRS 7, *Interest Rate Benchmark Reform*
- Amendments to HKAS 16, *Covid-19-Related Rent Concessions*

Except for Amendments to HKFRS 9, HKAS 39 and HKFRS 7, *Interest Rate Benchmark Reform*, none of these 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.

The Group has initially adopted Interest Rate Benchmark Reform (Amendments to HKFRS 9, HKAS 39 and HKFRS 7) from 1 January 2020.

This change in accounting policy is also expected to be reflected in the Group’s consolidated financial statements as at and for the year ending 31 December 2020.

The Group applied the interest rate benchmark reform amendments retrospectively to hedging relationships that existed at 1 January 2020 or were designated thereafter and that are directly affected by interest rate benchmark reform. These amendments also apply to the gain or loss recognized in other comprehensive income that existed at 1 January 2020.

## 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. Managing interest rate benchmark reform and any risks arising due to reform

##### i. Overview

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as ‘IBOR reform’). The Group has exposures to IBORs on its financial instruments that will be replaced or reformed as part of these market-wide initiatives. There is uncertainty over the timing and the methods of transition across the jurisdictions that the Group operates in. The Group anticipates that IBOR reform will impact its risk management and hedge accounting.

The Group has established a project to manage the transition for any of its contracts that could be affected. The project is coordinated by a Deputy Chief Executive and involved senior representatives from functions across the Group including the asset and liability management, front line business and product management, legal and compliance, finance, risk management, operations and technology. The project team provides monthly progress updates to the senior management.

##### ii. Derivatives held for risk management purposes and hedge accounting

###### Derivatives

The Group holds interest rate swaps for risk management purposes, which are designated in cash flow hedging relationships. The interest rate swaps have floating legs that are indexed to either Euribor, HIBOR or USD LIBOR. The Group’s derivative instruments are governed by the International Swaps and Derivatives Association (ISDA)’s Master Agreement. ISDA is currently reviewing its standardized contracts in the light of IBOR reform. When ISDA has completed its review, the Group expects to negotiate the inclusion of new fallback clauses with its derivative counterparties. No derivative instruments have been modified as at 30 June 2020.

###### Hedge accounting

The Group evaluated the extent to which its cash flow hedging relationships are subject to uncertainty driven by IBOR reform as at 30 June 2020. The Group’s hedged items and hedging instruments continue to be indexed to IBOR benchmark rates which are Euribor, HIBOR and USD LIBOR. IBOR benchmark rates are quoted each day and IBOR cash flows are exchanged with its counterparties as usual.

## 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. Managing interest rate benchmark reform and any risks arising due to reform (continued)

##### ii. *Derivatives held for risk management purposes and hedge accounting (continued)*

##### Hedge accounting (continued)

The calculation methodology of Euribor changed during 2019. In July 2019, the Belgian Financial Services and Markets Authority granted authorization with respect to Euribor under the European Union Benchmarks Regulation. This allows market participants to continue to use Euribor for both existing and new contracts and the Group expects that Euribor will continue to exist as a benchmark rate for the foreseeable future.

However, the Group’s cash flow hedging relationships extend beyond the anticipated cessation date for USD LIBOR. The Group expects that USD LIBOR will be discontinued after the end of 2021. The preferred alternative reference rate is Secured Overnight Financing Rate (SOFR). However, there is uncertainty as to when and how replacement may occur with respect to the relevant hedged item and hedging instrument. Such uncertainty may impact the hedging relationship – e.g. its effectiveness assessment and highly probable assessment. The Group applies the amendments to HKFRS 9 issued in September 2019 to those hedging relationships directly affected by IBOR reform.

Hedging relationships impacted by IBOR reform may experience ineffectiveness attributable to market participants’ expectations of when the shift from the existing IBOR benchmark rate to an alternative benchmark interest rate will occur. This transition may occur at different times for the hedged item and hedging instrument, which may lead to hedge ineffectiveness. The Group has measured its hedging instrument indexed to USD LIBOR using available quoted market rates for LIBOR-based instruments of the same tenor and similar maturity and has measured the cumulative change in present value of hedged cash flows on a similar basis.

The Group’s exposure to USD LIBOR designated in a hedging relationship is HKD49,245 million nominal amount at 30 June 2020 attributable to the interest rate swap hedging USD LIBOR cash flows on the same principal amount of the Group’s USD-denominated secured bank loan liability maturing in 2023.

The Group is actively engaging with lenders to include appropriate fallback provisions in its floating-rate liabilities with maturities after 2021. We expect that the hedging instrument will be modified as outlined under Derivatives above.

**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. Specific policies applicable from 1 January 2020 for hedging directly affected by IBOR reform**

For the purpose of evaluating whether there is an economic relationship between the hedged items and the hedging instruments, the Group assumes that the benchmark interest rate is not altered as a result of IBOR reform.

For a cash flow hedge of a forecast transaction, the Group assumes that the benchmark interest rate will not be altered as a result of IBOR reform for the purpose of asserting that the forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss. To determine whether the designated forecast transaction is no longer expected to occur, the Group assumes that the interest rate benchmark cash flows designated as a hedge will not be altered as a result of IBOR reform.

The Group will cease to apply the amendments to its assessment of the economic relationship between the hedged item and the hedging instrument when the uncertainty arising from IBOR reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item or hedging instrument, or when the hedging relationship is discontinued.

## 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 2020	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
<b>Assets</b>								
Cash and balances with banks and other financial institutions	50,510,575	70,556,015	-	-	-	-	-	121,066,590
Placements with banks and other financial institutions	-	-	43,202,139	63,044,983	-	-	-	106,247,122
Financial assets held for trading								
– certificates of deposit held	-	-	-	217,632	-	-	-	217,632
– other debt securities	-	-	-	-	234,167	-	-	234,167
Financial assets at fair value through profit or loss								
– investment funds	-	-	-	-	-	-	4,760,852	4,760,852
– others	-	-	-	-	-	473,966	42,363	516,329
Derivative financial instruments	164,143	951,186	1,090,361	3,375,730	5,660,947	3,482,522	-	14,724,889
Advances and other accounts	6,822,781	33,766,096	44,482,813	111,275,238	192,508,287	97,382,381	1,299,979	487,537,575
Financial investments measured at fair value through other comprehensive income								
– treasury bills	-	3,499,925	19,297,284	-	2,755,882	3,256,415	-	28,809,506
– certificates of deposit held	-	-	-	143,161	-	-	-	143,161
– other debt securities	-	1,130,205	315,475	8,004,675	44,535,103	58,534,673	-	112,520,131
– equity securities	-	-	-	-	-	-	1,668,153	1,668,153
Financial investments measured at amortised cost								
– treasury bills	-	-	-	-	12,355,098	7,600,284	-	19,955,382
– certificates of deposit held	-	-	-	382,722	-	-	-	382,722
– other debt securities	-	451,678	153,409	3,653,155	12,972,915	8,239,130	-	25,470,287
Investments in associates	-	-	-	-	-	-	239,955	239,955
Goodwill and other intangible assets	-	-	-	-	-	-	1,013,889	1,013,889
Investment properties	-	-	-	-	-	-	132,276	132,276
Property, plant and equipment	-	-	-	-	-	-	2,243,208	2,243,208
Other assets, including current and deferred income tax assets	99,896	3,219,572	1,082,637	4,934,062	2,912,078	396,773	7,684,943	20,329,961
<b>Total assets</b>	<b>57,597,395</b>	<b>113,574,677</b>	<b>109,624,118</b>	<b>195,031,358</b>	<b>273,934,477</b>	<b>179,366,144</b>	<b>19,085,618</b>	<b>948,213,787</b>
<b>Liabilities</b>								
Deposits from banks and other financial institutions	45,320,550	50,294,042	36,156,354	30,188,814	17,953,610	-	-	179,913,370
Derivative financial instruments	-	711,646	870,772	1,611,408	4,389,209	5,077,233	-	12,660,268
Deposits from customers	183,110,806	138,713,117	99,088,656	129,160,622	11,255,364	-	-	561,328,565
Certificates of deposit issued	-	3,921,582	5,907,537	385,365	-	-	-	10,214,484
Debt securities in issue								
– Designated at fair value through profit or loss	-	-	-	1,397,530	7,225,531	-	-	8,623,061
– At amortised cost	-	1,162,405	1,209,219	2,051,221	15,132,552	-	-	19,555,397
Subordinated debts measured at amortised cost	-	-	-	3,873,736	-	-	-	3,873,736
Other liabilities, including current and deferred income tax liabilities	2,019,678	7,295,433	1,578,122	5,006,245	175,813	-	1,382,400	17,457,691
<b>Total liabilities</b>	<b>230,451,034</b>	<b>202,098,225</b>	<b>144,810,660</b>	<b>173,674,941</b>	<b>56,132,079</b>	<b>5,077,233</b>	<b>1,382,400</b>	<b>813,626,572</b>
<b>Net liquidity gap</b>	<b>(172,853,639)</b>	<b>(88,523,548)</b>	<b>(35,186,542)</b>	<b>21,356,417</b>	<b>217,802,398</b>	<b>174,288,911</b>	<b>17,703,218</b>	<b>134,587,215</b>

# 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 2019	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
<b>Assets</b>								
Cash and balances with banks and other financial institutions	59,775,935	78,562,823	–	–	–	–	–	138,338,758
Placements with banks and other financial institutions	–	–	50,444,537	54,507,335	–	–	–	104,951,872
Financial assets held for trading								
– other debt securities	–	–	1,550	46,758	444,176	–	–	492,484
Financial assets at fair value through profit or loss								
– investment funds	–	–	–	–	–	–	4,575,365	4,575,365
– others	–	–	–	–	–	453,604	18,613	472,217
Derivative financial instruments	306,449	965,049	896,137	2,059,089	4,516,179	1,447,756	–	10,190,659
Advances and other accounts	7,838,569	33,846,445	37,546,994	91,261,990	210,843,220	91,770,006	1,879,252	474,986,476
Financial investment measured at fair value through other comprehensive income								
– treasury bills	–	12,491,337	12,937,178	2,983,890	2,639,320	3,022,425	–	34,074,150
– equity securities	–	–	–	–	–	–	2,470,611	2,470,611
– certificates of deposit held	–	–	–	147,606	–	–	–	147,606
– other debt securities	–	1,873,389	5,359,199	10,232,895	41,823,355	56,393,149	–	115,681,987
Financial investment measured at amortised cost								
– treasury bills	–	–	–	–	10,075,753	4,819,383	–	14,895,136
– certificates of deposit held	–	998,422	499,675	–	–	–	–	1,498,097
– other debt securities	–	578,875	1,940,561	8,132,905	12,263,201	7,289,856	–	30,205,398
Investments in associates	–	–	–	–	–	–	170,244	170,244
Goodwill and other intangible assets	–	–	–	–	–	–	1,016,481	1,016,481
Investment properties	–	–	–	–	–	–	135,234	135,234
Property, plant and equipment	–	–	–	–	–	–	1,896,067	1,896,067
Other assets, including current and deferred income tax assets	33,578	2,539,947	1,164,858	6,914,306	2,382,400	436,839	3,892,986	17,364,914
<b>Total assets</b>	<b>67,954,531</b>	<b>131,856,287</b>	<b>110,790,689</b>	<b>176,286,774</b>	<b>284,987,604</b>	<b>165,633,018</b>	<b>16,054,853</b>	<b>953,563,756</b>
<b>Liabilities</b>								
Deposits from banks and other financial institutions	80,864,208	44,408,346	32,279,205	23,547,657	25,975,389	–	–	207,074,805
Derivative financial instruments	68,329	875,276	826,112	1,512,898	2,727,763	1,757,696	–	7,768,074
Deposits from customers	163,001,298	118,816,541	142,406,974	97,516,392	13,535,892	–	–	535,277,097
Certificates of deposit issued	–	2,332,596	6,036,378	276,544	–	–	–	8,645,518
Debt securities in issue								
– Designated at fair value through profit or loss	–	–	–	1,410,123	7,015,178	–	–	8,425,301
– At amortised cost	–	–	–	5,482,335	16,965,133	–	–	22,447,468
Subordinated debt measured at amortised cost	–	–	–	3,889,974	–	–	–	3,889,974
Other liabilities, including current and deferred income tax liabilities	1,987,229	13,435,402	1,935,502	7,194,240	574,753	–	1,053,299	26,180,425
<b>Total liabilities</b>	<b>245,921,064</b>	<b>179,868,161</b>	<b>183,484,171</b>	<b>140,830,163</b>	<b>66,794,108</b>	<b>1,757,696</b>	<b>1,053,299</b>	<b>819,708,662</b>
<b>Net liquidity gap</b>	<b>(177,966,533)</b>	<b>(48,011,874)</b>	<b>(72,693,482)</b>	<b>35,456,611</b>	<b>218,193,496</b>	<b>163,875,322</b>	<b>15,001,554</b>	<b>133,855,094</b>

## 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. 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.

# NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

## 4 Financial risk management (continued)

### 4.2 Fair values of financial assets and liabilities (continued)

30 June 2020	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>Recurring fair value measurements</b>				
<b>Financial assets</b>				
Derivative financial instruments				
Forward foreign exchange contracts	–	2,516,682	–	2,516,682
Structured foreign exchange contracts	–	6,333	–	6,333
Currency swaps	–	3,008,840	–	3,008,840
FX options	–	135,270	–	135,270
Interest rate swaps	–	5,949,816	–	5,949,816
Interest rate futures	–	2,557	–	2,557
Equity swap	–	3,105,391	–	3,105,391
Equity options	–	–	–	–
	–	14,724,889	–	14,724,889
Loans and advances to customers and trade bills measured at fair value through other comprehensive income				
Advances to customers	–	994,162	–	994,162
Trade bills	–	5,164,952	–	5,164,952
	–	6,159,114	–	6,159,114
Loans and advances to customers, trade bills and placement measured at fair value through profit and loss				
Advances to customers	–	4,196,504	–	4,196,504
Trade bills	–	198,388	–	198,388
Placement	–	1,096,965	–	1,096,965
	–	5,491,857	–	5,491,857
Financial assets held for trading				
Debt securities	–	451,799	–	451,799
	–	451,799	–	451,799
Financial assets at fair value through profit or loss				
Investment funds	4,496,483	264,369	–	4,760,852
Others	–	516,329	–	516,329
	4,496,483	780,698	–	5,277,181

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

<b>30 June 2020</b>	<b>Level 1 HK\$'000</b>	<b>Level 2 HK\$'000</b>	<b>Level 3 HK\$'000</b>	<b>Total HK\$'000</b>
Investment securities measured at fair value through other comprehensive income				
Debt securities	313,295	141,159,503	–	141,472,798
Equity securities	–	230,151	1,438,002	1,668,153
	<u>313,295</u>	<u>141,389,654</u>	<u>1,438,002</u>	<u>143,140,951</u>
<b>Total financial assets</b>	<b><u>4,809,778</u></b>	<b><u>168,998,011</u></b>	<b><u>1,438,002</u></b>	<b><u>175,245,791</u></b>
<b>Financial liabilities</b>				
Derivative financial instruments				
Forward foreign exchange contracts	–	2,038,848	–	2,038,848
Structured foreign exchange contracts	–	6,334	–	6,334
Currency swaps	–	1,260,703	–	1,260,703
FX options	–	118,199	–	118,199
Interest rate swaps	–	8,980,958	–	8,980,958
Interest rate futures	–	4,052	–	4,052
Equity swap	–	251,174	–	251,174
Equity options	–	–	–	–
	<u>–</u>	<u>12,660,268</u>	<u>–</u>	<u>12,660,268</u>
Financial liabilities designated at fair value through profit or loss				
Debt securities in issue	–	8,623,061	–	8,623,061
	<u>–</u>	<u>8,623,061</u>	<u>–</u>	<u>8,623,061</u>
<b>Total financial liabilities</b>	<b><u>–</u></b>	<b><u>21,283,329</u></b>	<b><u>–</u></b>	<b><u>21,283,329</u></b>

# NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

## 4 Financial risk management (continued)

### 4.2 Fair values of financial assets and liabilities (continued)

31 December 2019	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>Recurring fair value measurements</b>				
<b>Financial assets</b>				
Derivative financial instruments				
Forward foreign exchange contracts	–	3,173,094	–	3,173,094
Structured foreign exchange contracts	–	667	–	667
Currency swaps	–	1,317,977	–	1,317,977
FX options	–	92,000	–	92,000
Interest rate swaps	–	2,363,090	–	2,363,090
Interest rate futures	–	932	–	932
Equity swaps	–	3,242,673	–	3,242,673
Equity options	–	226	–	226
	–	10,190,659	–	10,190,659
Loans and advances to customers and trade bills measured at fair value through other comprehensive income				
Advances to customers	–	1,091,074	–	1,091,074
Trade bills	–	7,450,101	–	7,450,101
	–	8,541,175	–	8,541,175
Loans and advances to customers and placement measured at fair value through profit and loss				
Advances to customers	–	4,258,209	–	4,258,209
Placements with banks and other financial institutions	–	1,117,999	–	1,117,999
	–	5,376,208	–	5,376,208
Financial assets held for trading				
Debt securities	492,484	–	–	492,484
Equities	–	–	–	–
	492,484	–	–	492,484

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

31 December 2019	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial assets at fair value through profit or loss				
Investment funds	3,535,667	1,039,698	–	4,575,365
Others	–	472,217	–	472,217
	<u>3,535,667</u>	<u>1,511,915</u>	<u>–</u>	<u>5,047,582</u>
Financial assets measured at fair value through other comprehensive income				
Debt securities	103,604,177	46,299,566	–	149,903,743
Equity securities	–	232,626	2,237,985	2,470,611
	<u>103,604,177</u>	<u>46,532,192</u>	<u>2,237,985</u>	<u>152,374,354</u>
Total financial assets	<u>107,632,328</u>	<u>72,152,149</u>	<u>2,237,985</u>	<u>182,022,462</u>
<b>Financial liabilities</b>				
Derivative financial instruments				
Forward foreign exchange contracts	–	2,654,006	–	2,654,006
Structured foreign exchange contracts	–	668	–	668
Currency swaps	–	1,205,981	–	1,205,981
FX options	–	87,531	–	87,531
Interest rate swaps	–	3,170,048	–	3,170,048
Interest rate futures	–	577	–	577
Equity swaps	–	649,036	–	649,036
Equity options	–	227	–	227
	<u>–</u>	<u>7,768,074</u>	<u>–</u>	<u>7,768,074</u>
Financial liabilities designated at fair value through profit or loss				
Debt securities in issue	–	8,425,301	–	8,425,301
	<u>–</u>	<u>8,425,301</u>	<u>–</u>	<u>8,425,301</u>
Total financial liabilities	<u>–</u>	<u>16,193,375</u>	<u>–</u>	<u>16,193,375</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 2020 HK\$'000	Addition/ (disposal) HK\$'000	Total losses recorded in equity HK\$'000	At 30 June 2020 HK\$'000
<b>Financial assets</b>				
Financial investment measured at FVTOCI				
– Equities	2,237,985	123,713	(923,696)	1,438,002
Total Level 3 financial assets	<u>2,237,985</u>	<u>123,713</u>	<u>(923,696)</u>	<u>1,438,002</u>
	At 1 January 2019 HK\$'000	Addition/ (disposal) HK\$'000	Total gains recorded in equity HK\$'000	At 31 December 2019 HK\$'000
<b>Financial assets</b>				
Financial investment measured at FVTOCI				
– Equities	2,862,173	(1,046,938)	422,750	2,237,985
Total Level 3 financial assets	<u>2,862,173</u>	<u>(1,046,938)</u>	<u>422,750</u>	<u>2,237,985</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:

	<b>Transfers from Level 1 to Level 2</b>	
	<b>30 Jun 2020</b>	<b>30 Jun 2019</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Investment securities measured at FVTPL		
Investment fund	<b>50,326</b>	–
Investment securities measured at FVTOCI		
Debt securities	<b>59,980,613</b>	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.

	<b>Transfers from Level 2 to Level 1</b>	
	<b>30 Jun 2020</b>	<b>30 Jun 2019</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Investment securities measured at FVTPL		
Investment fund	<b>152,019</b>	–
Investment securities measured at FVTOCI		
Debt securities	<b>100,167</b>	45,406

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.

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 4 Financial risk management (continued)

#### 4.2 Fair values of financial assets and liabilities (continued)

##### *Financial instruments not measured at fair value*

The fair values of financial assets and liabilities are estimated as follows:

##### (a) *Balances and placements with banks and other financial institutions*

The fair values of floating rate placements and overnight deposits are their carrying amounts. The estimated fair value of fixed interest-bearing deposits, all of which are less than one year, is based on the discounted cash flows using prevailing money-market interest rates and the remaining maturity. Therefore, the fair value is approximately equal to the carrying value.

##### (b) *Advances and other accounts*

Advances and other accounts are net of allowances for impairment. All items, except a very insignificant portion of loans and advances to customers, bear interest at a floating rate. The Group has assessed the fair values of loans and advances to customers and banks, after taking into account the relevant market interest rates and net of allowances for impairment. It is noted that the total fair value is not materially different from the total carrying value.

##### (c) *Investment measured at amortised cost*

The fair value of investment measured at amortised cost determined with reference to the available market value. If quoted market prices are not available, then the fair value is estimated on the basis of pricing models or using other valuation techniques.

##### (d) *Deposits and balances from customers, banks and other financial institutions*

The estimated fair value of deposits and balances with no stated maturity is the amount repayable on demand. The fair value of those balances having an interest at a floating rate is their carrying value.

The estimated fair values of the fixed interest-bearing deposits of banks and deposits from customers without quoted market prices is based on discounted cash flows using interest rates for new debts with similar remaining maturity. As their maturity is normally less than one year from the end of the reporting period, their fair values are approximately equal to their carrying values.

##### (e) *Certificates of deposit issued*

The Group has assessed the fair value of certificates of deposit issued after taking into account the relevant yield curve and noted that the total fair value is not materially different from the total carrying value.

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 4 Financial risk management (continued)

#### 4.2 Fair values of financial assets and liabilities (continued)

##### *Financial instruments not measured at fair value (continued)*

##### *(f) Other assets and other liabilities*

The estimated fair value of the other assets and other liabilities, which are normally non-interest-bearing, is their carrying values.

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 June 2020 and 31 December 2019 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

30 June 2020	Carrying amount HK\$'000	Fair value HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
<b>Financial liabilities</b>					
Subordinated debts measured at amortised cost	<u>3,873,736</u>	<u>3,931,858</u>	<u>3,931,858</u>	<u>–</u>	<u>–</u>
31 December 2019	Carrying amount HK\$'000	Fair value HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
<b>Financial liabilities</b>					
Subordinated debts measured at amortised cost	<u>3,889,974</u>	<u>3,977,856</u>	<u>3,977,856</u>	<u>–</u>	<u>–</u>

#### 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)

##### *Fair value hierarchy (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 2020**

	HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
<b>Recurring fair value measurement</b>				
Bank premises and properties	<b>598,343</b>	–	–	<b>598,343</b>
Investment properties	<b>132,276</b>	–	–	<b>132,276</b>

Fair value at 31 December 2019

	HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
<b>Recurring fair value measurement</b>				
Bank premises and properties	607,192	–	–	607,192
Investment properties	135,234	–	–	135,234

During the half year ended 30 June 2020, 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 2020. 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
Investment properties			
– Hong Kong	Investment method	Market yield	2.73%-2.85%
– Mainland China	Discounted cash flow	Risk adjusted discount rate	4.7%
		Expected market rental growth	3%-5%
		Expected occupancy rate	95%
Bank premises and properties			
– Hong Kong	Direct comparison approach	Premium/(discount) on characteristic of the properties	6.72%-(19.17%)
– 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:

<b>Bank premises and properties:</b>	<b>HK\$'000</b>
At 1 January 2020	607,192
Addition for the period	–
Exchange rate and other adjustment	11,278
Depreciation charge for the period	(7,655)
Loss on revaluation	(12,472)
	<hr/>
At 30 June 2020	<u>598,343</u>
<b>Investment properties:</b>	<b>HK\$'000</b>
At 1 January 2020	135,234
Fair value adjustment	(2,958)
Exchange adjustment	–
	<hr/>
At 30 June 2020	<u>132,276</u>
<b>Bank premises and properties:</b>	<b>HK\$'000</b>
At 1 January 2019	627,090
Addition for the year	–
Exchange adjustment	(1,184)
Depreciation charge for the year	(17,240)
Loss on revaluation	(1,474)
	<hr/>
At 31 December 2019	<u>607,192</u>
<b>Investment properties:</b>	<b>HK\$'000</b>
At 1 January 2019	140,135
Fair value adjustment	(4,200)
Exchange adjustment	(701)
	<hr/>
At 31 December 2019	<u>135,234</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*

<b>30 June 2020</b>	<b>12-month ECL HK\$'000</b>	<b>Lifetime ECL not credit- impaired HK\$'000</b>	<b>Lifetime ECL credit- impaired HK\$'000</b>	<b>Total HK\$'000</b>
Movement in impairment allowances:				
At 1 January 2020	2,280,274	797,972	2,469,280	5,547,526
Transfer to 12-month ECL	22,445	(22,445)	–	–
Transfer to Lifetime ECL not credit-impaired	(28,372)	28,372	–	–
Transfer to Lifetime ECL credit-impaired	(160)	(3,673)	3,833	–
Net remeasurement of loss allowance (including exchange adjustments)	(293,420)	(37,173)	570,630	240,037
New financial assets originated or purchased	998,362	29,103	–	1,027,465
Financial assets that have been derecognised	(228,103)	(187,669)	(6,439)	(422,211)
Write-off	–	–	(80,177)	(80,177)
Recoveries of amount previously written off	–	–	3,248	3,248
At 30 June 2020	<u>2,751,026</u>	<u>604,487</u>	<u>2,960,375</u>	<u>6,315,888</u>
Deducted from:				
Advances to customers	2,733,052	604,480	2,960,375	6,297,907
Advances to banks	14,500	–	–	14,500
Trade bills	3,474	7	–	3,481
	<u>2,751,026</u>	<u>604,487</u>	<u>2,960,375</u>	<u>6,315,888</u>

# NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

## 4 Financial risk management (continued)

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

*Loans and advances to customers, banks and trade bills measured at amortised cost (continued)*

31 December 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 allowances:				
At 1 January 2019	2,279,440	667,189	2,129,299	5,075,928
Transfer to 12-month ECL	215,559	(215,559)	–	–
Transfer to Lifetime ECL not credit-impaired	(125,021)	125,021	–	–
Transfer to Lifetime ECL credit-impaired	(29,071)	(24,430)	53,501	–
Net remeasurement of loss allowance (including exchange adjustments)	(287,938)	357,733	1,667,393	1,737,188
New financial assets originated or purchased	1,066,695	75,196	–	1,141,891
Financial assets that have been derecognised	(839,390)	(187,178)	(46,674)	(1,073,242)
Write-off	–	–	(1,337,075)	(1,337,075)
Recoveries of amount previously written off	–	–	2,836	2,836
At 31 December 2019	<u>2,280,274</u>	<u>797,972</u>	<u>2,469,280</u>	<u>5,547,526</u>
Deducted from:				
Advances to customers	2,259,966	797,923	2,469,280	5,527,169
Advances to banks	16,322	–	–	16,322
Trade bills	3,986	49	–	4,035
	<u>2,280,274</u>	<u>797,972</u>	<u>2,469,280</u>	<u>5,547,526</u>

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

*Financial assets measured at fair value through other comprehensive income*

<b>30 June 2020</b>	<b>12-month ECL HK\$'000</b>	<b>Lifetime ECL not credit- impaired HK\$'000</b>	<b>Lifetime ECL credit- impaired HK\$'000</b>	<b>Total HK\$'000</b>
Movement in impairment allowances:				
At 1 January 2020	<b>120,876</b>	<b>5,728</b>	–	<b>126,604</b>
Transfer to 12-month ECL	<b>3,541</b>	<b>(3,541)</b>	–	–
Transfer to Lifetime ECL not credit-impaired	–	–	–	–
Transfer to Lifetime ECL credit-impaired	–	–	–	–
Net remeasurement of loss allowance (including exchange adjustments)	<b>(3,799)</b>	<b>(357)</b>	–	<b>(4,156)</b>
New financial assets originated or purchased	<b>48,948</b>	–	–	<b>48,948</b>
Financial assets that have been derecognised	<b>(33,000)</b>	<b>(991)</b>	–	<b>(33,991)</b>
At 30 June 2020	<b>136,566</b>	<b>839</b>	–	<b>137,405</b>
<b>31 December 2019</b>	<b>12-month ECL HK\$'000</b>	<b>Lifetime ECL not credit- impaired HK\$'000</b>	<b>Lifetime ECL credit- impaired HK\$'000</b>	<b>Total HK\$'000</b>
Movement in impairment allowances:				
At 1 January 2019	83,606	2,539	–	86,145
Transfer to 12-month ECL	280	(280)	–	–
Transfer to Lifetime ECL not credit-impaired	(1,702)	1,702	–	–
Transfer to Lifetime ECL credit-impaired	–	–	–	–
Net remeasurement of loss allowance (including exchange adjustments)	(8,316)	1,168	–	(7,148)
New financial assets originated or purchased	66,482	1,067	–	67,549
Financial assets that have been derecognised	(19,474)	(468)	–	(19,942)
At 31 December 2019	<b>120,876</b>	<b>5,728</b>	–	<b>126,604</b>

# 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 2020	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:				
At 1 January 2020	25,614	4,961	–	30,575
Transfer to 12-month ECL	136	(136)	–	–
Transfer to Lifetime ECL not credit-impaired	–	–	–	–
Transfer to Lifetime ECL credit-impaired	–	–	–	–
Net remeasurement of loss allowance (including exchange adjustments)	(1,093)	(2,099)	–	(3,192)
New financial assets originated or purchased	4,249	–	–	4,249
Financial assets that have been derecognised	(2,381)	–	–	(2,381)
At 30 June 2020	<u>26,525</u>	<u>2,726</u>	<u>–</u>	<u>29,251</u>
31 December 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 allowances:				
At 1 January 2019	34,649	14,498	–	49,147
Transfer to 12-month ECL	324	(324)	–	–
Transfer to Lifetime ECL not credit-impaired	(44)	44	–	–
Transfer to Lifetime ECL credit-impaired	–	–	–	–
Net remeasurement of loss allowance (including exchange adjustments)	(8,513)	(9,257)	–	(17,770)
New financial assets originated or purchased	3,865	–	–	3,865
Financial assets that have been derecognised	(4,667)	–	–	(4,667)
At 31 December 2019	<u>25,614</u>	<u>4,961</u>	<u>–</u>	<u>30,575</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*

<b>30 June 2020</b>	<b>12-month ECL HK\$'000</b>	<b>Lifetime ECL not credit- impaired HK\$'000</b>	<b>Lifetime ECL credit- impaired HK\$'000</b>	<b>Total HK\$'000</b>
Movement in impairment allowances:				
At 1 January 2020	<b>34,797</b>	–	–	<b>34,797</b>
Net remeasurement of loss allowance (including exchange adjustments)	<b>(2,083)</b>	–	–	<b>(2,083)</b>
New financial assets originated or purchased	<b>20,759</b>	–	–	<b>20,759</b>
Financial assets that have been derecognised	<b>(18,858)</b>	–	–	<b>(18,858)</b>
At 30 June 2020	<b>34,615</b>	–	–	<b>34,615</b>
<b>31 December 2019</b>	<b>12-month ECL HK\$'000</b>	<b>Lifetime ECL not credit- impaired HK\$'000</b>	<b>Lifetime ECL credit- impaired HK\$'000</b>	<b>Total HK\$'000</b>
Movement in impairment allowances:				
At 1 January 2019	25,991	–	–	25,991
Net remeasurement of loss allowance (including exchange adjustments)	(944)	–	–	(944)
New financial assets originated or purchased	33,568	–	–	33,568
Financial assets that have been derecognised	(23,818)	–	–	(23,818)
At 31 December 2019	<b>34,797</b>	–	–	<b>34,797</b>

# 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 2020	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:				
At 1 January 2020	71,675	3,512	–	75,187
Transfer to 12-month ECL	2,456	(2,456)	–	–
Transfer to Lifetime ECL not credit-impaired	(8)	8	–	–
Transfer to Lifetime ECL credit-impaired	–	–	–	–
Net remeasurement of loss allowance (including exchange adjustments)	13,081	266	–	13,347
New financial assets originated or purchased	168,507	894	–	169,401
Financial assets that have been derecognised	(35,245)	(969)	–	(36,214)
At 30 June 2020	<u>220,466</u>	<u>1,255</u>	<u>–</u>	<u>221,721</u>
31 December 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 allowances:				
At 1 January 2019	133,889	2,596	–	136,485
Transfer to 12-month ECL	7	(7)	–	–
Transfer to Lifetime ECL not credit-impaired	(2)	2	–	–
Transfer to Lifetime ECL credit-impaired	–	–	–	–
Net remeasurement of loss allowance (including exchange adjustments)	(9,953)	26	–	(9,927)
New financial assets originated or purchased	42,597	3,454	–	46,051
Financial assets that have been derecognised	(94,863)	(2,559)	–	(97,422)
At 31 December 2019	<u>71,675</u>	<u>3,512</u>	<u>–</u>	<u>75,187</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 2020	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	197,572	663,427	630,499	692,858	602,741	396,953	1,146,493	913,881	5,244,424
Fee and commission income	52,039	336,048	96,252	405,873	-	116,591	69,379	80,871	1,157,053
Fee and commission expense	-	(6,713)	(424)	(83,641)	-	(272)	(2,717)	(24,668)	(118,435)
Net fee and commission income	52,039	329,335	95,828	322,232	-	116,319	66,662	56,203	1,038,618
Net trading income/(expense)	6,384	64,871	90,696	101,491	302,061	10,883	(215,967)	(22,284)	338,135
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss	-	-	-	-	(234,529)	42,267	4,250	(3,535)	(191,547)
Dividend income from financial investments	-	-	-	-	-	-	-	11,125	11,125
Other operating income	-	-	16	6,798	-	3,650	11,159	132,983	154,606
Operating income	255,995	1,057,633	817,039	1,123,379	670,273	570,072	1,012,597	1,088,373	6,595,361
Operating expenses	(47,538)	(128,426)	(321,736)	(708,264)	(158,247)	(129,886)	(202,953)	(191,679)	(1,888,729)
Operating profit before impairment losses	208,457	929,207	495,303	415,115	512,026	440,186	809,644	896,694	4,706,632
Write back/(charge for) impairment losses on financial assets	(47,317)	12,345	(433,675)	6,517	(10,017)	(1,354)	(79,263)	(524,528)	(1,077,292)
Operating profit after impairment losses	161,140	941,552	61,628	421,632	502,009	438,832	730,381	372,166	3,629,340
Revaluation loss on investment properties	-	-	-	-	-	-	-	(2,958)	(2,958)
Net gain on disposal of loans and advances	-	-	-	-	-	-	-	-	-
Net loss on disposal of property, plant and equipment	-	-	-	(165)	-	-	(11)	(22)	(198)
Net gain on disposal financial assets at fair value through other comprehensive income	-	-	-	-	270,292	-	138,066	-	408,358
Operating profit	161,140	941,552	61,628	421,467	772,301	438,832	868,436	369,186	4,034,542
Share of loss of associates	-	-	-	-	-	-	-	(5,288)	(5,288)
Profit before tax	161,140	941,552	61,628	421,467	772,301	438,832	868,436	363,898	4,029,254
Segment assets	40,612,018	120,417,572	106,516,390	94,733,274	179,029,431	26,473,133	138,943,253	241,248,761	947,973,832
Investments in associates	-	-	-	-	-	-	-	239,955	239,955
Total assets	40,612,018	120,417,572	106,516,390	94,733,274	179,029,431	26,473,133	138,943,253	241,488,716	948,213,787
Total liabilities	15,308,338	126,792,350	95,381,784	216,791,110	16,939,060	143,316,363	124,249,092	74,848,475	813,626,572
Capital expenditure	7	95	118	128,123	26	248	15,379	546,579	690,575
Depreciation and amortization charge	3,051	4,809	14,655	162,859	7,202	3,667	25,341	96,332	317,916

## 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 loss 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
Investments 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)

### 5.2 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 2020

	Hong Kong HK\$'000	Asia Pacific (excluding Hong Kong) HK\$'000	Consolidated HK\$'000
Operating income	5,581,248	1,014,113	6,595,361
Profit before tax	3,157,185	872,069	4,029,254
Total assets	809,274,516	138,939,271	948,213,787
Total liabilities	689,384,305	124,242,267	813,626,572
Contingent liabilities and commitments	176,684,724	36,505,253	213,189,977
Capital expenditure during the period	675,196	15,379	690,575

#### 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

**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**
**6 Net interest income**

	<b>30 Jun 2020</b>	30 Jun 2019
	<b>HK\$'000</b>	HK\$'000
Interest income on:		
Cash and balances with banks and other financial institutions	<b>1,374,088</b>	1,575,544
Placements with banks and other financial institutions	<b>697,439</b>	939,037
Advances and other accounts	<b>7,079,212</b>	9,007,877
Investment securities measured at fair value through other comprehensive income	<b>1,921,358</b>	1,705,298
Investment securities measured at amortised cost	<b>672,136</b>	935,256
	<b>11,744,233</b>	14,163,012
Interest expense on:		
Deposits from banks and other financial institutions	<b>1,378,858</b>	2,099,227
Deposits from customers	<b>4,433,389</b>	5,196,976
Certificates of deposit issued	<b>71,478</b>	291,006
Debt securities in issue	<b>367,446</b>	255,451
Subordinated debts measured at amortised cost	<b>101,015</b>	189,014
Others	<b>147,623</b>	86,149
	<b>6,499,809</b>	8,117,823
Net interest income	<b>5,244,424</b>	6,045,189

Note: Interest expense on lease liabilities is HK\$15,003,419 (first half of 2019: HK\$20,915,504).

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 7 Net fee and commission income

	30 Jun 2020 HK\$'000	30 Jun 2019 HK\$'000
Loans, overdrafts and guarantees	536,980	650,946
Securities and brokerage	220,752	175,337
Trade finance	48,412	75,616
Credit card	112,476	196,857
Remittance	53,430	44,699
Insurance	91,789	69,971
Other retail and commercial banking services	12,593	23,047
Securities arrangement fee	12,883	10,863
Others	67,738	90,032
	<hr/>	<hr/>
Fee and commission income	1,157,053	1,337,368
Fee and commission expense	(118,435)	(183,135)
	<hr/>	<hr/>
Net fee and commission income	<u>1,038,618</u>	<u>1,154,233</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	585,392	726,562
Net fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	23,323	25,052
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:		
– credit card	112,476	196,857
– term loan	120,239	124,463
– syndication loan	308,818	375,027
– securities and brokerage	220,752	175,337

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 8 Net trading income

	30 Jun 2020 HK\$'000	30 Jun 2019 HK\$'000
Equity investments	–	38,338
Debt securities – Financial assets held for trading	7,374	11,418
– Investment securities at FVTOCI	(54,081)	–
Derivatives	40,390	772,690
Foreign exchange	357,222	(103,949)
	<b>350,905</b>	718,497
Gain/(loss) from hedging activities		
Fair value hedges		
– Net gain on hedged items attributable to the hedged risk	1,847,330	703,105
– Net loss on hedging instruments	(1,860,100)	(713,950)
	<b>(12,770)</b>	(10,845)
Total net trading income	<b>338,135</b>	707,652

There is no gain or loss on financial liabilities measured at amortised cost included in total net trading income for first half of 2020 (first half of 2019: Nil).

### 9 Net loss on financial assets and liabilities at fair value through profit or loss

	30 Jun 2020 HK\$'000	30 Jun 2019 HK\$'000
Financial assets at fair value through profit or loss	65,528	68,855
Financial liabilities at fair value through profit or loss	(257,075)	(801,675)
Total net loss on financial assets and liabilities at fair value through profit or loss	<b>(191,547)</b>	(732,820)

### 10 Dividend income from financial investments

	30 Jun 2020 HK\$'000	30 Jun 2019 HK\$'000
Dividend income from unlisted equity securities at fair value through other comprehensive income	1,480	18,149
Dividend income from listed financial assets at fair value through profit or loss	9,645	–
Total dividend income from financial investments	<b>11,125</b>	18,149

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 11 Other operating income

	30 Jun 2020 HK\$'000	30 Jun 2019 HK\$'000
Management fee income	123,850	123,848
Rental income	10,825	8,141
Rental income from investment properties	636	1,835
Others	19,295	126,449
	<hr/>	<hr/>
Total other operating income	<b>154,606</b>	<b>260,273</b>

### 12 Operating expenses

	30 Jun 2020 HK\$'000	30 Jun 2019 HK\$'000
Staff costs		
– Salaries and other costs	1,052,999	1,031,812
– Retirement benefit costs	47,817	58,146
	<hr/>	<hr/>
	<b>1,100,816</b>	<b>1,089,958</b>
	<hr/>	<hr/>
Premises and equipment expenses, excluding depreciation and amortisation		
– Rental of premises	19,768	28,697
– Others	108,567	82,742
	<hr/>	<hr/>
	<b>128,335</b>	<b>111,439</b>
	<hr/>	<hr/>
Depreciation and amortisation expenses		
– Depreciation of right-of-use assets	259,419	236,557
– Depreciation of other fixed assets and amortisation	58,497	54,588
	<hr/>	<hr/>
	<b>317,916</b>	<b>291,145</b>
	<hr/>	<hr/>
Auditors' remuneration	2,340	2,340
General administration expenses	41,940	45,158
Business promotion expenses	62,829	50,683
Communication expenses	50,323	45,636
Other operating expenses	184,230	162,283
	<hr/>	<hr/>
Total operating expenses	<b>1,888,729</b>	<b>1,798,642</b>

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 13 Net impairment losses on financial assets

	30 Jun 2020 HK\$'000	30 Jun 2019 HK\$'000
Charge for impairment losses on loans and advances	898,809	806,658
Charge for impairment losses on other financial assets	178,483	25,087
	<u>1,077,292</u>	<u>831,745</u>
Net impairment losses on financial assets	<u>1,077,292</u>	<u>831,745</u>

### 14 Taxation

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 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 2020 HK\$'000	30 Jun 2019 HK\$'000
Current tax – Provision for Hong Kong profits tax for the period	603,470	612,255
– Provision for overseas tax for the period	264,034	264,161
(Over)/under provision in respect of prior years	(68,123)	11,466
Deferred taxation	(101,616)	7,430
	<u>697,765</u>	<u>895,312</u>

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 2020 HK\$'000	30 Jun 2019 HK\$'000
Profit before tax	4,029,254	5,077,751
Calculated at a tax rate of 16.5% (2019: 16.5%)	664,827	837,829
Effect of different tax rates in other countries	83,190	121,255
Income not subject to tax	(78,033)	(87,462)
Expenses not deductible for tax purposes	95,031	15,384
Adjustments in respect of current tax of previous periods	(68,123)	11,466
Share of tax of associates	873	(3,160)
	<u>697,765</u>	<u>895,312</u>
Tax charge	<u>697,765</u>	<u>895,312</u>

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 15 Interim dividend

At a meeting held on 25 August 2020, the Board does not recommend the payment of interim dividend for the six months ended 30 June 2020 (first half of 2019: 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 2020	30 Jun 2019
Profit attributable to shareholders (HK\$'000)	3,331,489	4,182,439
Weighted average number of ordinary shares in issue (thousands)	2,749,000	2,579,851
Basic earnings per share	HK\$1.21	HK\$1.62

Diluted earnings per share amount for the periods ended 30 June 2020 and 30 June 2019 were the same as basic earnings per share, as the Group had no potential dilutive ordinary shares in issue during those periods.

### 17 Cash and balances with banks and other financial institutions

	30 Jun 2020 HK\$'000	31 Dec 2019 HK\$'000
Cash on hand	459,784	538,255
Balances with central banks	16,741,295	12,779,157
Balances with other banks and financial institutions	33,311,764	46,460,271
Placements with banks and other financial institutions maturing within one month	70,556,015	78,562,823
Less: impairment allowances – 12-month ECL	(2,268)	(1,748)
	<u>121,066,590</u>	<u>138,338,758</u>

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 18 Placements with banks and other financial institutions

	30 Jun 2020 HK\$'000	31 Dec 2019 HK\$'000
Placements with banks and other financial institutions maturing between one and twelve months	106,279,469	104,984,921
Less: impairment allowances		
– 12-month ECL	(32,347)	(33,049)
	<u>106,247,122</u>	<u>104,951,872</u>

### 19 Financial assets held for trading

	30 Jun 2020 HK\$'000	31 Dec 2019 HK\$'000
Financial investments		
Debt securities:		
– Listed in Hong Kong	234,167	210,124
– Listed outside Hong Kong	–	282,230
– Unlisted	217,632	130
	<u>451,799</u>	<u>492,484</u>
Market value of listed securities	<u>234,167</u>	<u>492,354</u>
Debt securities are comprised of the following items:		
– Treasury bills	–	–
– Certificates of deposit held	217,632	–
– Other debt securities	234,167	492,484
	<u>451,799</u>	<u>492,484</u>
Financial investments are analysed by category of issuer as follows:		
– Central governments and central banks	–	130
– Public sector entities	–	–
– Banks and other financial institutions	451,799	296,204
– Corporate entities	–	196,150
	<u>451,799</u>	<u>492,484</u>

# NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

## 20 Financial assets at fair value through profit or loss

	30 Jun 2020 HK\$'000	31 Dec 2019 HK\$'000
Financial assets mandatorily measured at fair value through profit or loss:		
– Investments funds	4,760,852	4,575,365
– Others	516,329	472,217
	<u>5,277,181</u>	<u>5,047,582</u>
Financial assets at fair value through profit or loss are analysed by category of issuer as follows:		
– Banks and other financial institutions	4,589,615	4,430,914
– Corporate entities	687,566	616,668
	<u>5,277,181</u>	<u>5,047,582</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 2020 and 31 December 2019:

As at 30 June 2020	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 and currency swaps	649,519,543	3,900,515	(3,299,551)
– OTC currency options purchased	46,615,200	135,270	–
– OTC currency options written	49,508,983	–	(118,199)
– Structured foreign exchange instruments	381,538	6,333	(6,334)
Total foreign exchange derivatives		4,042,118	(3,424,084)
b) Interest rate derivatives			
– Interest rate swaps	288,431,677	5,789,688	(5,817,841)
– Interest rate futures	7,172,718	2,557	(4,052)
Total interest rate derivatives		5,792,245	(5,821,893)
c) Equity derivatives			
– Equity options	–	–	–
– Equity swaps	7,939,503	3,105,391	(251,174)
Total equity derivatives		3,105,391	(251,174)
Total derivative assets/(liabilities) held for trading		12,939,754	(9,497,151)
2) Derivatives held for hedging			
a) Derivatives designated as fair value hedges			
– Interest rate swaps	35,384,638	118,424	(2,730,422)
b) Derivatives designated as cash flow hedges			
– Interest rate swaps	13,860,144	41,704	(432,695)
– Currency swaps	16,746,082	1,625,007	–
		1,666,711	(432,695)
Total derivative assets/(liabilities) held for hedging		1,785,135	(3,163,117)
Total recognised derivative assets/(liabilities)		14,724,889	(12,660,268)

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

As at 31 December 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 and currency swaps	720,472,310	4,456,466	(3,859,987)
– OTC currency options purchased	50,140,941	92,000	–
– OTC currency options written	53,646,349	–	(87,531)
– Structured foreign exchange instruments	344,668	667	(668)
Total foreign exchange derivatives		4,549,133	(3,948,186)
b) Interest rate derivatives			
– Interest rate swaps	351,999,300	2,241,754	(2,161,495)
– Interest rate futures	11,787,626	932	(577)
Total interest rate derivatives		2,242,686	(2,162,072)
c) Equity derivatives			
– Equity options	12,036	226	(227)
– Equity swaps	7,993,151	3,242,673	(649,036)
Total equity derivatives		3,242,899	(649,263)
Total derivative assets/(liabilities) held for trading		<u>10,034,718</u>	<u>(6,759,521)</u>
2) Derivatives held for hedging			
a) Derivatives designated as fair value hedges			
– Interest rate swaps	26,538,871	78,024	(855,250)
b) Derivatives designated as cash flow hedges			
– Interest rate swaps	13,911,480	43,312	(153,303)
– Currency swaps	3,282,743	34,605	–
Total derivative assets/(liabilities) held for hedging		77,917	(153,303)
Total derivative assets/(liabilities) held for hedging		<u>155,941</u>	<u>(1,008,553)</u>
Total recognised derivative assets/(liabilities)		<u>10,190,659</u>	<u>(7,768,074)</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 2020 HK\$'000	30 Jun 2019 HK\$'000
Gain/(loss) arising from fair value hedge, net:		
– Hedging instruments	(1,860,100)	(713,950)
– Hedged items attributable to the hedged risk	1,847,330	703,105
	<u>(12,770)</u>	<u>(10,845)</u>

Cash flow hedge consists of interest rate swaps and currency 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 2019: Nil).

Below is a schedule indicating as at 30 June 2020 and 31 December 2019, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss:

30 June 2020	Within 1 year HK\$ million	1-3 years HK\$ million	3-8 years HK\$ million	Over 8 years HK\$ million
Cash inflows (assets)	6	–	–	–
Cash outflows (liabilities)	(193)	(122)	(19)	–
Net cash flows	(187)	(122)	(19)	–
31 December 2019				
Cash inflows (assets)	69	–	–	–
Cash outflows (liabilities)	(181)	(269)	(104)	–
Net cash flows	(112)	(269)	(104)	–

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 21 Derivative financial instruments (continued)

During the period, realised gain amounting to HK\$63,206,000 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 2019: realised gain of HK\$16,853,000).

There were no transactions for which cash flow hedge accounting had to be ceased in the first half of 2020 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 2020		31 Dec 2019	
	Replacement cost	Credit risk weighted amount	Replacement cost	Credit risk weighted amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contingent liabilities and commitments	–	32,654,501	–	34,845,644
Exchange rate contracts				
– Forwards	2,403,054	1,160,259	942,305	820,963
– Swaps	773,776	964,408	674,601	875,197
– Option purchased	34,564	73,459	17,712	26,424
– Option written	38,428	190,437	15,431	195,759
– Structure FX	6,333	575,113	667	515,927
	<u>3,256,155</u>	<u>2,963,676</u>	<u>1,650,716</u>	<u>2,434,270</u>
Interest rate contracts				
– Eurodollar Futures Product	2,561	7,715	955	12,828
– Swaps	2,462,825	2,072,659	1,204,322	1,138,795
	<u>2,465,386</u>	<u>2,080,374</u>	<u>1,205,277</u>	<u>1,151,623</u>
Equity contracts				
– Option written	–	–	226	117
– Swaps	3,508,975	4,159,559	3,696,277	4,350,882
	<u>3,508,975</u>	<u>4,159,559</u>	<u>3,696,503</u>	<u>4,350,999</u>
Precious metal except Gold				
– Forward	–	6	–	20
Debt securities or other commodities				
– US Treasury Futures Product	–	3,488	–	1,557

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

21 Derivative financial instruments (continued)

	30 Jun 2020		31 Dec 2019	
	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000
OTC with netting				
– Forwards	575,767	676,344	463,467	612,934
– Swaps	295,616	224,525	146,972	217,905
– Option purchased	26,841	38,350	26,774	36,762
– Option written	13,365	9,407	8,540	12,796
– Structure FX	–	74,839	–	50,553
	<u>911,589</u>	<u>1,023,465</u>	<u>645,753</u>	<u>930,950</u>
Total	<u>10,142,105</u>	<u>42,885,069</u>	<u>7,198,249</u>	<u>43,715,063</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**

	<b>30 Jun 2020</b> <b>HK\$'000</b>	31 Dec 2019 HK\$'000
Loans and advances to customers, banks and other accounts measured at amortised cost		
– Advances to customers	<b>459,754,134</b>	437,910,469
– Advances to banks	<b>18,946,443</b>	23,576,265
– Trade bills	<b>3,580,692</b>	4,831,270
	<hr/>	<hr/>
Gross loans and advances to customers, banks and other accounts measured at amortised cost	<b>482,281,269</b>	466,318,004
Accrued interest	<b>1,018,188</b>	1,416,614
	<hr/>	<hr/>
	<b>483,299,457</b>	467,734,618
Less: Impairment allowances		
– 12-month ECL	<b>(2,751,026)</b>	(2,280,274)
– Lifetime ECL not credit-impaired	<b>(604,487)</b>	(797,972)
– Lifetime ECL credit-impaired	<b>(2,960,375)</b>	(2,469,280)
	<hr/>	<hr/>
	<b>476,983,569</b>	462,187,092
Loans and advances to customers, banks and other accounts measured at fair value through other comprehensive income		
– Advances to customers	<b>994,162</b>	1,091,074
– Trade bills	<b>5,164,952</b>	7,450,101
	<hr/>	<hr/>
	<b>483,142,683</b>	470,728,267
Loans and advances to customers, banks and other accounts measured at fair value through profit or loss		
– Advances to customers	<b>4,196,504</b>	4,258,209
– Trade bills	<b>198,388</b>	–
	<hr/>	<hr/>
	<b>487,537,575</b>	474,986,476
	<hr/>	<hr/>
	<b>30 Jun 2020</b> <b>HK\$'000</b>	31 Dec 2019 HK\$'000
Gross impaired loans and advances	<b>4,912,057</b>	4,983,758
Impairment allowances made in respect of such loans	<b>2,960,375</b>	2,469,280
Gross impaired loans and advances as a percentage of total gross loans and advances	<b>1.00%</b>	1.04%
Market value of collateral	<b>7,521,492</b>	8,097,933
	<hr/>	<hr/>

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 22 Advances and other accounts (continued)

#### 22.1 Loans and advances to customers, banks and other accounts (continued)

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 impaired loan ratio of advances to customers was 1.06% as at 30 June 2020 (31 December 2019: 1.12%).

There were no advances to banks and trade bills classified as stage 3 as at 30 June 2020 (31 December 2019: Nil).

#### 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
<b>As at 30 Jun 2020</b>						
Overdue for:						
Six months or less but over three months	92,392	0.0	112,795	61,370	31,022	44,725
One year or less but over six months	916,951	0.2	2,430,554	825,177	91,774	339,928
Over one year	3,224,449	0.7	5,090,948	2,739,136	485,313	1,968,008
	<u>4,233,792</u>	<u>0.9</u>	<u>7,634,297</u>	<u>3,625,683</u>	<u>608,109</u>	<u>2,352,661</u>
<b>As at 31 Dec 2019</b>						
Overdue for:						
Six months or less but over three months	903,940	0.2	2,264,179	385,712	518,228	228,632
One year or less but over six months	2,347,641	0.5	3,653,073	1,824,961	522,680	819,365
Over one year	997,619	0.2	772,430	479,272	518,347	771,973
	<u>4,249,200</u>	<u>0.9</u>	<u>6,689,682</u>	<u>2,689,945</u>	<u>1,559,255</u>	<u>1,819,970</u>

## 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) (continued)

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 2020 and 31 December 2019.

#### 22.3 Other overdue assets

	30 Jun 2020		31 Dec 2019	
	Accrued interest	Other assets	Accrued interest	Other assets
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Six months or less but over three months	761	–	5,930	–
One year or less but over six months	14,676	–	18,061	–
Over one year	119,484	–	72,145	–
	<u>134,921</u>	<u>–</u>	<u>96,136</u>	<u>–</u>

Other assets refer to trade bills and receivables.

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 22 Advances and other accounts (continued)

#### 22.4 Rescheduled advances

	30 Jun 2020 HK\$'000	% of advances to customers	31 Dec 2019 HK\$'000	% of advances to customers
Rescheduled advances (excluding overdue loans over three months)	187,557	0.04	190,476	0.04

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 2020 and 31 December 2019.

#### 22.5 Repossessed assets

There were five repossessed assets of the Group as at 30 June 2020 (31 December 2019: one) with total current market value of HK\$91,900,000 (31 December 2019: HK\$21,670,000). 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 2020 (31 December 2019: Nil). No collateral has been actually sold or repledged by the Group as at 30 June 2020 and 31 December 2019. 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**

	<b>30 Jun 2020</b>		
	<b>Measured at FVTOCI HK\$'000</b>	<b>Measured at amortised cost HK\$'000</b>	<b>Total HK\$'000</b>
Investment securities			
Debt securities:			
– Listed in Hong Kong	45,945,424	11,352,638	57,298,062
– Listed outside Hong Kong	41,682,354	25,485,362	67,167,716
– Unlisted	53,845,020	8,970,391	62,815,411
	<u>141,472,798</u>	<u>45,808,391</u>	<u>187,281,189</u>
Equity securities:			
– Listed outside Hong Kong	–	–	–
– Unlisted	1,668,153	–	1,668,153
	<u>1,668,153</u>	<u>–</u>	<u>1,668,153</u>
Total investment securities	<u>143,140,951</u>	<u>45,808,391</u>	<u>188,949,342</u>
Market value of listed securities	<u>87,627,778</u>	<u>37,595,276</u>	<u>125,223,054</u>
Debt securities are comprised of the following items:			
– Treasury bills	28,809,506	19,955,382	48,764,888
– Certificates of deposit held	143,161	382,722	525,883
– Other debt securities	112,520,131	25,470,287	137,990,418
	<u>141,472,798</u>	<u>45,808,391</u>	<u>187,281,189</u>
Investment securities are analysed by category of issuer as follows:			
– Central governments and central banks	33,249,990	23,351,932	56,601,922
– Public sector entities	818,266	993,407	1,811,673
– Banks and other financial institutions	42,707,194	10,059,663	52,766,857
– Corporate entities	66,365,501	11,403,389	77,768,890
	<u>143,140,951</u>	<u>45,808,391</u>	<u>188,949,342</u>

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 23 Investment securities (continued)

	31 Dec 2019		
	Measured at FVTOCI HK\$'000	Measured at amortised cost HK\$'000	Total HK\$'000
Investment securities			
Debt securities:			
– Listed in Hong Kong	45,785,877	9,203,464	54,989,341
– Listed outside Hong Kong	44,107,006	21,682,573	65,789,579
– Unlisted	60,010,860	15,712,594	75,723,454
	<u>149,903,743</u>	<u>46,598,631</u>	<u>196,502,374</u>
Equity securities:			
– Listed outside Hong Kong	–	–	–
– Unlisted	2,470,611	–	2,470,611
	<u>2,470,611</u>	<u>–</u>	<u>2,470,611</u>
Total investment securities	<u>152,374,354</u>	<u>46,598,631</u>	<u>198,972,985</u>
Market value of listed securities	<u>89,892,883</u>	<u>31,300,021</u>	<u>121,192,904</u>
Debt securities are comprised of the following items:			
– Treasury bills	34,074,150	14,895,136	48,969,286
– Certificates of deposit held	147,606	1,498,097	1,645,703
– Other debt securities	115,681,987	30,205,398	145,887,385
	<u>149,903,743</u>	<u>46,598,631</u>	<u>196,502,374</u>
Investment securities are analysed by category of issuer as follows:			
– Central governments and central banks	41,365,302	21,698,003	63,063,305
– Public sector entities	780,149	947,049	1,727,198
– Banks and other financial institutions	44,140,045	15,855,325	59,995,370
– Corporate entities	66,088,858	8,098,254	74,187,112
	<u>152,374,354</u>	<u>46,598,631</u>	<u>198,972,985</u>

### 24 Investment properties

	30 Jun 2020 HK\$'000	31 Dec 2019 HK\$'000
Carrying amount at 1 January	135,234	140,135
Net revaluation loss	(2,958)	(4,200)
Exchange difference	–	(701)
Carrying amount at 30 June/31 December	<u>132,276</u>	<u>135,234</u>

**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**
**25 Property, plant and equipment**
**(a) Reconciliation of carrying amount**

	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 2019 and 1 January 2020:					
Cost or valuation	870,872	420,743	470,926	1,521,014	3,283,555
Accumulated depreciation and impairment	(263,680)	(283,555)	(341,260)	(498,993)	(1,387,488)
At 1 January 2020	607,192	137,188	129,666	1,022,021	1,896,067
Additions	–	33,018	38,428	618,398	689,844
Disposals	–	(124)	(2,549)	(10,542)	(13,215)
Revaluation	(12,472)	–	–	–	(12,472)
Depreciation provided during the year	(7,655)	(25,112)	(22,086)	(259,419)	(314,272)
Exchange rate and other adjustments	11,278	–	1,332	(15,354)	(2,744)
Net book value at 30 June 2020	598,343	144,970	144,791	1,355,104	2,243,208
At 30 June 2020:					
Cost or valuation	849,558	448,069	493,442	2,105,695	3,896,764
Accumulated depreciation and impairment	(251,215)	(303,099)	(348,651)	(750,591)	(1,653,556)
Net book value at 30 June 2020	598,343	144,970	144,791	1,355,104	2,243,208
The analysis of cost or valuation of the above assets is as follows:					
At 30 June 2020:					
At cost	–	448,069	493,442	2,105,695	3,047,206
At valuation	598,343	–	–	–	598,343
	598,343	448,069	493,442	2,105,695	3,645,549

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 25 Property, plant and equipment (continued)

#### (a) Reconciliation of carrying amount (continued)

	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	–	–	–	1,309,616	1,309,616
At 1 January 2019	627,090	154,850	119,311	1,309,616	2,210,867
Additions	–	28,900	54,183	211,633	294,716
Transfer in/(out)	–	77	(77)	–	–
Disposals	–	(7,286)	(9,240)	(188)	(16,714)
Revaluation	(1,474)	–	–	–	(1,474)
Depreciation provided during the year	(17,240)	(39,353)	(41,597)	(499,313)	(597,503)
Exchange rate and other adjustments	(1,184)	–	7,086	273	6,175
Net book value at 31 December 2019	607,192	137,188	129,666	1,022,021	1,896,067
At 31 December 2019:					
Cost or valuation	870,872	420,743	470,926	1,521,014	3,283,555
Accumulated depreciation and impairment	(263,680)	(283,555)	(341,260)	(498,993)	(1,387,488)
Net book value at 31 December 2019	607,192	137,188	129,666	1,022,021	1,896,067
The analysis of cost or valuation of the above assets is as follows:					
At 31 December 2019:					
At cost	–	420,743	470,926	1,521,014	2,412,683
At valuation	607,192	–	–	–	607,192
	607,192	420,743	470,926	1,521,014	3,019,875

**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**
**25 Property, plant and equipment (continued)**
**(b) Right-of-use assets**

	<b>30 Jun 2020</b>	31 Dec 2019
	<b>HK\$'000</b>	HK\$'000
Right-of-use assets – Premises, with remaining lease term of:		
– Not later than 1 year	<b>47,690</b>	68,397
– Later than 1 year and not later than 2 years	<b>49,962</b>	198,206
– Later than 2 years and not later than 5 years	<b>223,731</b>	741,274
– More than 5 years	<b>1,022,931</b>	–
	<b>1,344,314</b>	1,007,877
Right-of-use assets – Other equipment	<b>234</b>	420
Right-of-use assets – Others	<b>10,556</b>	13,724
	<b>1,355,104</b>	1,022,021

**26 Other assets**

	<b>30 Jun 2020</b>	31 Dec 2019
	<b>HK\$'000</b>	HK\$'000
Interest receivable	<b>4,135,695</b>	5,046,169
Prepayments	<b>263,412</b>	204,261
Settlement accounts	<b>3,952,184</b>	4,052,529
Margin deposit paid	<b>9,943,654</b>	5,361,635
Factoring	<b>1,032,901</b>	1,879,622
Others	<b>726,590</b>	473,010
	<b>20,054,436</b>	17,017,226
Less: impairment allowances for other assets		
– 12-month ECL	<b>(55,557)</b>	(28,639)
– Lifetime ECL credit-impaired	<b>(10,318)</b>	(3,180)
	<b>19,988,561</b>	16,985,407

**27 Deposits from banks and other financial institutions**

	<b>30 Jun 2020</b>	31 Dec 2019
	<b>HK\$'000</b>	HK\$'000
Deposits from banks and other financial institutions	<b>179,913,370</b>	207,074,805

In respect of repurchase transactions, the fair value of collateral which were permitted to be sold or repledged from the Group was HK\$26,320,826,000 as at 30 June 2020 (2019: HK\$17,337,047,000). The transactions are conducted on terms that are usual and customary to standard lending activities.

# NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

## 28 Deposits from customers

	30 Jun 2020 HK\$'000	31 Dec 2019 HK\$'000
Demand deposits and current accounts	37,999,825	37,037,350
Savings deposits	141,822,616	114,496,475
Time, call and notice deposits	381,506,124	383,743,272
	<u>561,328,565</u>	<u>535,277,097</u>

## 29 Deferred income tax

The movements in the deferred income tax asset accounts are as follows:

	30 Jun 2020 HK\$'000	31 Dec 2019 HK\$'000
At 1 January	379,507	749,768
Credited to income statement	101,616	21,280
Debited to equity	(337,397)	(387,495)
Exchange and other adjustments	(3,220)	(4,046)
At 30 June/31 December	<u>140,506</u>	<u>379,507</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 2020 HK\$'000	31 Dec 2019 HK\$'000
Net deferred income tax assets recognised in the consolidated statement of financial position	340,870	379,507
Net deferred income tax liabilities recognised in the consolidated statement of financial position	(200,364)	—
At 30 June/31 December	<u>140,506</u>	<u>379,507</u>

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 30 Subordinated debts measured at amortised cost

	30 Jun 2020		31 Dec 2019	
	HK\$'000	Interest rate %	HK\$'000	Interest rate %
Subordinated fixed rate notes				
– with a final maturity on				
30 November 2020	<u>3,873,736</u>	5.125%	<u>3,889,974</u>	5.125%

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.

The Bank has not had any defaults of principal or interest or other breaches with respect to the subordinated debts during the period (2019: Nil).

### 31 Other liabilities

	30 Jun 2020	31 Dec 2019
	HK\$'000	HK\$'000
Interest payable	4,794,820	5,478,744
Salaries and welfare payable	633,090	687,629
Settlement accounts	5,887,797	12,608,374
Margin deposit received	1,295,026	1,449,786
Factoring	1,032,901	1,879,622
Lease liabilities	1,368,671	1,049,922
Others	<u>1,360,635</u>	<u>1,254,157</u>
	<u>16,372,940</u>	<u>24,408,234</u>
Impairment allowances for loan commitment and financial guarantees		
– 12-month ECL	220,466	71,675
– Lifetime ECL not credit-impaired	<u>1,255</u>	<u>3,512</u>
	<u>16,594,661</u>	<u>24,483,421</u>

The Group has not had any defaults of principal, interest or other breaches with respect to their liabilities during the period (2019: Nil).

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 31 Other liabilities (continued)

#### 31.1 Lease liabilities

The maturity profile for lease liabilities associated with leased premises and equipment assets is as follows:

As at 30 Jun 2020	One year or less HK\$'000	Between one year and two years HK\$'000	Between two years and five years HK\$'000	More than five years HK\$'000	Total HK\$'000
Other liabilities – lease liabilities	90,129	138,454	197,365	942,723	1,368,671
As at 31 Dec 2019	One year or less HK\$'000	Between one year and two years HK\$'000	Between two years and five years HK\$'000	More than five years HK\$'000	Total HK\$'000
Other liabilities – lease liabilities	74,962	185,455	789,505	–	1,049,922

### 32 Share capital

	Number of shares (in thousands)	Ordinary shares HK\$'000
At 1 January 2020 & 30 June 2020	<u>2,749,000</u>	<u>44,187,631</u>
At 1 January 2019	2,577,000	36,379,331
Capital injection	<u>172,000</u>	<u>7,808,300</u>
At 31 December 2019	<u>2,749,000</u>	<u>44,187,631</u>

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.

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 33 Additional Equity Instruments

	30 Jun 2020 HK\$'000	31 Dec 2019 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	19,897,375	19,897,375
	<u>27,635,707</u>	<u>27,635,707</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 US\$1 billion Additional Tier 1 Capital Securities from 21 July 2021 or any subsequent distribution payment date thereafter.

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.

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 33 Additional Equity Instruments (continued)

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 2020, the Group has earmarked a "Regulatory Reserve" of HK\$632,781,000 (31 December 2019: HK\$1,332,243,000) 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\$2,533,925,000 (31 December 2019: HK\$6,734,430,000) 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 2020	30 Jun 2019
	HK\$'000	HK\$'000
Interest income	<b>1,205,610</b>	1,339,528
Interest expense	<b>331,903</b>	905,517
Operating income <sup>1,2</sup>	<b>863,796</b>	740,566
Operating expenses <sup>3,4</sup>	<b>246,051</b>	335,696
	<b>30 Jun 2020</b>	31 Dec 2019
	<b>HK\$'000</b>	<b>HK\$'000</b>
Amounts due from	<b>118,056,846</b>	127,137,580
Amounts due to	<b>95,367,294</b>	105,111,323

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 and 19 January 2015, 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 28 August 2019 (as amended and supplemented by supplemental agreements), and the service levels agreement with subsidiary of the Bank dated 21 January 2019, 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 20 February 2019, 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*

As at 30 June 2020, all certificates of deposit issued to the branch of ultimate holding company had been repaid (first half of 2019: certificates of deposit with a nominal value of RMB80,000,000).

(ii) *Committed facilities*

As at 30 June 2020, the Bank has committed facilities to the ultimate holding company in the amount of RMB700,000,000 (2019: RMB700,000,000). The Bank also received conglomerate guarantee on loan from the ultimate holding company in the amount of HK\$8,497,382,000 (2019: HK\$9,254,815,000).

(iii) *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 2020 (first half of 2019: HK\$ Nil).

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 35 Related-party transactions (continued)

#### 35.1 Ultimate holding company (continued)

##### (iv) Sub-participation of loans

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\$4,370,472,000 (first half of 2019: HK\$9,508,016,000). For both the first half of 2020 and 2019, there was no sub-participation in loans of the Branch by the Bank. The total fee attributable to the above transactions of approximately HK\$3,883,000 (first half of 2019: HK\$6,577,000) 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

	<b>Six months ended</b>	
	<b>30 Jun 2020</b>	<b>30 Jun 2019</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interest income	<b>109,482</b>	170,785
Interest expense	<b>47,478</b>	16,343
Operating income	<b>336,732</b>	338,684
Operating expense	<b>142,859</b>	212,377
	<b>30 Jun 2020</b>	<b>31 Dec 2019</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Amounts due from	<b>7,394,397</b>	9,261,923
Amounts due to	<b>2,153,835</b>	13,536,780

#### 35.3 Associates

	<b>Six months ended</b>	
	<b>30 Jun 2020</b>	<b>30 Jun 2019</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interest income	–	211
Interest expense	<b>1</b>	499
	<b>30 Jun 2020</b>	<b>31 Dec 2019</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Amounts due from	–	–
Amounts due to	<b>285,234</b>	1,118

## 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 2020	30 Jun 2019
	HK\$'000	HK\$'000
Interest income	748,258	1,225,765
Interest expense	48,954	87,254
Operating income	125,192	43,128
Operating expense	14,379	35,264
	30 Jun 2020	31 Dec 2019
	HK\$'000	HK\$'000
Amounts due from	53,674,181	63,999,857
Amounts due to	5,744,372	6,084,639

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 2020	30 Jun 2019
	HK\$'000	HK\$'000
Employee benefits	19,969	12,763

## 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.

	<b>Six months ended</b>	
	<b>30 Jun 2020</b>	30 Jun 2019
	<b>HK\$'000</b>	HK\$'000
Interest income	<b>374</b>	68
Interest expense	<b>1,089</b>	852
	<b>30 Jun 2020</b>	31 Dec 2019
	<b>HK\$'000</b>	HK\$'000
Loans and advances	<b>33,377</b>	18,386
Deposits	<b>203,251</b>	163,904

### 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)

#### *Repurchase transactions and securities lending transactions (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 2020		31 Dec 2019	
	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	5,695,237	2,832,934	7,899,200	4,800,100
Securities lending agreements	12,563,145	12,060,027	12,569,282	11,451,058

#### **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 2020, the Group retained obligation on those PRC discounted bills transferred but not matured with a carrying amount of HK\$317,454,000 (31 December 2019: HK\$1,232,108,000).

### 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 2020 Contractual amount HK\$'000	30 Jun 2020 Credit risk weighted amount HK\$'000	31 Dec 2019 Contractual amount HK\$'000	31 Dec 2019 Credit risk weighted amount HK\$'000
Direct credit substitutes	5,177,232	4,248,869	4,723,364	3,474,610
Transaction-related contingencies	90,528	43,704	99,907	46,397
Trade-related contingencies	9,999,361	1,943,704	7,759,587	1,513,245
Asset sales with recourse	317,454	158,727	—	—
Forward deposit placed	2,441,282	1,220,641	4,000,000	800,000
Other commitments with an original maturity of:				
– Unconditionally cancellable	143,524,713	—	157,913,997	—
– With original maturity of less than one year	—	—	—	—
– With original maturity of over one year	51,639,407	25,038,856	58,873,304	29,011,392
	<u>213,189,977</u>	<u>32,654,501</u>	<u>233,370,159</u>	<u>34,845,644</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 2020 and 31 December 2019 not provided for in the financial statements are as follows:

	<b>30 Jun 2020</b>	31 Dec 2019
	<b>HK\$'000</b>	HK\$'000
Expenditure contracted, but not provided for	<b>6,744</b>	4,718
Expenditure authorized, but not contracted for	–	9,336
	<u><b>6,744</b></u>	<u>14,054</u>

#### 37.3 Operating lease commitments

At 30 June 2020, the total future lease payments under non-cancellable operating leases were payable as follows:

	<b>30 Jun 2020</b>	31 Dec 2019
	<b>HK\$'000</b>	HK\$'000
Land and buildings		
– Not later than one year	<b>1,594</b>	8,664
– Later than one year and not later than five years	<b>27</b>	41
– More than five years	–	8
	<u><b>1,621</b></u>	<u>8,713</u>

## 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 2020, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 Jun 2020 HK\$'000	31 Dec 2019 HK\$'000
Within one year	3,982	4,939
In the second to fifth years, inclusive	9,694	12,291
After five years	—	—
	<u>13,676</u>	<u>17,230</u>

During the period, the Group had no unrecognised contingent rentals receivable (2019: Nil).

### 38 Offsetting of financial assets and financial liabilities

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

At 30 Jun 2020	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
Derivatives financial assets	9,065,713	—	9,065,713	(2,115,411)	(938,847)	6,011,455
Other assets	614,913	—	614,913	(322,997)	—	291,916
	<u>9,680,626</u>	<u>—</u>	<u>9,680,626</u>	<u>(2,438,408)</u>	<u>(938,847)</u>	<u>6,303,371</u>

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

At 30 Jun 2020	Gross amounts of recognized financial liabilities 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 pledged HK\$'000	Net amount HK\$'000
Derivatives financial liabilities	3,256,906	–	3,256,906	(2,115,411)	(1,029,765)	111,730
Other liabilities	513,730	–	513,730	(322,997)	–	190,733
	<u>3,770,636</u>	<u>–</u>	<u>3,770,636</u>	<u>(2,438,408)</u>	<u>(1,029,765)</u>	<u>302,463</u>
Amounts not set off in the balance sheet						
At 31 Dec 2019	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	Financial instruments HK\$'000	Cash collateral received HK\$'000	Net amount HK\$'000
Derivatives financial assets	8,853,510	–	8,853,510	(2,024,400)	(869,435)	5,959,675
Other assets	452,683	–	452,683	(344,528)	–	108,155
	<u>9,306,193</u>	<u>–</u>	<u>9,306,193</u>	<u>(2,368,928)</u>	<u>(869,435)</u>	<u>6,067,830</u>
Amounts not set off in the balance sheet						
At 31 Dec 2019	Gross amounts of recognized financial liabilities HK\$'000	Gross amounts offset in the balance sheet HK\$'000	Net amounts presented in the balance sheet HK\$'000	Financial instruments HK\$'000	Cash collateral pledged HK\$'000	Net amount HK\$'000
Derivatives financial liabilities	3,521,168	–	3,521,168	(2,024,400)	(785,223)	711,545
Other liabilities	520,574	–	520,574	(344,528)	–	176,046
	<u>4,041,742</u>	<u>–</u>	<u>4,041,742</u>	<u>(2,368,928)</u>	<u>(785,223)</u>	<u>887,591</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 2020		31 Dec 2019	
	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	9,065,713	614,913	8,853,510	452,683
Financial assets not in scope of offsetting disclosure	5,659,176	19,373,648	1,337,149	16,532,724
	<u>14,724,889</u>	<u>19,988,561</u>	<u>10,190,659</u>	<u>16,985,407</u>

	30 Jun 2020		31 Dec 2019	
	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	3,256,906	513,730	3,521,168	520,574
Financial liabilities not in scope of offsetting disclosure	9,403,362	16,080,931	4,246,906	23,962,847
	<u>12,660,268</u>	<u>16,594,661</u>	<u>7,768,074</u>	<u>24,483,421</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:

	<b>30 June 2020</b>	
	<b>Carrying amount HK\$'000</b>	<b>Maximum exposure HK\$'000</b>
Investment funds	7,775,860	7,775,860
Segregated asset management plans	213,600	213,600
	<b>7,989,460</b>	<b>7,989,460</b>
	<b>31 December 2019</b>	
	<b>Carrying amount HK\$'000</b>	<b>Maximum exposure HK\$'000</b>
Investment funds	7,954,486	7,954,486
Segregated asset management plans	163,064	163,064
	<b>8,117,550</b>	<b>8,117,550</b>

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:

	<b>30 June 2020</b>		
	<b>Loans HK\$'000</b>	<b>Financial assets measured at FVTPL HK\$'000</b>	<b>Derivative financial assets HK\$'000</b>
Investment funds	4,196,504	473,965	3,105,391
Segregated asset management plans	–	213,600	–
	<b>4,196,504</b>	<b>687,565</b>	<b>3,105,391</b>

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 39 Involvement with unconsolidated structured entities (continued)

		31 December 2019	
	Loans	Financial assets	Derivative
	HK\$'000	measured at FVTPL HK\$'000	financial assets HK\$'000
Investment funds	4,258,209	453,604	3,242,673
Segregated asset management plans	—	163,064	—
	<u>4,258,209</u>	<u>616,668</u>	<u>3,242,673</u>

### 40 Notes on condensed consolidated statement of cash flows

Reconciliation with the consolidated statement of financial position:

	30 Jun 2020 HK\$'000	30 Jun 2019 HK\$'000
Cash and balances with banks and other financial institutions	121,066,590	122,690,985
Placement with banks and other financial institutions	<u>106,247,122</u>	<u>138,467,288</u>
Amounts shown in the consolidated statement of financial position	227,313,712	261,158,273
Less: amounts with original maturity of beyond three months	<u>(115,519,290)</u>	<u>(119,309,863)</u>
Cash and cash equivalents in the condensed consolidated cash flow statement	<u>111,794,422</u>	<u>141,848,410</u>

### 41 Impacts of COVID-19 pandemic

The impact of COVID-19 pandemic continued to evolve during the first half of 2020, it triggered threats and brought uncertainties in the Group's operating environment.

To cope with the crisis and stabilised business operations, the Group has developed incident management plans including split-team operations, work-from-home arrangements, video conference and provided sanitary items and protective equipment to all staff, etc. The Group also enhanced online service during these period. These measures are successful and no significant adverse impact on the Group's operations due to the COVID-19 pandemic has been identified so far.

The Group performs regular stress tests on credit risk and market risk, to assess any potential impact of stressed business condition on the Group. Ad-hoc analyses and risk alerts are timely report to seniors and business lines for awareness.

The Group will continue to closely monitor the potential impact of COVID-19, and will take remedy action plan whenever necessary.

## 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 2020	
		Total assets HK\$'000	Total equity HK\$'000
ICBC (Asia) Bullion Company Limited	Inactive	7,219	7,205
ICBC (Asia) Futures Company Limited	Provision of futures business	103,167	103,108
ICBC Asset Management (Global) Company Limited*	Provision of asset management services	455,542	391,776
ICBC (Asia) Securities Limited	Provision of securities brokerage services	2,308,396	1,083,637
ICBC (Asia) Trustee Company Limited	Provision of trustee services	98,087	92,975
ICBC (Asia) Financial Services Company Limited	Provision of trustee and company services	–	–
Greater China Fund	Trust fund	4,940,563	4,935,981

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

As at 30 June, 2020, 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.

	<b>30 Jun 2020</b> <b>HK\$'000</b>	31 Dec 2019 HK\$'000
Common Equity Tier 1 ("CET1") Capital		
CET1 capital instruments	<b>44,187,631</b>	44,187,631
Share premium arising from CET1 capital instruments	–	–
Retained earnings	<b>59,337,467</b>	56,716,165
of which: unaudited profit or loss of the current financial year and profit or loss of the immediately preceding financial year pending audit completion	<b>3,268,279</b>	8,030,034
Disclosed reserves	<b>1,776,886</b>	3,735,870
of which: fair value through other comprehensive income – financial assets	<b>(847,104)</b>	129,234
CET1 Capital before deductions	<b>105,301,984</b>	104,639,666
Deduct:		
Cumulative cash flow hedge reserves that relate to the hedging of financial instruments that are not fair valued on the balance sheet	<b>433,775</b>	137,771
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	<b>(243,884)</b>	(654,494)
Regulatory reserve for general banking risk	<b>(632,781)</b>	(1,332,243)
Goodwill (net of related deferred tax liability)	<b>(980,154)</b>	(980,154)
Other intangible assets (net of related deferred tax liability)	<b>(12,280)</b>	(14,872)
Deferred tax assets in excess of deferred tax liabilities	<b>(340,004)</b>	(379,507)
Cumulative losses below depreciated cost arising from the Institution's holdings of land and building	<b>(256)</b>	(286)
Debit valuation adjustments in respect of derivative contracts	<b>(6,666)</b>	(4,078)
CET1 Capital after deductions	<b>103,519,734</b>	101,411,803
Add:		
Additional Tier 1 Capital after deductions	<b>27,392,147</b>	27,518,149
Tier 1 Capital after deductions	<b>130,911,881</b>	128,929,952
Common Equity Tier 2 ("CET 2") Capital		
Tier 2 capital instruments issued and share premium	<b>771,034</b>	774,581
of which: amount that is subject to phase out	<b>771,034</b>	774,581
Reserve attributable to fair value gains on revaluation of holdings of land and buildings	<b>109,748</b>	294,522
Regulatory reserve for general banking risks and collective provisions included in Tier 2 Capital (limited to 1.25% of risk-weighted amount)	<b>4,459,966</b>	4,705,055
Tier 2 Capital before deductions	<b>5,340,748</b>	5,774,158
Deductions	–	–
Tier 2 Capital after deductions	<b>5,340,748</b>	5,774,158
Total capital base after deductions	<b>136,252,629</b>	134,704,110

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

	<b>30 Jun 2020</b>	Restated 31 Dec 2019
	<b>HK\$'000</b>	HK\$'000
Risk-weighted assets		
Credit risk	<b>615,674,786</b>	606,005,177
Market risk	<b>21,898,938</b>	22,935,450
Operational risk	<b>26,725,938</b>	26,478,438
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	<b>(134,136)</b>	(359,972)
Total risk-weighted assets	<b><u>664,165,526</u></b>	<u>655,059,093</u>
	<b>30 Jun 2020</b>	Restated 31 Dec 2019
CET1 capital ratio	<b>15.59%</b>	15.48%
Tier 1 capital ratio	<b>19.71%</b>	19.68%
Total capital ratio	<b>20.51%</b>	20.56%
Capital conservation buffer ratio	<b>2.50%</b>	2.50%

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 has been published on its website ([www.icbcasia.com](http://www.icbcasia.com)) according to the Banking (Disclosure) Rules and included 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 2019 onwards, in accordance with the Banking (Liquidity) Rules issued by the HKMA.

	2020	2019
Average liquidity coverage ratio		
– First quarter	239.91%	184.02%
– Second quarter	186.61%	210.62%
– Third quarter	Not applicable	182.72%
– Fourth quarter	Not applicable	191.29%

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](http://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 2020	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	284,706,559	2,699,794	3,378,182	1,994,105	1,166,969
Mainland China	144,791,340	1,532,409	1,532,381	963,270	1,620,592
Macau	1,035,769	–	–	–	27,816
Asia Pacific Region (excluding Hong Kong, Mainland China and Macau)	12,965,072	1,242	1,242	–	239,761
Others	21,446,060	348	252	3,000	282,394
	<u>464,944,800</u>	<u>4,233,792</u>	<u>4,912,057</u>	<u>2,960,375</u>	<u>3,337,532</u>

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

31 December 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	267,462,868	2,665,856	3,385,343	1,823,017	1,353,348
Mainland China	147,962,934	1,582,957	1,598,415	646,263	1,412,156
Macau	2,372,812	—	—	—	22,539
Asia Pacific Region (excluding Hong Kong, Mainland China and Macau)	12,983,184	—	—	—	175,218
Others	12,477,954	387	—	—	94,628
	<u>443,259,752</u>	<u>4,249,200</u>	<u>4,983,758</u>	<u>2,469,280</u>	<u>3,057,889</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	financial	Non-financial	
	HK\$ million	HK\$ million	institution	sector	HK\$ million
<b>30 June 2020</b>					
Developed countries	35,544	8,920	3,155	43,819	91,438
Offshore centres	9,546	32,785	7,699	315,416	365,446
Developing Europe	46	2	–	–	48
Developing Latin America and Caribbean	–	–	–	–	–
Developing Africa and Middle East	256	–	–	1,212	1,468
Developing Asia-Pacific	191,727	33,187	29,123	175,879	429,916
of which: China	190,780	33,187	29,123	169,844	422,934
Others	947	–	–	6,035	6,982
International organisations	–	465	–	–	465
	<u>237,119</u>	<u>75,359</u>	<u>39,977</u>	<u>536,326</u>	<u>888,781</u>
<b>31 December 2019</b>					
Developed countries	44,581	12,121	1,918	34,896	93,516
Offshore centres	14,471	31,985	7,192	313,612	367,260
Developing Europe	132	–	–	–	132
Developing Latin America and Caribbean	10	–	–	–	10
Developing Africa and Middle East	351	–	–	1,174	1,525
Developing Asia-Pacific	218,707	33,449	40,953	154,544	447,653
of which: China	217,854	33,449	40,953	148,282	440,538
Others	853	–	–	6,262	7,115
International organisations	–	2,614	–	–	2,614
	<u>278,252</u>	<u>80,169</u>	<u>50,063</u>	<u>504,226</u>	<u>912,710</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.

<b>30 June 2020</b>	<b>On-balance sheet exposure HK\$'000</b>	<b>Contingent Liabilities HK\$'000</b>	<b>FX and derivatives contract HK\$'000</b>	<b>Total exposures HK\$'000</b>
Type of counterparties				
(a) Central government central government owned entities and their subsidiaries and JVs	128,457,006	1,447,156	438,598	130,342,760
(b) Local government, local government owned entities and their subsidiaries and JVs	46,145,370	3,194,601	23,257	49,363,228
(c) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	113,270,449	7,805,896	7,065	121,083,410
(c) (i) Of which, PRC nationals residing in Mainland China or entities beneficially owned by Mainland interest	98,421,650	7,511,345	7,065	105,940,060
(d) Other entities of central government not reported in item (a) above	19,016,172	3,014	–	19,019,186
(e) Other entities of local government not reported in item (b) above	4,066,292	420,289	14,227	4,500,808
(f) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	12,497,374	–	60,034	12,557,408
(g) Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	13,796,162	697,007	102,343	14,595,512
	<u>337,248,825</u>	<u>13,567,963</u>	<u>645,524</u>	<u>351,462,312</u>

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

3 Segmental information (continued)

3.3 Mainland activities (continued)

31 December 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	118,717,148	1,340,637	94,507	120,152,292
(b) Local government, local government owned entities and their subsidiaries and JVs	30,864,499	2,780,727	26,803	33,672,029
(c) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	113,748,747	5,615,693	121,512	119,485,952
(c) (i) Of which, PRC nationals residing in Mainland China or entities beneficially owned by Mainland interest	97,548,903	5,220,710	121,512	102,891,125
(d) Other entities of central government not reported in item (a) above	15,421,384	–	–	15,421,384
(e) Other entities of local government not reported in item (b) above	3,474,974	51,837	9,249	3,536,060
(f) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	13,451,349	2,781	26,306	13,480,436
(g) Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	17,640,861	1,228,789	13,118	18,882,768
	<u>313,318,962</u>	<u>11,020,464</u>	<u>291,495</u>	<u>324,630,921</u>

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

	<b>30 Jun 2020</b>	<b>30 Jun 2020</b>	<b>31 Dec 2019</b>	<b>31 Dec 2019</b>
	<b>Gross loans</b>	<b>% of secured</b>	<b>Gross loans</b>	<b>% of secured</b>
	<b>and advances</b>	<b>advances</b>	<b>and advances</b>	<b>advances</b>
	<b>HK\$'000</b>		<b>HK\$'000</b>	
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	<b>41,880,914</b>	<b>55.78%</b>	43,147,921	35.32%
– Property investment	<b>34,417,598</b>	<b>58.06%</b>	30,942,860	47.88%
– Financial concerns	<b>30,837,240</b>	<b>6.39%</b>	29,131,995	3.34%
– Stockbrokers	<b>3,332,573</b>	<b>0.00%</b>	3,425,817	0.00%
– Wholesale and retail trade	<b>8,082,368</b>	<b>77.04%</b>	10,944,231	60.24%
– Civil engineering works	<b>1,388,215</b>	<b>52.31%</b>	1,476,834	52.72%
– Manufacturing	<b>9,136,348</b>	<b>17.95%</b>	9,256,494	19.01%
– Transport and transport equipment	<b>25,121,998</b>	<b>59.63%</b>	21,649,344	77.03%
– Electricity and gas	<b>5,800,074</b>	<b>0.00%</b>	1,474,176	0.00%
– Information technology	<b>7,744,024</b>	<b>0.89%</b>	4,998,704	1.54%
– Recreational activities	<b>2,167,698</b>	<b>73.95%</b>	2,178,796	55.41%
– Hotels, boarding houses				
and catering	<b>539,110</b>	<b>5.84%</b>	550,073	5.89%
– Others	<b>22,968,129</b>	<b>23.92%</b>	26,597,425	20.35%
Individuals				
– Loans for the purchase of flats in				
Home Ownership Scheme, Private				
Sector Participation Scheme and				
Tenants Purchase Scheme	<b>328,480</b>	<b>98.32%</b>	345,337	97.82%
– Loans for the purchase of other				
residential properties	<b>50,795,373</b>	<b>99.59%</b>	46,832,765	98.62%
– Credit card advances	<b>499,336</b>	<b>0.00%</b>	477,515	0.00%
– Others	<b>21,636,185</b>	<b>31.17%</b>	18,997,634	35.24%
Trade finance	<b>13,757,470</b>	<b>37.28%</b>	11,936,557	42.34%
Loans for use outside Hong Kong	<b>184,511,667</b>	<b>32.25%</b>	178,895,274	32.02%
	<b><u>464,944,800</u></b>	<b>42.66%</b>	<b><u>443,259,752</u></b>	<b>40.41%</b>

**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:

	<b>30 Jun 2020</b>	31 Dec 2019
	<b>HK\$'000</b>	HK\$'000
(a) Loans for use outside Hong Kong		
Individually impaired loans	<b>2,984,119</b>	3,093,776
Overdue loans and advances over three months	<b>2,799,238</b>	2,832,439
Lifetime ECL credit-impaired	<b>1,636,811</b>	1,397,065
Lifetime ECL not credit-impaired	<b>325,971</b>	330,583
12-month ECL	<b>2,055,600</b>	1,288,699
New impairment allowances charged to income statement	<b>1,002,034</b>	(375,760)
Impaired loans and advances written off during the period/year	–	1,138,452

**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.

<b>Group</b>	<b>Other foreign</b>			
<b>30 June 2020</b>	<b>US\$</b>	<b>RMB</b>	<b>currencies</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Non-structural position</b>				
Spot assets	<b>344,917,291</b>	<b>181,723,731</b>	<b>51,920,260</b>	<b>578,561,282</b>
Spot liabilities	<b>(323,335,410)</b>	<b>(160,576,064)</b>	<b>(56,578,741)</b>	<b>(540,490,215)</b>
Forward purchases	<b>268,612,141</b>	<b>130,363,665</b>	<b>74,923,675</b>	<b>473,899,481</b>
Forward sales	<b>(291,642,707)</b>	<b>(151,738,855)</b>	<b>(70,389,323)</b>	<b>(513,770,885)</b>
Net option position	<b>(2,759,315)</b>	<b>378,211</b>	<b>219,489</b>	<b>(2,161,615)</b>
Net long/(short) position	<b>(4,208,000)</b>	<b>150,688</b>	<b>95,360</b>	<b>(3,961,952)</b>
Net structural position	<b>212,640</b>	<b>12,316,162</b>	<b>–</b>	<b>12,528,802</b>

**SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)**
**5 Currency concentration (continued)**

Group 31 December 2019	US\$ HK\$'000	RMB HK\$'000	Other foreign currencies HK\$'000	Total HK\$'000
<b>Non-structural position</b>				
Spot assets	372,604,147	180,622,530	52,395,600	605,622,277
Spot liabilities	(333,897,135)	(171,979,487)	(49,343,513)	(555,220,135)
Forward purchases	267,405,021	113,978,724	86,886,933	468,270,678
Forward sales	(336,579,081)	(121,202,393)	(90,293,706)	(548,075,180)
Net option position	291,024	(496,142)	337,216	132,098
Net long/(short) position	<u>(30,176,024)</u>	<u>923,232</u>	<u>(17,470)</u>	<u>(29,270,262)</u>
Net structural position	213,618	11,832,338	–	12,045,956

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.

	<b>30 Jun 2020</b>	<b>31 Dec 2019</b>
Leverage Ratio	<u><b>13.05%</b></u>	<u>12.69%</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](http://www.icbcasia.com).

**7 Countercyclical Capital Buffer Ratio**

	<b>30 Jun 2020</b>	<b>31 Dec 2019</b>
Countercyclical Capital Buffer Ratio	<u><b>0.60%</b></u>	<u>1.18%</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](http://www.icbcasia.com).

**8 Net Stable Funding Ratio**

	<b>30 Jun 2020</b>	<b>31 Dec 2019</b>
Net Stable Funding Ratio	<u><b>115.45%</b></u>	<u>119.84%</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](http://www.icbcasia.com).