

# 2018 INTERIM REPORT



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**BOARD OF DIRECTORS****Executive Directors**

Mr ZONG Jianxin (*Deputy Chairman and Chief Executive*)

Mr LAU Wai Man (*Deputy Chief Executive*)

**Non-executive Directors**

Mr ZHANG Zhaoxing (*Chairman*)

Mr ZHU Chunxiu (*Deputy Chairman*)

Mr LI Feng

Mr CHOW Cheuk Yu Alfred BBS, JP

**Independent Non-executive Directors**

Mr CHENG Yuk Wo

Mr MA Chiu Cheung Andrew

Mr LEE Ka Lun

Mr YU Lup Fat Joseph

**BOARD COMMITTEES****Audit Committee**

Mr CHENG Yuk Wo (*Chairman*)

Mr CHOW Cheuk Yu Alfred BBS, JP

Mr LEE Ka Lun

Mr YU Lup Fat Joseph

**Connected Party Transactions Committee**

Mr MA Chiu Cheung Andrew (*Chairman*)

Mr CHOW Cheuk Yu Alfred BBS, JP

Mr CHENG Yuk Wo

Mr CHAN Kam Ki Vincent (*Chief Financial Officer*)

Mr HSU Rockson (*Chief Risk Officer*)

**Nomination Committee**

Mr YU Lup Fat Joseph (*Chairman*)

Mr ZHANG Zhaoxing

Mr ZHU Chunxiu

Mr CHENG Yuk Wo

Mr MA Chiu Cheung Andrew

**Remuneration Committee**

Mr YU Lup Fat Joseph (*Chairman*)

Mr ZHANG Zhaoxing

Mr CHOW Cheuk Yu Alfred BBS, JP

Mr MA Chiu Cheung Andrew

Mr LEE Ka Lun

**Risk Committee**

Mr LEE Ka Lun (*Chairman*)

Mr ZHU Chunxiu

Mr LI Feng

Mr CHENG Yuk Wo

Mr YU Lup Fat Joseph

**SENIOR MANAGEMENT**

Mr FUNG Siu Ming (*Deputy Chief Executive*)

Mr CHAN Kam Ki Vincent (*Chief Financial Officer*)

Mr HSU Rockson (*Chief Risk Officer*)

Mr CHIU Tak Wah Edward (*Chief Operating Officer*)

Mr CHUNG Siu Kuen (*Head of Personal Banking*)

Ms CHAN Yun Ling (*Head of Financial Markets*)

Ms MA Yuen Lai Barbara (*Head of Hong Kong Corporates*)

Mr SIN Tat Wo (*Head of Mainland Corporates*)

Ms CHAN Oi Hung Blanche (*Head of Human Resources*)

Ms LAI Wing Nga (*Company Secretary*)

## CORPORATE INFORMATION

as of 14 August 2018

### REGISTERED OFFICE

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Smartphone quick website access code

### PRINCIPAL LEGAL ADVISERS

Deacons  
Kwan & Chow  
Mayer Brown JSM  
Robertsons

### AUDITOR

PricewaterhouseCoopers

### SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

### STOCK CODES AND SHORT NAMES

The Stock Exchange of Hong Kong Limited's Stock Codes and Short Names in respect of the Bank's (1) shares, (2) subordinated notes due 2020, (3) undated non-cumulative subordinated additional tier 1 capital securities and (4) tier 2 subordinated notes due 2027 are (1) 01111 (CHONG HING BANK), (2) 04327 (CH BANK N2011), (3) 05804 (CH BANK UCS) and (4) 05249 (CH BANK N2707) respectively.

The year 2018 marks the 40th anniversary of the reform and opening up of China, and also the 70th anniversary of the establishment of Chong Hing Bank. During this important milestone year, Chong Hing Bank has continued to implement its five-year strategic plan and strengthen management reforms, thereby achieving significant progress in terms of business expansion, operational efficiency, and service quality.

I am pleased to announce that, in the first half of 2018, Chong Hing Bank's core businesses and overall financial position remained strong, asset quality was sound, and profitability of core businesses was enhanced. Operating profit before impairment allowances amounted to HK\$1,045 million, an improvement of 49.7% over the corresponding period in the previous year. Profit attributable to equity owners of the Bank amounted to HK\$854 million, an increase of 66.9% over the corresponding period in 2017, and earnings per share was HK\$1.19. To properly balance sharing of success and preserving capital for future growth, the Board has declared the payment of an interim cash dividend of HK\$0.17 per share for the six months ended 30 June 2018. The dividend payout for the period as a percentage of the profit attributable to equity owners less distribution paid on the additional equity instruments will be 14.39% (2017: 27.35%).

The major financial ratios for the first half of 2018 are as follows:

- Return on shareholders' equity: 10.10% (annualised)
- Average liquidity maintenance ratio: 43.58%
- Total capital ratio: 17.39% as of 30 June 2018
- Tier 1 capital ratio: 13.23% as of 30 June 2018
- Loan to deposit ratio: 73.77% as of 30 June 2018

In accordance with the positioning as stated in China's "13th Five-Year Plan", Hong Kong has been fully capitalising on its advantages as the global offshore Renminbi business hub and international asset management centre, and proactively developing the Stock Connect with the Mainland financial market. Since 1 May 2018, the daily quotas of "Shanghai-Hong Kong Stock Connect" and "Shenzhen-Hong Kong Stock Connect" have increased four-fold respectively. This move further strengthened Hong Kong's important role as a connection between the Mainland and overseas financial markets, as well as enabled Hong Kong to make greater contribution in the two-way opening between the Mainland capital market and the global capital market.

With the implementation of China's Belt and Road Initiative, the Framework Agreement on Deepening Guangdong-Hong Kong-Macao Cooperation in the Development of the Bay Area and the free trade zones in Guangdong, and the opening up of China in the financial industry, the cooperation in the financial industry between Guangdong, Hong Kong and Macau will be further promoted. As a core member of the financial sector of the Guangzhou-based Yuexiu Group, Chong Hing Bank will seize the opportunities brought by the planning of the Bay Area and take advantage of the strength of the Group, to continuously enhance the strategic position of its Mainland operations and capitalise on its advantageous positions in the unique cross-border business, so as to become an active financial player in the development of the Greater Bay Area.

## CHAIRMAN'S STATEMENT

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In the World Competitiveness Yearbook 2018 published by the International Institute for Management Development in Lausanne, Switzerland, Hong Kong was ranked as the world's second most competitive economy. As the global economic centre shifts eastwards, Hong Kong's role as an international gateway is becoming increasingly important, and it will further support the diversification of economic development while maintaining its traditional competitiveness.

Looking forward, Chong Hing Bank will strive to achieve its corporate vision of becoming “an integrated commercial bank with cross-border expertise”, relying on the customer base and industry professional expertise of Yuexiu Group, with the aim of establishing an efficient cross-border synergy, having its Guangdong, Hong Kong and Macau businesses as the foundation of the overall development, and focusing on the target customer groups in the Greater Bay Area, to provide one-stop integrated financial services. While reinforcing its solid base, Chong Hing Bank will also endeavour to expand its business in the national market, making full use of the advantages of national licenses to create presence in major areas of economic development and strengthen regional synergies, so as to establish a nationwide integrated banking business in the long run.

Finally, I would like to express my heartfelt gratitude to all the Directors for their valuable guidance and advice over the years, and to the management team and all the Bank's staff for their diligence and dedicated efforts. Also, I would like to take this opportunity to convey my sincere appreciation to our shareholders, customers and business partners for their long-term trust and support. I firmly believe that, based on the solid foundation it has laid over the past 70 years, Chong Hing Bank will continue to develop, transform and prosper, opening up new horizons as it achieves further success.

**Zhang Zhaoxing**

*Chairman*

Hong Kong, 14 August 2018

### GLOBAL ECONOMY

In the first half of 2018, the global economy continued to recover in general, with investment and trade activities remaining positive, and the International Monetary Fund predicted a global economic growth of 3.9% for the year. Driven by the positive contributions from personal consumption expenditures and exports, the Gross Domestic Product (GDP) of the US for the second quarter grew by 4.1% year-on-year. The US Federal Reserve ("Fed") announced its second interest rate hike in 2018 at the meeting of the Federal Open Market Committee in June 2018, and is expected to raise interest rates twice more during the year. At the same time, the Fed warned that trade tensions and high asset value estimates will heat up global economic risks. In recent months, the US announced that it had introduced restrictions on imported goods and investment from Mainland China, in response to which the Chinese government has staged corresponding countermeasures. The dispute between China and the US on trade issues has been affecting the global trade and economic atmosphere. Economic growth in the Eurozone slowed down with GDP growth of 2.1% year-on-year for the second quarter of 2018, following which the European Central Bank announced that it would end its quantitative easing policy by the end of the year and keep interest rates unchanged until next summer.

The Asian economy has benefited from the expansion of the global economy, and recorded impressive export growth for the year despite the gloom spreading from geopolitical and trade risks. The Central Bank of Japan maintained its super-loose monetary policy and expected that its economy would have moderate growth this year. The economy in Mainland China slowed down in the first half of the year, with GDP growth of 6.8% in real terms. Investment growth declined as the scale of new loans and social financing continued to fall. Domestic consumption has become a stabiliser for economic growth while Mainland China is also facing such factors affecting its economic performance as the uncertainties in the external environment and domestic structural adjustment. As for the core cities in the Pearl River Delta, Guangzhou's economy has maintained steady growth, with GDP growth of 6.2% year-on-year for the first half of 2018, while the main economic indicators of Shenzhen continued to rise, with GDP growth of 8.0% year-on-year for the second quarter of the year. The People's Bank of China's comprehensive use of monetary policy tools in the first half of the year has reflected its preference for a stable, neutral and moderate monetary policy while maintaining reasonable and adequate liquidity. The exchange rate of the RMB against the US dollar fluctuated due to factors such as the strengthening of the US dollar and external uncertainties, with the onshore price (CNY) and offshore price (CNH) of RMB depreciating by 1.7% and 1.85% respectively in the first half of the year.

Benefiting from the general improvement of the global economy, Hong Kong's economy remained prosperous, with GDP growth of 4.0% for the first half of the year in real terms over the same period of the previous year. The growth in external demand has been accelerating, with trade volume constantly rising and private consumption expenditure increasing significantly. The active financial market has also contributed to driving Hong Kong's exports of services, total exports of goods and overall investment expenditure up by 6.1%, 4.6% and 0.4% year-on-year respectively in the second quarter of 2018. Meanwhile the monetary foundation remained solid, with the total money supply (M3) increasing by 7.8% year-on-year as at the end of June. As of June, the private residential price index rose for the 27th consecutive month, hitting a record high. Hong Kong stocks fluctuated repeatedly in the first half of the year as the Hang Seng Index fell after hitting a record high in January and then repeatedly fell amidst the surrounding uncertainties, finally closing at 28,955 points on the last trading day of the first half of the year, with a total decrease of 3.2% for the first half.



## CHIEF EXECUTIVE'S STATEMENT

### RESULTS ANNOUNCEMENT AND PROFIT ANALYSIS

The results for the six months ended 30 June 2018 of the Bank, on an unaudited and consolidated basis, are summarised below:

Key Financial Data	Six months ended 30 June		Variance %
	2018 <i>HK\$'000</i> (Unaudited)	2017 <i>HK\$'000</i> (Unaudited) Restated	
1 Operating profit before impairment allowances	<b>1,045,285</b>	698,509	+49.65%
2 Profit attributable to equity owners	<b>854,154</b>	511,887	+66.86%
3 Net interest income	<b>1,360,384</b>	1,114,257	+22.09%
4 Net fee and commission income	<b>226,230</b>	147,195	+53.69%
5 Net income (loss) from trading and investments	<b>108,400</b>	(25,761)	+520.79%
6 Other operating income	<b>75,660</b>	80,088	-5.53%
7 Operating expenses	<b>725,389</b>	617,270	+17.52%
8 Net impairment losses on financial assets	<b>39,954</b>	218,533	-81.72%
	<b>As of 30 June 2018 <i>HK\$'000</i> (Unaudited)</b>	As of 31 December 2017 <i>HK\$'000</i>	Variance %
9 Total loans and advances to customers	<b>91,073,005</b>	86,698,372	+5.05%
10 Total customer deposits	<b>121,084,229</b>	118,758,674	+1.96%
11 Investment in securities	<b>42,113,827</b>	39,153,501	+7.56%
12 Total assets	<b>158,355,152</b>	163,747,114	-3.29%

## CHIEF EXECUTIVE'S STATEMENT

Key Financial Data (continued)		Six months ended 30 June		Variance %
		2018 (Unaudited)	2017 (Unaudited)	
13	Return on shareholders' equity (Note 1)	<b>10.10%</b> (annualised)	6.26% (annualised)	+3.84%
14	Earnings per share (Note 2)	<b>HK\$1.19</b>	HK\$0.67	+77.61%
15	Net interest margin	<b>1.72%</b>	1.54%	+0.18%
16	Cost to income ratio	<b>40.97%</b>	46.91%	-5.94%
17	Average liquidity maintenance ratio	<b>43.58%</b>	39.92%	+3.66%
		As of 30 June 2018 (Unaudited)	As of 31 December 2017	Variance %
18	Impaired loan ratio	<b>0.67%</b>	0.46%	+0.21%
19	Non-performing loan ratio	<b>0.58%</b>	0.56%	+0.02%
20	Loan to deposit ratio	<b>73.77%</b>	70.85%	+2.92%
21	Net assets value per share (excluding additional equity instruments and before the interim dividend)	<b>HK\$23.64</b>	HK\$23.18	+1.99%
22	Total capital ratio	<b>17.39%</b>	17.60%	-0.21%
23	Tier 1 capital ratio	<b>13.23%</b>	13.30%	-0.07%
24	Common Equity Tier 1 capital ratio	<b>11.27%</b>	11.30%	-0.03%

Notes:

- (1) Return on shareholders' equity took into consideration the coupon of the additional equity instruments relevant for the period.
- (2) Earnings per share were calculated after deducting the distribution paid on the additional equity instruments for the period.

### ANALYSIS OF KEY FINANCIAL DATA

For the first half of 2018, on an unaudited and consolidated basis, the profit attributable to equity owners of the Bank amounted to HK\$854 million, representing an increase of 66.9% over the corresponding period in 2017, while the operating profit before impairment allowances amounted to HK\$1,045 million, representing an improvement of 49.7% as compared to the corresponding period in 2017. The increase in consolidated profit for the period was mainly attributable to a widened net interest margin and higher non-interest income as well as lower impairment allowances on financial assets.

Net interest income at HK\$1,360 million was 22.1% higher than in the same period last year. The improvement in net interest income was achieved mainly through growth of loans and advances and widened net interest margin. Net interest margin at 1.72% was 18 basis points more than the corresponding period in the previous year, resulting from the rise in HKD and USD money market interest rates.

Net fee and commission income improved by 53.7% to HK\$226 million, which was mainly attributable to higher loan fees, securities dealings and wealth management income.

Foreign exchange and other treasury customer activities reported considerable growth. Net income (loss) from trading and investments recorded a gain of HK\$108 million, which was mainly due to trading income, foreign currency transactions with customers and disposal gain on debt securities.

Costs were prudently managed. The Bank strived for efficiency gains and at the same time invested in talents and systems to support business growth and expansion into the Mainland.

As of 30 June 2018, total loans and advances to customers had increased by 5.1% to HK\$91.1 billion when compared to the position as of 31 December 2017, with noticeable growth in term loans. With careful management of the exposure to credit risk, the asset quality of loans and advances continued to be good with an impaired loan ratio at 0.67% and a non-performing loan ratio at 0.58%.

Total customer deposits as of 30 June 2018 had increased by 2% to HK\$121.1 billion when compared to the position as of 31 December 2017. The Bank continued to maintain a stable deposit base, allowing the Bank to balance loan growth as well as wealth management and cross-border financial business needs.

Total assets for the period decreased by 3.3% to HK\$158.4 billion. As of 30 June 2018, 83% of the Bank's assets were based in Hong Kong.

As a result of proactive management of assets and liabilities, the Bank raised the level of loan to deposit ratio from 70.85% in December 2017 to 73.77% in June 2018, while keeping a prudent level of liquidity maintenance ratio with an average of 43.58% in the first half of 2018.

Total capital ratio decreased from 17.60% in December 2017 to 17.39% in June 2018; the Tier 1 capital ratio was at 13.23% and the Common Equity Tier 1 capital ratio was at 11.27%.

Overall, the Bank's core businesses, financial position and asset quality are strong, while the impaired loan ratio remains low. The capital adequacy ratio and liquidity maintenance ratio are above the relevant statutory requirements.

### INTERIM DIVIDEND

To properly balance the sharing of success and preserving capital for future growth, the Board has declared the payment of an interim cash dividend for 2018 of HK\$0.17 per share, payable on Tuesday, 9 October 2018 to shareholders whose names appear on the register of members of the Bank on Thursday, 27 September 2018 (2017 interim cash dividend: HK\$0.15 per share paid on 25 September 2017).

### BUSINESS REVIEW

#### Corporate Banking

Chong Hing Bank is committed to providing one-stop banking products and professional services for its corporate customers in Hong Kong and Mainland China. The Bank constantly expands its customer base and provides customers with cross-border trade and structural financing services. In addition to its participation in the "SME Loan Guarantee Scheme" of the Government of Hong Kong Special Administrative Region (HKSAR), the Bank whole-heartedly supports the "SME Financing Guarantee Scheme" offered by HKMC Insurance Limited.

The Bank actively promotes the cross-selling of financial market and wealth management products in order to improve its revenue structure. During the first half of 2018, the Bank's gross interest income from corporate banking and non-interest income both recorded a steady growth as compared with the same period of the previous year.

The Bank will continue to develop its syndicated loan business and strive to elevate its brand name in the region. During the first half of 2018, the Bank successfully procured a syndicated loan for a client as a book runner together with its Chinese peers. In addition, the Bank led the solicitation of an onshore-offshore syndicated loan for a renowned private equity fund together with an ASEAN bank. To date, the Bank has completed 10 syndicated loans, and acted as a lead arranger for 3 of them. The Bank also continuously enhanced its credit asset quality and improved loan yields via the secondary market. Moreover, the Bank achieved new milestones in its deal structuring capacity by successfully helping its clients complete a number of deals in group restructuring, cross-border acquisition and refinancing. The Bank will do its best to seize the opportunities arising from the development of the Guangdong-Hong Kong-Macao Greater Bay Area and continue to enhance its role as a financing solution provider, especially for clients with cross-border financial needs.

#### Personal Banking

The Bank provides a wide range of personal wealth management services to its clients, including mortgage loans, automobile loans, consumer finance, wealth management and private banking. Our personal banking team actively maintains the existing customer base and continuously reaches out to wealth management customers, while constantly developing products and improving customer experience, with the aim of expanding its local and cross-border businesses through a variety of promotional activities, and broadening the sources of revenue for the Bank.

## CHIEF EXECUTIVE'S STATEMENT

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In the first half of 2018, our personal banking business continued to record steady growth in all areas:

- Development of the target customer base, including high-end customers, young wealth management customers and cross-border customers, through a variety of promotional and marketing activities. Both the number of customers and total deposits recorded an increase, providing a solid funding base for the Bank's business expansion. In addition, our personal bank loan business recorded a steady growth without sacrificing the quality of loans.
- While continuously improving its wealth management services, the Bank researched and launched a number of new services, including promotion of the development of electronic distribution channels and enhancing online wealth management functions to further improve customers' wealth management experience. In the first half of the year, the Bank's wealth management products business, such as investment, life insurance and foreign exchange, achieved two-digit growth over the same period of the previous year.
- In respect of the credit card business, the Bank has launched a number of customer reward schemes and marketing campaigns to attract new customers and promote the use of credit cards in addition to actively promoting the development of its merchant acquiring business. As a result, the commission income from the credit card business recorded two-digit growth as compared with the same period of the previous year.

The Bank will continue to expand its business platform to meet the needs of its customers, develop convenient e-service channels and introduce more diversified products to meet the financial needs of local and cross-border customers. Meanwhile, it will focus on the financial business for the high-net-worth Hong Kong-Guangzhou cross-border customers, aiming to secure the long-term development of its businesses.

### Financial Markets Business

The Bank continued to develop its financial market business and achieved significant growth in such areas as treasury, product development and customer business in the first half of the year.

With regard to the treasury business, the Bank aims at optimising the balance sheet by effectively applying various financial instruments while complying with the established risk appetite, risk limits and liquidity requirements and continuing to fine-tune its investment strategy to enhance its asset quality.

The Bank has been gradually building up its product and marketing team of experienced financial market professionals. Moreover, the Bank strives to enrich its financial products and offer appropriate advice and services catering for the financial needs of different types of corporate and personal customers, thereby increasing its market share and fee income.

### Mainland Operations

#### *Business Development*

In the first half of 2018, the development of the Bank's branches and sub-branches in Mainland China was generally satisfactory, achieving steady growth in asset scale, improvement in operating efficiency, and excellent asset quality. The product offering gradually grew in diversification, with various risk management and control measures effectively implemented, and the customer base constantly consolidated.

In the first half of the year, our institution business remained in good shape and continued to receive support from the Guangzhou Municipal Government with fiscal deposits. After obtaining a series of agency qualifications in the past year, our Guangzhou Branch secured the qualification as an agency bank for non-tax revenue in Guangzhou from 2018 to 2020, providing the Bank with a long-term and stable source of deposits.

The Bank's offering in the Mainland's institutional financial market has been constantly diversified as it successfully launched a number of new products and services such as pledged repo, interbank lending, bond trading, and interbank discounting of bank acceptance bills, and the market activity has improved significantly. Our Guangzhou Branch and Shenzhen Branch have successfully hooked on to the network of the national inter-bank bond market. Our Guangzhou Branch was even granted the qualifications for the national interbank lending market transaction, and was approved by the Shanghai Commercial Paper Exchange Corporation Limited to access the China Bill Trading System, effectively improving its liquidity management capability and comprehensive use of funding.

To support the national Guangdong-Hong Kong-Macao Greater Bay Area strategy, the Bank has established the Guangdong-Hong Kong-Macao Bay Area Management Office. This unit is responsible for the innovation of the business model and service strategy for the Greater Bay Area, as well as the strategic research on the establishment of the institutions in the Greater Bay Area and building a cross-border financial integration service system. The Bank also participated in the first strategic cooperation between three Mainland incorporated banks in Guangdong, Hong Kong and Macau, aiming to promote the development of the Greater Bay Area with characteristic cross-border financial products and services.

In order to facilitate commercial registration, promote the deep cooperation between Guangdong and Hong Kong and innovate the Hong Kong-Guangdong cooperation model, the Bank, following the launch of the "Hong Kong Pass" and "Hong Kong and Macau Pass" commercial services in 2016 and 2017, launched the "Guangzhou and Hong Kong Pass" commercial service in March 2018 with the strong support of the Guangzhou Industrial and Commercial Administration Bureau and Yuexiu Group, and became the first Hong Kong bank to launch related services.

The Bank takes advantage of its outlets across Guangdong and Hong Kong to launch the Hong Kong account opening agency service in the Mainland to provide customers with convenient value-added services. In addition, the Bank's branches and sub-branches in the Mainland continue to optimise their corporate account-opening process, promote the account-opening appointment services, providing convenient and high-quality financial services to its corporate customers.

### **Infrastructure**

In the first half of 2018, the Mainland branches and sub-branches of the Bank maintained secure business operations through strengthening internal processes, accelerating the development of business supporting systems and functions, and completing system upgrades required by regulatory authorities, strengthening internal controls, and taking additional approaches.

Following the successful launch of the new-generation core system in the Mainland last year, the Bank has officially commenced the operation of its domestic intermediate business platform and domestic new-generation corporate online banking service. Of these, the domestic intermediate business platform is mainly designed to serve governmental and institutional customers, aiming to facilitate the Bank in offering safer and more efficient settlement services. The new-generation corporate online banking service was launched in February 2018. Its number of online banking users and mobile banking users saw rapid growth since the launch, laying down a solid foundation for the development of the Bank's domestic e-banking channel business.

### **Chong Hing Securities Limited**

In the first quarter of 2018, the Hang Seng Index experienced a downward reverberation after a record high. In the second quarter of the year, the global financial markets continued to fluctuate while there was a general upward expectation on interest rates. The RMB exchange rates continued to decline due to the impact of the Sino-US trade war, resulting in a conservative and prudent investment sentiment. Against this backdrop, the turnover of Chong Hing Securities in the first half of the year still reported an increase by 69.2% as compared with the same period last year. This growth included the turnover of the orders placed through electronic channels which increased by 64.5% as compared with the same period last year, and the number of new customers which increased by 44.5% as compared with the same period last year.

### **Chong Hing Insurance Company Limited**

The year 2018 has been a difficult year for the operation of the general insurance business. The market was highly competitive and impacted by a number of wind storms of varying strength and the rainy seasons. The overall market profit of the general insurance business recorded either negative growth or a decline. However, Chong Hing Insurance maintained stable operations in the first half of the year, and recorded a profit in terms of its underwriting and pre-tax results. Looking forward to the second half of the year, with the launch of an online platform and its connection and synergy with various channels of Chong Hing Bank, the insurance business is expected to achieve higher efficiency and effectiveness by taking more efforts to explore business opportunities and operating under this banking and insurance model.

### Transformation of Business Development

The Bank began its transformation two years ago and leveraged technologies to improve operational efficiency and customer experience. To serve this end, the Bank launched a Digital Banking Transformation Office with a focus on setting up its digital transformation strategy. This drove the development of digital channels and the application of Fintech by making use of big data and business analysis, and launched new products and services tailored to customers' needs. They included the JETCO Pay P2M service, the WeChat-based service, the mobile security key, biometric verification and other projects that were pioneers in the industry. Meanwhile, the Bank also commenced digital channel transformation projects such as the Core Banking System, the Central Business Processing Centre and others in 2017, enabling Chong Hing Bank to become a more competitive bank in providing cross-border services. On the Mainland, the Bank rolled out the corporate online banking service and will strengthen customer marketing in the respective channels. A number of digital transformation projects were also launched simultaneously. They are expected to be completed either in 2018 or in 2019.

The Bank is committed to accelerating its operational development and digital transformation, and giving its full support to the various initiatives taken by the Hong Kong Monetary Authority to foster Smart Bank. The Bank is also leveraging opportunities to work with third parties to explore opportunities in enhancing business development, and will improve its synergies with the Yuexiu Group, to capture emerging development opportunities in the Guangdong-Hong Kong-Macao Greater Bay Area.

### THE 70TH ANNIVERSARY

To mark the 70th anniversary of Chong Hing Bank, a variety of celebratory activities will be launched throughout the year. The Bank is taking this opportunity to revisit its solid foundation laid down over the years under its firm commitment to offer quality services, look ahead to a bright future alongside its customers, employees, shareholders and the public, as it continues to grow together with Hong Kong. Celebrations include the publication of the Bank's 70th anniversary history book, a large-scale cocktail party, and the launch of an advertising campaign and volunteer activities co-organised with charities, thereby sharing the joy of the anniversary with the public and putting into practice the Bank's corporate mission: "To benefit Customers, Employees, Shareholders and Community".

### CORPORATE RESPONSIBILITY

As an organisation that cares for the community, the Bank supports public welfare activities of charities and the community activities organised by non-profit organisations through active participation in volunteer activities, donations and other forms of support. In the first half of 2018, the Bank continued to participate in various corporate social responsibility and environmental protection projects. These efforts were well received by members of the community:

- Participation in the "Earth Hour 2018" environmental protection activity.
- Awarded the "Raffle Tickets Selling Award" by the Tung Wah Group of Hospitals.
- Awarded the "Environmental, Society and Corporate Governance Award 2018" by Hong Kong Economic Digest.
- Recognised with the "Platinum Award" for the third consecutive year for its compliance with the "Charter on External Lighting" organised by the Environment Bureau of the Hong Kong SAR Government.
- Awarded the "10 Years Plus Caring Company" logo by the Hong Kong Council of Social Service.



# CHIEF EXECUTIVE'S STATEMENT

## CORPORATE GOVERNANCE

The Bank fully recognises the importance to the sustainable development of the Bank through compliance with relevant regulations and regulatory requirements and the maintenance of good corporate governance standards. Hence the Bank adopts and implements corresponding measures to ensure compliance with relevant regulations and regulatory requirements in order to maintain high-quality corporate governance.

## AWARDS

The Bank is committed to providing quality banking services and improving operational efficiency. These efforts were recognised by the following awards in the first half of 2018:

- The “Best SME’s Partner Award” from the Hong Kong General Chamber of Small and Medium Business for the tenth time, and the “Best SME’s Partner Gold Award 2018”.
- The “Straight Through Processing (STP) Award” of the Australian dollar and New Zealand dollar from Australia and New Zealand Banking Group Limited for the first time.

## FUTURE DEVELOPMENT

Looking ahead, the Bank shall devote itself to realising its corporate vision of establishing itself as an “integrated commercial bank with cross-border expertise”. The Bank is committed to consolidating its business base in Hong Kong, while grasping development opportunities presented by the Guangdong-Hong Kong-Macao Greater Bay Area initiative. The goal is to actively expand the Bank’s businesses in the Mainland, establish a cross-border linking mechanism, and offer differentiated cross-border products and services focusing on the targeted customer bases in the Greater Bay Area. Over the year, the Bank has commissioned a dedicated office to conduct a strategic study on the Greater Bay Area. The objective is to develop professional service solutions for cross-border customers, and to further improve synergies and establish an efficient cooperation mechanism by capitalising on the resources of the Yuexiu Group and its professional advantage in the industry. In view of the emerging Fintech trend, the Bank dedicates its best efforts to the development of digital banking, and strengthens the building of e-payment channels, as well as optimising e-banking and offering more convenient banking services for customers in the Mainland and Hong Kong.

In line with its management concepts of “Professional•Prudent•Persistent”, the Bank will strictly conduct internal quality management, continue to consolidate its fundamental risk management, optimise process banking and streamline service processes, improve efficiency to improve customer service experience, and further consolidate its relationship with customers. At the same time, the Bank will continue to strengthen its internal team-building process and enhance training of core management capabilities and actively promote the building of the corporate culture. Through these efforts, the Bank seeks to uphold its enterprise spirit of “Dedication•Innovation•Commitment•Teamwork”, and lead Chong Hing Bank to achieve new milestones through implementing its sustainable development strategy.

### APPRECIATION

I would like to express my sincere gratitude to all members of the Board of Directors for their valuable insight and leadership that continue to guide the Bank's path of development. At the same time, I am grateful to the management and all the staff for their dedication, concerted efforts and tireless contributions, which have enabled Chong Hing Bank to expand its businesses and achieve excellent results. I would also like to take this opportunity to extend my gratitude to our shareholders, customers and business partners who have given their trust and support to the Bank.

Chong Hing Bank has been committed to offering meticulous and professional services to its customers for 70 years. I am convinced that the Bank will continue to achieve new milestones in its banking business, while creating value for its customers and society based on the solid foundation laid down over the past seven decades.

**Zong Jianxin**

*Chief Executive*

Hong Kong, 14 August 2018

## DIRECTORS' (INCLUDING THE CHIEF EXECUTIVE'S) INTERESTS AND SHORT POSITIONS

As of 30 June 2018, the interests and short positions of the Directors (including the Chief Executive) in the shares, underlying shares and debentures of the Bank and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO (the "Register"), or as otherwise notified to the Bank and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

### Interests in shares

Name of Director	Associated Corporation	Long/short position	Number of ordinary shares held			Total interests	Percentage of issued share capital <sup>(1)</sup>
			Personal interests	Spousal interests	Corporate interests		
Li Feng	Yuexiu Property Company Limited	Long	172,900	–	–	172,900	0.001
Lee Ka Lun	Yuexiu Property Company Limited	Long	3,200,000	–	–	3,200,000	0.026
Yu Lup Fat Joseph	Yuexiu Property Company Limited	Long	4,000,000	–	–	4,000,000	0.032

Note:

1. Based on 12,401,306,631 shares of Yuexiu Property Company Limited issued as at 30 June 2018.

Save as disclosed above, as of 30 June 2018, none of the Directors (including the Chief Executive) had or was deemed to have any other interests or short positions in any shares, underlying shares or debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the Register or as otherwise notified to the Bank and the Stock Exchange pursuant to the Model Code. Moreover, as of 30 June 2018, none of the Directors (including the Chief Executive), their spouses or children under 18 years of age was granted, or exercised, any right to subscribe for shares in or debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO).

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As of 30 June 2018, the register required to be kept under Section 336 of the SFO showed that the following parties had interests and short positions in the shares and underlying shares of the Bank:

### Interests in shares

Name	Long/short position	Capacity	Number of ordinary shares	Percentage of issued share capital <sup>(1)</sup>
Yuexiu Financial Holdings Limited <sup>(2)</sup>	Long	Beneficial owner	489,375,000	75
Yue Xiu Enterprises (Holdings) Limited ("YX Enterprises")	Long	Interest of a controlled corporation	489,375,000	75
廣州越秀集團有限公司 (Guangzhou Yue Xiu Holdings Limited*) ("GZYX Holdings")	Long	Interest of a controlled corporation	489,375,000	75

Notes:

- Based on 652,500,000 shares of the Bank issued as at 30 June 2018.
- Yuexiu Financial Holdings Limited is wholly-owned by YX Enterprises, and YX Enterprises is wholly-owned by GZYX Holdings.

\* for identification purpose only

Save as disclosed above, the Bank had not been notified of any other interests and short positions in its shares and underlying shares as of 30 June 2018 which were required to be recorded in the register kept under Section 336 of the SFO.

### COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Bank is an authorised institution supervised by the Hong Kong Monetary Authority (the “HKMA”) under the Hong Kong Banking Ordinance. The Bank is committed to maintaining high standards of corporate governance, with a view to safeguarding the interests of shareholders, customers, employees and other stakeholders. The Bank has applied the principles in the Corporate Governance Code (the “Code”) set out in Appendix 14 to the Listing Rules and the module on “Corporate Governance of Locally Incorporated Authorised Institutions” under the Supervisory Policy Manual issued by the HKMA to its corporate governance structure and practices.

Pursuant to the Code, listed issuer must give considered reasons in its interim report for each deviation from any of the code provisions contained in the Code.

Throughout the six months ended 30 June 2018, the Bank complied with all the applicable code provisions set out in the Code, except for deviation from Code Provision A.4.1. Code Provision A.4.1 provides that non-executive directors should be appointed for a specific term, subject to re-election. None of the Non-executive Directors of the Bank was appointed for a specific term; however, all of them are subject to retirement by rotation and re-election at the annual general meeting of the Bank in accordance with the Bank’s Articles of Association.

### COMPLIANCE WITH MODEL CODE

The Bank has adopted its own code for securities transactions by Directors on terms no less exacting than those set out in the Model Code. All the Directors confirmed, following specific enquiry by the Bank, that they have complied with the required standards set out in the Model Code and the Bank’s own code for securities transactions by Directors throughout the six months ended 30 June 2018.

## DISCLOSURE OF CHANGES IN DIRECTORS' INFORMATION

Changes in Directors' information since the date of the 2017 Annual Report and up to 14 August 2018 which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below:

<b>Name of Director</b>	<b>Change</b>
<b>Mr ZONG Jianxin</b> <i>Executive Director</i>	<ul style="list-style-type: none"><li>Appointed as Deputy Chairman of the Bank and ceased to hold the title of Deputy Managing Director of the Bank, both with effect from 18 May 2018</li><li>Appointed as Deputy Chairman and Chief Executive of Yuexiu Financial Holdings Limited ("YX Financial Holdings"), the immediate holding company of the Bank, and ceased to act as Alternate Chief Executive of YX Financial Holdings, all with effect from 18 May 2018</li><li>Upon completion of the 3-year term under his employment contract with the Bank commencing on 20 May 2015 and ending on 19 May 2018, Mr Zong renewed his employment contract with the Bank with effect from 20 May 2018, and continues to serve as Executive Director, Deputy Chairman and Chief Executive of the Bank. His position as Executive Director of the Bank is subject to retirement by rotation and re-election at the annual general meeting of the Bank in accordance with the Bank's Articles of Association. His new emolument package is comprised of annual base salary of HK\$10,000,000 (subject to pro-rata adjustment), discretionary bonus and other benefits</li></ul>
<b>Mr LAU Wai Man</b> <i>Executive Director</i>	<ul style="list-style-type: none"><li>Changed his title from Deputy Managing Director to Deputy Chief Executive of the Bank with effect from 18 May 2018</li><li>Appointed as Deputy Chief Executive of YX Financial Holdings with effect from 18 May 2018</li></ul>
<b>Mr ZHU Chunxiu</b> <i>Non-executive Director</i>	<ul style="list-style-type: none"><li>Appointed as Deputy Chairman of the Bank with effect from 18 May 2018</li><li>Appointed as Deputy Chairman of YX Financial Holdings with effect from 18 May 2018</li></ul>
<b>Mr LI Feng</b> <i>Non-executive Director</i>	<ul style="list-style-type: none"><li>Appointed as Executive Director of Yuexiu Transport Infrastructure Limited (Stock Code: 01052), a company listed on the Stock Exchange, with effect from the close of business on 13 April 2018</li></ul>

## DISCLOSURE OF CHANGES IN DIRECTORS' INFORMATION

Name of Director	Change
<b>Mr LEE Ka Lun</b> <i>Independent Non-executive Director</i>	<ul style="list-style-type: none"><li>Retired as Independent Non-executive Director of REXLot Holdings Limited (Stock Code: 00555), a company listed on the Stock Exchange, with effect from the conclusion of the company's annual general meeting held on 29 June 2018</li></ul>
<b>Mrs LEUNG Ko May Yee Margaret SBS, JP</b> <i>Former Executive Director</i>	<ul style="list-style-type: none"><li>Retired as Executive Director, Deputy Chairman and Managing Director of the Bank with effect from the conclusion of the Bank's annual general meeting held on 18 May 2018 (the "2018 AGM")</li><li>Resigned as Director and Chairman of Chong Hing Finance Limited with effect from 18 May 2018</li><li>Resigned as Executive Director, Vice-chairman and Chief Executive of YX Financial Holdings with effect from the conclusion of the Bank's 2018 AGM</li></ul>
<b>Mr WANG Shuhui</b> <i>Former Non-executive Director</i>	<ul style="list-style-type: none"><li>Resigned as Non-executive Director and a member of the Audit Committee of the Bank with effect from the conclusion of the Bank's 2018 AGM</li><li>Resigned as Non-executive Director of YX Financial Holdings with effect from 18 May 2018</li></ul>

Save as disclosed above, there is no other information relating to the Directors of the Bank that is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

### INTERIM DIVIDEND

The Board has declared an interim cash dividend for 2018 of HK\$0.17 per share, payable on Tuesday, 9 October 2018, to the shareholders whose names appear on the register of members of the Bank on Thursday, 27 September 2018 (2017 interim cash dividend: HK\$0.15 per share paid on 25 September 2017).

For the avoidance of doubt, the new shares to be allotted and issued pursuant to the rights issue as announced by the Bank on 14 August 2018 will entitle the holders thereof to receive the Bank's interim cash dividend for 2018 of HK\$0.17 per share.

### CLOSURE OF REGISTER OF MEMBERS

The register of members of the Bank will be closed on Thursday, 27 September 2018 and no transfer of shares can be registered on that day. In order to qualify for receiving the 2018 interim cash dividend, all transfer documents, together with the relevant share certificates, must be lodged for registration with the Bank's share registrar and transfer office, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 pm on Wednesday, 26 September 2018.

### PURCHASE, SALE OR REDEMPTION OF THE BANK'S LISTED SECURITIES

Neither the Bank nor any of its subsidiaries purchased, sold or redeemed any of the Bank's listed securities during the six months ended 30 June 2018.

### PUBLICATION OF 2018 INTERIM REPORT

The English and Chinese versions of the Bank's 2018 Interim Report are available on the Bank's website at [www.chbank.com](http://www.chbank.com) and Hong Kong Exchanges and Clearing Limited's website at [www.hkexnews.hk](http://www.hkexnews.hk). Shareholders are encouraged to access the Bank's corporate communications in electronic form to help protect the environment. Notwithstanding any wish to the contrary the shareholders have previously conveyed to the Bank, shareholders may change their choice of language or means of receipt of the Bank's corporate communications free of charge at any time by reasonable notice in writing to the Bank c/o the Bank's share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, or via email to [chbank.ecom@computershare.com.hk](mailto:chbank.ecom@computershare.com.hk) specifying their name, address and request.



## **TO THE BOARD OF DIRECTORS OF CHONG HING BANK LIMITED**

*(incorporated in Hong Kong with limited liability)*

### **INTRODUCTION**

We have reviewed the interim financial information set out on pages 25 to 90, which comprises the condensed consolidated statement of financial position of Chong Hing Bank Limited (the “Bank”) and its subsidiaries (together, the “Group”) as at 30 June 2018 and the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Bank are responsible for the preparation and fair presentation of these interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on these interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **SCOPE OF REVIEW**

We conducted our review in accordance with Hong Kong Standard 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. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **CONCLUSION**

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 14 August 2018

# CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2018

	Notes	Six months ended 30 June	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited) Restated
Interest income		2,286,006	1,798,154
Interest expense		(925,622)	(683,897)
Net interest income	6	1,360,384	1,114,257
Fee and commission income		282,882	193,542
Fee and commission expenses		(56,652)	(46,347)
Net fee and commission income	7	226,230	147,195
Net income (loss) from trading and investments	8	108,400	(25,761)
Other operating income	9	75,660	80,088
Operating expenses	10	(725,389)	(617,270)
Operating profit before impairment allowances		1,045,285	698,509
Net impairment losses on financial assets		(39,954)	(218,533)
Operating profit after impairment allowances		1,005,331	479,976
Net gains on disposal of assets held for sale		–	2,878
Net (losses) gains on disposal of property and equipment		(80)	78,390
Net gains on fair value adjustments on investment properties	21	8,960	5,774
Share of profits of associates		28,035	29,164
Profit before taxation		1,042,246	596,182
Taxation	12	(188,092)	(84,295)
Profit for the period – Attributable to equity owners of the Bank	13	854,154	511,887
Earnings per share – basic and diluted	13	HK\$1.19	HK\$0.67

The notes on pages 31 to 90 form an integral part of this condensed consolidated interim financial information.

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Profit for the period	854,154	511,887
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Surplus on transfer of land and building to investment properties	5,386	–
Exchange differences arising on translation	(47,110)	111,906
Fair value gains of available-for-sale securities arising during the period	–	141,608
Amount reclassified to the profit or loss upon impairment of available-for-sale securities	–	261
Amount reclassified to the profit or loss upon disposal of available-for-sale securities	–	(92,987)
Income tax effect relating to disposal of available-for-sale securities	–	15,343
Income tax effect relating to fair value change of available-for-sale securities	–	(23,321)
Net loss on investments in debt instruments measured at FVOCI	(188,252)	–
Amount reclassified to profit or loss upon disposal of FVOCI debt securities	(19,629)	–
Income tax effect relating to disposal of financial assets measured at FVOCI	3,239	–
Income tax effect relating to fair value change of financial assets measured at FVOCI	33,461	–
Share of other comprehensive income of associates	(9,692)	6,254
Items that may not be reclassified subsequently to profit or loss:		
Net loss on investments in equity instruments measured at FVOCI	(3,575)	–
Other comprehensive income for the period (net of tax)	(226,172)	159,064
Total comprehensive income for the period	627,982	670,951
Total comprehensive income for the period attributable to:		
Equity owners of the Bank	627,982	670,951

The notes on pages 31 to 90 form an integral part of this condensed consolidated interim financial information.

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	Notes	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
<b>Assets</b>			
Cash and short-term funds	15	12,884,061	25,164,641
Placements with banks maturing between one to twelve months		3,599,847	6,359,004
Derivative financial instruments	16	1,136,557	556,793
Investments in securities	17	42,113,827	39,153,501
Advances and other accounts	19	96,992,581	90,949,787
Interests in associates	20	314,010	301,337
Investment properties	21	312,424	298,765
Property and equipment	22	562,542	590,746
Prepaid lease payments for land	23	2,107	2,134
Intangible assets	24	437,196	370,406
<b>Total assets</b>		<b>158,355,152</b>	163,747,114
<b>Liabilities</b>			
Deposits and balances of banks		3,334,640	3,051,932
Financial assets sold under repurchase agreements	25	5,829,952	12,002,989
Deposits from customers	26	121,084,229	118,758,674
Certificates of deposit	27	1,241,499	3,217,451
Derivative financial instruments	16	870,447	882,279
Other accounts and accruals		1,815,421	1,577,588
Current tax liabilities		158,502	434,818
Debt securities issued	27	1,773,581	1,796,069
Loan capital	28	4,464,738	4,541,380
Deferred tax liabilities	29	44,678	50,136
<b>Total liabilities</b>		<b>140,617,687</b>	146,313,316
<b>Equity attributable to owners of the Bank</b>			
Share capital		5,435,904	5,435,904
Additional equity instruments	30	2,312,030	2,312,030
Reserves		9,989,531	9,685,864
<b>Total equity</b>		<b>17,737,465</b>	17,433,798
<b>Total liabilities and equity</b>		<b>158,355,152</b>	163,747,114

The notes on pages 31 to 90 form an integral part of this condensed consolidated interim financial information.

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

Note	Share capital HK\$'000	Additional equity instruments HK\$'000	Goodwill HK\$'000	Investment revaluation reserve HK\$'000	Land and building revaluation reserve HK\$'000	General reserve HK\$'000	Translation reserve HK\$'000	Regulatory reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
<b>At 1 January 2018</b>	5,435,904	2,312,030	(182)	375,317	174,247	1,388,500	66,016	816,000	6,865,966	17,433,798
Changes on initial application of HKFRS 9 (see note 2)	-	-	-	84,549	-	-	-	(3,000)	(75,075)	6,474
Restated balance at 1 January 2018	5,435,904	2,312,030	(182)	459,866	174,247	1,388,500	66,016	813,000	6,790,891	17,440,272
Profit for the period	-	-	-	-	-	-	-	-	854,154	854,154
Other comprehensive income	-	-	-	(184,448)	5,386	-	(47,110)	-	-	(226,172)
Total comprehensive income for the period	-	-	-	(184,448)	5,386	-	(47,110)	-	854,154	627,982
Distribution payment for additional equity instruments	-	(76,314)	-	-	-	-	-	-	-	(76,314)
Transfer from retained profits	-	76,314	-	-	-	-	-	-	(76,314)	-
Final dividend paid	-	-	-	-	-	-	-	-	(254,475)	(254,475)
Earmark of retained profits as regulatory reserve	-	-	-	-	-	-	-	7,000	(7,000)	-
<b>At 30 June 2018</b>	5,435,904	2,312,030	(182)	275,418	179,633	1,388,500	18,906	820,000	7,307,256	17,737,465
<b>At 1 January 2017</b>	5,435,904	2,312,030	(182)	169,620	174,247	1,388,500	(183,255)	739,000	5,877,708	15,913,572
Profit for the period	-	-	-	-	-	-	-	-	511,887	511,887
Other comprehensive income	-	-	-	47,158	-	-	111,906	-	-	159,064
Total comprehensive income for the period	-	-	-	47,158	-	-	111,906	-	511,887	670,951
Distribution payment for additional equity instruments	-	(75,676)	-	-	-	-	-	-	-	(75,676)
Transfer from retained profits	-	75,676	-	-	-	-	-	-	(75,676)	-
Final dividend paid	-	-	-	-	-	-	-	-	(254,475)	(254,475)
Earmark of retained profits as regulatory reserve	-	-	-	-	-	-	-	(88,000)	88,000	-
<b>At 30 June 2017</b>	5,435,904	2,312,030	(182)	216,778	174,247	1,388,500	(71,349)	651,000	6,147,444	16,254,372

The retained profits of the Group included retained profits of HK\$184,651,000 (30 June 2017: retained profits of HK\$156,873,000) retained by the associates of the Group.

The regulatory reserve is set up in compliance with the requirements of the Hong Kong Monetary Authority (the "HKMA") and is distributable to the shareholders of the Bank subject to consultation with the HKMA.

The general reserve comprises transfers from previous years' retained profits.

The notes on pages 31 to 90 form an integral part of this condensed consolidated interim financial information.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	<b>Six months ended 30 June</b>	
	<b>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
		Restated
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	1,042,246	596,182
Adjustments for:		
Net interest income	(1,360,384)	(1,114,257)
Net impairment losses on financial assets	39,954	218,533
Net gains on disposal of assets held for sale	–	(2,878)
Net losses (gains) on disposal of property and equipment	80	(78,390)
Net gains on disposal of financial assets measured at FVOCI (2017: available-for-sale securities)	(19,629)	(92,987)
Net gains on disposal of and fair value adjustments on investment properties	(8,960)	(5,774)
Share of profits of associates	(28,035)	(29,164)
Net losses (gains) on fair value hedge	764	(5,872)
Dividend received from investments	(4,458)	(4,422)
Depreciation	38,829	40,133
Release of prepaid lease payments for land	33	33
Exchange adjustments	(42,207)	178,458
Operating cash flows before movements in operating assets and liabilities	(341,767)	(300,405)
(Increase) decrease in operating assets:		
Money at call and short notice with original maturity over three months	(200,000)	146,302
Exchange fund bills with original maturity over three months	–	659,925
Placements with banks with original maturity over three months	1,175,785	(222,399)
Financial assets at fair value through profit or loss	8	28
Advances to customers	(4,591,039)	(6,621,132)
Advances to banks	(834,971)	388,543
Other accounts	(565,346)	(787,340)
Increase (decrease) in operating liabilities:		
Deposits and balances of banks	282,708	2,127,197
Financial assets sold under repurchase agreements	(6,173,037)	(1,210,095)
Deposits from customers	2,325,555	8,149,978
Certificates of deposit	(1,975,952)	120,833
Derivative financial instruments	(101,062)	171,474
Other accounts and accruals	115,054	146,183
Cash (used in) generated from operations	(10,884,064)	2,769,092
Hong Kong Profits Tax paid	(404,387)	2,004
Overseas tax paid	(14,811)	(13,790)
Interest received	1,658,199	1,278,587
Interest paid	(672,606)	(551,407)
<b>NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES</b>	<b>(10,317,669)</b>	<b>3,484,486</b>

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	<b>Six months ended 30 June</b>	
	<b>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
		Restated
<b>INVESTING ACTIVITIES</b>		
Interest received on investments in securities	<b>560,731</b>	418,539
Dividends received on investments in securities	<b>4,458</b>	4,422
Dividends received from associates	<b>5,670</b>	3,150
Purchase of financial assets measured at amortised cost	<b>(96,423)</b>	–
Purchase of financial assets measured at FVOCI (2017: available for sale securities)	<b>(10,448,910)</b>	(10,045,675)
Purchase of property and equipment	<b>(16,772)</b>	(127,448)
Purchase of intangible assets	<b>(64,706)</b>	(65,689)
Proceeds from redemption of financial assets measured at amortised cost (2017: held-to-maturity securities)	<b>58,254</b>	958,661
Proceeds from sale and redemption of financial assets measured at FVOCI (2017: available-for-sale securities)	<b>11,150,668</b>	6,759,087
Proceeds from disposal of assets held for sale	<b>–</b>	2,880
Proceeds from disposal of property and equipment	<b>2,484</b>	98,012
<b>NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES</b>	<b>1,155,454</b>	(1,994,061)
<b>FINANCING ACTIVITIES</b>		
Interest paid on loan capital	<b>(93,406)</b>	(35,864)
Interest paid on debt securities issued	<b>(66,599)</b>	(59,030)
Dividends paid to ordinary shareholders	<b>(254,475)</b>	(254,475)
Distribution paid on additional equity instruments	<b>(76,314)</b>	(75,676)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(490,794)</b>	(425,045)
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(9,653,009)</b>	1,065,380
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY (RESTATED)</b>	<b>24,901,867</b>	29,053,408
<b>CASH AND CASH EQUIVALENTS AT 30 JUNE</b>	<b>15,248,858</b>	30,118,788

The notes on pages 31 to 90 form an integral part of this condensed consolidated interim financial information.

As a result of the adoption of HKFRS 9, the Bank has reclassified the exchange fund bills from cash and short-term fund to investment in securities (see note 2). Consequently, the cash and cash equivalents balance as at 1 January 2018 was restated to conform with current period's presentation.

## 1. GENERAL INFORMATION

Chong Hing Bank Limited (the “Bank”) is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Bank is engaged in the provision of banking and related financial services. The address of the registered office of the Bank is Ground Floor, Chong Hing Bank Centre, 24 Des Voeux Road Central, Hong Kong.

The condensed consolidated interim financial information is presented in Hong Kong dollars, which is the same as the functional currency of the Bank.

The financial information relating to the year ended 31 December 2017 that is included in the condensed consolidated interim financial information for the six months ended 30 June 2018 as comparative information does not constitute the Bank’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Bank has delivered the financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

The Bank’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 sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This condensed consolidated interim financial information for the six months ended 30 June 2018 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting”. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).



# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2017, as described in those annual financial statements, except for the adoption of the Hong Kong Financial Reporting Standards (“HKFRS”) 9 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the consolidated financial statements and HKFRS 15 which had no transitional impact to retained earnings. The Group did not early adopt any of HKFRS 9 in previous periods.

As permitted by the transitional provisions of HKFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of the financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period. The Group has also elected to continue to apply the hedging accounting requirements of HKAS 39 on the adoption of HKFRS 9.

Set out below are disclosures relating to the impact of the adoption of HKFRS 9 on the Group and details of the specific HKFRS 9 accounting policies applied in current period.

### (a) Classification and measurement of financial instruments

There were no changes to the classification and measurement of financial liabilities. The measurement category and the carrying amount of financial assets in accordance with HKAS 39 and HKFRS 9 at 1 January 2018 are compared as follows:

	HKAS 39		HKFRS 9	
	Measurement category	Carrying amount HK\$'000	Measurement category	Carrying amount HK\$'000
<b>Financial assets</b>				
Cash and short-term funds	Amortised cost (Loan and receivable)	25,164,641	Amortised cost	20,757,141
Placements with banks maturing between one to twelve months	Amortised cost (Loan and receivable)	6,359,004	Amortised cost	6,355,561
Derivative financial instruments	Fair value through profit or loss (“FVPL”)	556,793	FVPL	556,793
Advances and other accounts	Amortised cost (Loan and receivable)	90,949,787	Amortised cost	90,942,435
Investments in securities	FVPL(Held for trading)	265	FVPL	265
	Fair value at other comprehensive income (“FVOCI”) (Available-for-sale)	35,450,292	FVOCI	43,403,687
	Amortised cost (Held to maturity)	3,640,146	Amortised cost	190,780
	Amortised cost (Loan and receivable)	62,798		

**2. BASIS OF PREPARATION AND ACCOUNTING POLICIES** (continued)

**(b) Reconciliation of statement of financial position balances from HKAS 39 to HKFRS 9**

The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

Please refer to note 2.1 for more detailed information regarding the new classification requirements of HKFRS 9.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with HKAS 39 to their new measurement category upon transition of HKFRS 9 on 1 January 2018:

	HKAS 39		HKFRS 9	
	carrying amount		carrying amount	
	31 December		1 January	
Ref	2017	Reclassification	Remeasurements	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Amortised cost</b>				
<u>Cash and short term funds</u>				
Opening balance	25,164,641			
Subtraction: To FVOCI	(A)	(4,293,424)		
Subtraction: To investments in securities – amortised cost	(A)	(106,799)		
Remeasurement: Expected credit loss (“ECL”) allowance			(7,277)	
Closing balance	25,164,641	(4,400,223)	(7,277)	20,757,141
<u>Placements with banks maturing between one to twelve months</u>				
Opening balance	6,359,004			
Remeasurement: ECL allowance			(3,443)	
Closing balance	6,359,004		(3,443)	6,355,561
<u>Advances and other accounts</u>				
Opening balance	90,949,787			
Remeasurement: ECL allowance			(7,352)	
Closing balance	90,949,787		(7,352)	90,942,435

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### (b) Reconciliation of statement of financial position balances from HKAS 39 to HKFRS 9 (continued)

	Ref	HKAS 39 carrying amount 31 December 2017 HK\$'000	Reclassification HK\$'000	Remeasurements HK\$'000	HKFRS 9 carrying amount 1 January 2018 HK\$'000
<b>Amortised cost</b>					
<u>Investments in securities</u>					
<u>– loan and receivable</u>					
Opening balance		62,798			
Addition: From held to maturity	(C)		21,284		
Addition: From cash and short term funds	(A)		106,799		
Remeasurement: ECL allowance				(101)	
Closing balance		62,798	128,083	(101)	190,780
<u>Investments in securities – held to maturity</u>					
Opening balance		3,640,146			
Subtraction: To Investments in securities – loan and receivable	(C)		(21,284)		
Subtraction: To FVOCI	(A)		(3,618,862)		
Closing balance		3,640,146	(3,640,146)	-	-
<b>Total financial assets measured at amortised cost</b>		<b>126,176,376</b>	<b>(7,912,286)</b>	<b>(18,173)</b>	<b>118,245,917</b>
<b>Fair value through profit or loss (FVPL)</b>					
<u>Investments in securities – held for trading</u>					
Opening balance and closing balance		265	-	-	265
<u>Derivative financial instruments</u>					
Opening balance and closing balance		556,793	-	-	556,793
<b>Total financial assets measured at FVPL</b>		<b>557,058</b>	<b>-</b>	<b>-</b>	<b>557,058</b>

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### (b) Reconciliation of statement of financial position balances from HKAS 39 to HKFRS 9 (continued)

	HKAS 39 carrying amount 31 December			HKFRS 9 carrying amount 1 January	
	Ref	2017 HK\$'000	Reclassification HK\$'000	Remeasurements HK\$'000	2018 HK\$'000
<b>Fair value through other comprehensive income (FVOCI)</b>					
<u>Investments in securities – FVOCI (debt instruments)</u>					
Opening balance		–			
Addition: From cash and short term fund	(A)		4,293,424		
Addition: From held to maturity	(A)		3,618,862	41,109	
Addition: From available for sale	(C)		35,362,459		
Closing balance		–	43,274,745	41,109	43,315,854
<u>Investments in securities – FVOCI (equity instruments)</u>					
Opening balance		–			
Addition: From available for sale	(B)		87,833		
Closing balance		–	87,833	–	87,833
<u>Investments in securities – Available for sale</u>					
Opening balance		35,450,292			
Subtraction: To FVOCI – debt instruments	(C)		(35,362,459)		
Subtraction: To FVOCI – equity instruments	(B)		(87,833)		
Closing balance		35,450,292	(35,450,292)	–	–
<b>Total financial assets measured at FVOCI</b>		<b>35,450,292</b>	<b>7,912,286</b>	<b>41,109</b>	<b>43,403,687</b>

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### (b) Reconciliation of statement of financial position balances from HKAS 39 to HKFRS 9 (continued)

The following explains how applying the new classification requirements of HKFRS 9 led to changes in classification of certain financial assets held by the Group as shown in the table above:

#### (A) *Debt instruments previously classified as held to maturity/amortised cost under Investments in securities/cash and short-term fund*

The Group assessed its business model for certain debt securities and exchange fund bills that were previously classified as held to maturity and amortised cost respectively, which are mostly in hold to collect and sell business model for better liquidity management. Consequently, these securities which amounted to HK\$7,914,286,000, are classified as FVOCI and grouped into investments in securities from the date of initial application. The remainder of these debt securities is held to collect contractual cash flows and is classified as measured at amortised cost.

#### (B) *Designation of equity instruments at FVOCI*

The Group has elected to irrevocably designate equity investments of HK\$87,833,000 at FVOCI as permitted under HKFRS 9. These securities were previously classified as available for sale. The change in fair value of such securities will no longer be reclassified to profit or loss when they are disposed of.

#### (C) *Reclassification from retired categories with no change in measurement*

In addition to above, the following debt instruments have been reclassified to new categories under HKFRS 9, as their previous categories under HKAS 39 were “retired”, with no changes to their measurement basis:

- (i) Those previously classified as available for sale and now classified as measured at FVOCI; and
- (ii) Those previously classified as held to maturity and now classified as measured at amortised cost.

**2. BASIS OF PREPARATION AND ACCOUNTING POLICIES** (continued)

**(c) Reconciliation of impairment balance from HKAS 39 to HKFRS 9**

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

	Loan loss allowance under HKAS 39 HK\$'000	Reclassification HK\$'000	Remeasurements HK\$'000	Loan loss allowance under HKFRS 9 HK\$'000
<b>Loans and receivables (HKAS 39)/ Financial assets at amortised cost (HKFRS 9)</b>				
Cash and short-term funds	-	-	7,277	7,277
Placements with banks maturing between one to twelve months	-	-	3,443	3,443
Advances and other accounts	724,032	-	7,352	731,384
Investments in securities	628	-	101	729
	724,660	-	18,173	742,833
<b>Available for sale (HKAS 39)/Financial assets at FVOCI (HKFRS 9)</b>				
Investments in securities	-	-	50,223	50,223
<b>Loan commitments and financial guarantee contracts</b>				
Loans and advances to customers (Loan commitment)	-	-	9,624	9,624
Provisions (Financial guarantee)	-	-	21,552	21,552
<b>Total</b>	<b>724,660</b>	<b>-</b>	<b>99,572</b>	<b>824,232</b>

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### 2.1 HKFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018

#### *Measurement methods*

##### *Amortised cost and effective interest rate*

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired (“POCI”) financial assets – assets that are credit-impaired at initial recognition – the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

##### *Interest income*

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- (a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.
- (b) Financial assets that are not POCI but have subsequently become credit-impaired (or “Stage 3”), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### 2.1 HKFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018 (continued)

#### *Measurement methods (continued)*

##### *Initial recognition and measurement*

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an ECL allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

- (a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- (b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.



## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### 2.1 HKFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018 (continued)

#### 2.1.1 Financial assets

##### (i) Classification and subsequent measurement

From 1 January 2018, the Group has applied HKFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (“FVPL”);
- Fair value through other comprehensive income (“FVOCI”); or
- Amortised cost.

The classification requirements for debt and equity instruments are described below:

##### *Debt instruments*

Debt instruments are those instruments that meet the definition of a financial liability from the issuer’s perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

- (i) the Group’s business model for managing the asset; and
- (ii) the cash flow characteristics of the asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (“SPPI”), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured. Interest income from these financial assets is included in ‘Interest income’ using the effective interest rate method.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### 2.1 HKFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018 (continued)

#### 2.1.1 Financial assets (continued)

(i) *Classification and subsequent measurement (continued)*

*Debt instruments (continued)*

- Fair value through other comprehensive income: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net income from trading and investments'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.
- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Net income from trading and investments' in the period in which it arises.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### 2.1 HKFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018 (continued)

#### 2.1.1 Financial assets (continued)

(i) *Classification and subsequent measurement (continued)*

*Debt instruments (continued)*

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. For example, the Group's business model for the loan book is to hold to collect contractual cash flows. Another example is the liquidity portfolio of assets, which is held by the Group as part of liquidity management and is generally classified within the hold to collect and sell business model. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the 'other' business model and measured at FVPL.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### 2.1 HKFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018 (continued)

#### 2.1.1 Financial assets (continued)

##### (i) Classification and subsequent measurement (continued)

###### Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Gains and losses on equity investments at FVPL are included in the 'Net income from trading and investments' line in the income statement.

##### (ii) Impairment

The Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

##### (iii) Modification of financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### 2.1 HKFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018 (continued)

#### 2.1.1 Financial assets (continued)

##### (iv) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as ‘pass through’ transfers that result in derecognition if the Group:

- (i) Has no obligation to make payments unless it collects equivalent amounts from the assets;
- (ii) Is prohibited from selling or pledging the assets; and
- (iii) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retains a subordinated residual interest.

When the contractual rights to receive the cash flows from the assets have been transferred, and the Group neither transfers nor retains substantially all the risks and rewards of ownership, and the Group has retained control of the transferred assets, the Group applies continuing involvement approach.

Under this approach, the Group continues to recognise the transferred asset to the extent of its continuing involvement and recognise the associated liability, to reflect the rights and obligations retained by the Group. The net carrying amount of the transferred asset and associated liability is: (a) the amortised cost of the rights and obligations retained by the Group, if the transferred asset is measured at amortised cost; or (b) equal to the fair value of the rights and obligations retained by the Group when measured on a stand-alone basis, if the transferred asset is measured at fair value.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### 2.1 HKFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018 (continued)

#### 2.1.1 Financial assets (continued)

##### (v) Write off policy

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indications that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

#### 2.1.2 Financial liabilities

##### (i) Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial asset did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; when continuing involvement approach applies; and
- Financial guarantee contracts and loan commitments.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### 2.1 HKFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018 (continued)

#### 2.1.2 Financial liabilities (continued)

##### (ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

### 2.2 Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance; and
- The premium received on initial recognition less income recognised in accordance with the principles of HKFRS 15.

Loan commitments provided by the Group are measured as the amount of the loss allowance. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### 2.2 Financial guarantee contracts and loan commitments (continued)

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

### 2.3 Derivatives and hedging activities

The Group has elected to continue to apply the hedge accounting requirements of HKAS 39 on adoption of HKFRS 9.

The Group has not provided comparative information for periods before the date of initial application of HKFRS 9 for the new disclosures introduced by HKFRS 9 as a consequential amendment to HKFRS 7, as permitted by HKFRS 7 paragraph 44Z.

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives are embedded in hybrid contracts, such as the conversion option in a convertible bond. If the hybrid contract contains a host that is a financial asset, then the Group assesses the entire contract as described in the financial assets section above for classification and measurement purposes.

Otherwise, the embedded derivatives are treated as separate derivatives when:

- (i) Their economic characteristics and risks are not closely related to those of the host contract;
- (ii) A separate instrument with the same terms would meet the definition of a derivative; and
- (iii) The hybrid contract is not measured at fair value through profit or loss.

These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the income statement unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.



## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### 2.3 Derivatives and hedging activities (continued)

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges).

The Group documents, at the inception of the hedge, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

#### *Fair value hedge*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity and recorded as net interest income.

### 2.4 HKFRS 15 Revenue from Contracts with Customers – Accounting policies applied from 1 January 2018

HKFRS 15 is effective from 1 January 2018 and replaces HKAS 18 Revenue. HKFRS 15 is conceptually similar to HKAS 18, but includes more granular guidance on how to recognise and measure revenue, and also introduces additional disclosure requirements. The Group performed an assessment of the new standard and concluded that changes to current accounting policies were not required in order to comply with the new standard.

### 2.5 New accounting standards in issue but not yet effective

#### *HKFRS 16 Leases*

The standard will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. The standard is effective for annual reporting periods beginning on or after 1 January 2019. The work to assess the impact of the standard is ongoing and the Group does not intend to adopt the standard before its effective date.

### 3. SEGMENT INFORMATION

The Group's operating segments, which are also the reportable segments, based on information regularly reviewed by the chief operating decision maker (Executive Committee of the Group) for the purposes of allocating resources to segments and assessing their performance on business divisions of the Group, are as follows:

1. Corporate and personal banking
2. Financial markets activities
3. Securities business
4. Others comprising investment holding, insurance, other investment advisory services and property investments.

No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

The operating segment information allocation basis was changed for better assessment of the segment's performance for the six-month period ended 30 June 2018. Comparative figures have not been restated as it is impractical to reallocate.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

## 3. SEGMENT INFORMATION (continued)

The following is an analysis of the Group's revenue and results by reportable and operating segment for the periods under review:

### Operating segment revenue and results

Six months ended 30 June 2018

	Corporate and personal banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	1,628,847	650,450	4,911	1,798	-	2,286,006
Interest expense to external customers	(804,332)	(121,261)	(29)	-	-	(925,622)
Inter-segment interest income (Note 1)	328,434	-	-	-	(328,434)	-
Inter-segment interest expense (Note 1)	-	(328,434)	-	-	328,434	-
Net interest income	1,152,949	200,755	4,882	1,798	-	1,360,384
Fee and commission income	197,572	649	83,932	729	-	282,882
Fee and commission expenses	(56,504)	(9)	(139)	-	-	(56,652)
Net income (loss) from trading and investments	51,566	47,612	(22)	9,244	-	108,400
Other operating income	62,322	-	315	13,023	-	75,660
Segment revenue						
Total operating income	1,407,905	249,007	88,968	24,794	-	1,770,674
Comprising:						
- Segment revenue from external customers	1,079,471	577,441	88,968	24,794		
- Inter-segment transactions	328,434	(328,434)	-	-		
Operating expenses (Note 2)	(620,667)	(49,012)	(32,496)	(6,740)	-	(708,915)
Net impairment losses on financial assets	(33,933)	(6,003)	-	(18)	-	(39,954)
Net losses on disposal of property and equipment	-	-	-	(80)	-	(80)
Net gains on disposal of and fair value adjustments on investment properties	-	-	-	8,960	-	8,960
Segment profit	753,305	193,992	56,472	26,916	-	1,030,685
Unallocated corporate expenses						(16,474)
Share of profits of associates						28,035
Profit before taxation						1,042,246

Notes:

- Inter-segment pricing for funding transactions is charged at prevailing customer deposits interest rates.
- The difference between the operating expenses in the condensed consolidated income statement and the operating expenses in the operating segments is the unallocated corporate expenses.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

## 3. SEGMENT INFORMATION (continued) Operating segment assets and liabilities

At 30 June 2018

	Corporate and personal banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Consolidated HK\$'000
<b>Assets</b>					
Segment assets	102,033,309	53,858,581	431,251	471,664	156,794,805
Interests in associates					314,010
Unallocated corporate assets					1,246,337
Consolidated total assets					158,355,152
<b>Liabilities</b>					
Segment liabilities	121,598,489	17,939,659	178,136	216,875	139,933,159
Unallocated corporate liabilities					684,528
Consolidated total liabilities					140,617,687

## Other information

Six months ended 30 June 2018

	Corporate and personal banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital expenditure during the period	12,027	472	75	35	56,883	69,492
Depreciation	30,597	903	989	56	8,368	40,913
Release of prepaid lease payments for land	33	-	-	-	-	33

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

## 3. SEGMENT INFORMATION (continued) Operating segment revenue and results

Six months ended 30 June 2017

	Corporate and personal banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	1,098,956	695,913	2,662	623	-	1,798,154
Interest expense to external customers	(498,347)	(185,550)	-	-	-	(683,897)
Inter-segment interest income (Note 1)	254,943	-	-	-	(254,943)	-
Inter-segment interest expense (Note 1)	-	(254,943)	-	-	254,943	-
Net interest income	855,552	255,420	2,662	623	-	1,114,257
Fee and commission income	136,332	-	57,210	-	-	193,542
Fee and commission expenses	(46,289)	-	(58)	-	-	(46,347)
Net income (loss) from trading and investments	462	53,616	-	(79,839)	-	(25,761)
Other operating income	67,919	543	-	11,626	-	80,088
Segment revenue						
Total operating income	1,013,976	309,579	59,814	(67,590)	-	1,315,779
Comprising:						
- Segment revenue from external customers	759,033	564,522	59,814	(67,590)		
- Inter-segment transactions	254,943	(254,943)	-	-		
Operating expenses (Note 2)	(362,435)	(33,079)	(29,878)	(11,627)	-	(437,019)
Impairment allowances on loans and advances	(218,272)	-	-	-	-	(218,272)
Net gains on disposal of assets held for sale	-	-	-	2,878	-	2,878
Net (losses) gains on disposal of property and equipment	(817)	-	30,350	48,857	-	78,390
Net gains on disposal of and fair value adjustments on investment properties	-	-	-	5,774	-	5,774
Impairment losses on available-for-sale securities	-	-	-	(261)	-	(261)
Segment profit	432,452	276,500	60,286	(21,969)	-	747,269
Unallocated corporate expenses						(180,251)
Share of profits of associates						29,164
Profit before taxation						596,182

Notes:

- Inter-segment pricing for funding transactions is charged at prevailing customer deposits interest rates.
- The difference between the operating expenses in the condensed consolidated income statement and the operating expenses in the operating segments is the unallocated corporate expenses.

### 3. SEGMENT INFORMATION (continued)

#### Operating segment assets and liabilities

At 31 December 2017

	Corporate and personal banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Consolidated HK\$'000
<b>Assets</b>					
Segment assets	99,078,528	62,763,543	436,863	437,901	162,716,835
Interests in associates					301,337
Unallocated corporate assets					728,942
Consolidated total assets					163,747,114
<b>Liabilities</b>					
Segment liabilities	119,202,062	25,925,751	243,751	112,447	145,484,011
Unallocated corporate liabilities					829,305
Consolidated total liabilities					146,313,316

#### Other information

Six months ended 30 June 2017

	Corporate and personal banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital expenditure						
during the period	41,317	1,309	2,086	24	26,423	71,159
Depreciation	29,594	914	1,098	240	10,371	42,217
Release of prepaid lease payments for land	33	–	–	–	–	33

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

## 3. SEGMENT INFORMATION (continued)

### Other information (continued)

All direct costs incurred by different segments are grouped under respective segments. Indirect costs and support functions' costs are allocated to various segments and products based on effort and time spent while segments' other operating income is allocated depending on the nature of costs incurred. Indirect costs and support functions' costs and income related to corporate activities that cannot be reasonably allocated to segments or products are grouped as unallocated corporate expenses and unallocated corporate income respectively. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of performance.

There is no operating income with a single external customer amounting to or exceeding 10% of the Group's and the Bank's total operating income.

Assets and liabilities related to corporate activities that cannot be reasonably allocated to segments, products and support functions are grouped as unallocated corporate assets and liabilities. All direct segment assets and liabilities are grouped under respective segments.

### Geographical information

Geographical information (including geographical analysis of total segment revenue) is analysed by the Group based on the locations of the principal operations of the branches and subsidiaries which are responsible for reporting the results or booking the assets. Non-current assets presented below are based on the location of the entities' country of domicile which is the same as the location of the non-current assets.

	Six months ended 30 June 2018			At 30 June 2018			
	Total operating income	Profit before taxation	Capital expenditure during the period	Total assets	Total liabilities	Total contingent liabilities and commitments	Non-current assets
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	1,443,040	924,454	55,537	131,503,962	117,589,092	28,096,934	1,438,724
Macau and Mainland China	327,634	117,792	13,955	26,851,190	23,028,595	11,252,293	189,555
<b>Total</b>	<b>1,770,674</b>	<b>1,042,246</b>	<b>69,492</b>	<b>158,355,152</b>	<b>140,617,687</b>	<b>39,349,227</b>	<b>1,628,279</b>

**3. SEGMENT INFORMATION** (continued)

**Geographical information** (continued)

	Six months ended 30 June 2017			At 31 December 2017			
	Total operating income	Profit before taxation	Capital expenditure during the period	Total assets	Total liabilities	Total contingent liabilities and commitments	Non- current assets
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	1,121,041	509,034	40,070	143,575,786	129,936,255	26,237,373	1,367,414
Macau and Mainland China	194,738	87,148	31,089	20,171,328	16,377,061	12,071,618	195,974
<b>Total</b>	<b>1,315,779</b>	<b>596,182</b>	<b>71,159</b>	<b>163,747,114</b>	<b>146,313,316</b>	<b>38,308,991</b>	<b>1,563,388</b>

*Note:*

Total operating income consists of net interest income, net fee and commission income, net income (loss) from trading and investments and other operating income.

Non-current assets consist of interests in associates, investment properties, property and equipment, prepaid lease payments for land (non-current portion) and intangible assets.



# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

## 4. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

### 4.1 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table presents the Group's financial assets and liabilities that are measured at fair value as at 30 June 2018.

	Fair value hierarchy			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
<b>At 30 June 2018</b>				
Financial assets measured at fair value through profit or loss	257	-	-	257
Financial assets measured at FVOCI				
Equity securities	50,137	-	278	50,415
Debt securities	-	41,792,516	-	41,792,516
Derivative financial assets not used for hedging	-	502,799	-	502,799
Derivative financial assets used for hedging	-	633,758	-	633,758
Derivative financial liabilities not used for hedging	-	(620,982)	-	(620,982)
Derivative financial liabilities used for hedging	-	(249,465)	-	(249,465)
<b>Total</b>	<b>50,394</b>	<b>42,058,626</b>	<b>278</b>	<b>42,109,298</b>

#### 4. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

##### 4.1 Fair value estimation (continued)

The following table presents the Group's financial assets and liabilities that are measured at fair value as at 31 December 2017.

	Fair value hierarchy			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
<b>At 31 December 2017</b>				
Financial assets held for trading	265	–	–	265
Available-for-sale securities				
Equity securities	53,098	–	277	53,375
Debt securities	–	35,362,459	–	35,362,459
Derivative financial assets not used for hedging	–	374,572	–	374,572
Derivative financial assets used for hedging	–	182,221	–	182,221
Derivative financial liabilities not used for hedging	–	(513,819)	–	(513,819)
Derivative financial liabilities used for hedging	–	(368,460)	–	(368,460)
<b>Total</b>	<b>53,363</b>	<b>35,036,973</b>	<b>277</b>	<b>35,090,613</b>

There were no transfers between Levels 1, 2 and 3 in both periods.

Except as detailed in the following table, the directors of the Group consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated interim financial information approximate their fair values.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

## 4. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

### 4.1 Fair value estimation (continued)

	Carrying amount HK\$'000	Fair value HK\$'000
<b>At 30 June 2018</b>		
Financial assets		
– Financial assets measured at amortised cost	21,315	20,080
Financial liabilities		
– Loan capital	4,464,738	4,547,950
– Debt securities issued	1,773,581	1,241,498
<b>At 31 December 2017</b>		
Financial assets		
– Held-to-maturity securities	3,640,146	3,681,149
Financial liabilities		
– Loan capital	4,541,380	4,667,114
– Debt securities issued	1,796,069	1,762,600

### 4.2 Valuation techniques

The fair value of listed securities is determined with reference to quoted market bid prices from relevant stock exchanges.

The fair values of debt securities classified as FVOCI (2017: available-for-sale securities), certificates of deposit and other debt securities classified as amortised cost (2017: held-to-maturity) securities and loan capital are determined based on indicative prices provided by the dealers and brokers. In addition, the Group makes comparison of the indicative prices with the prices obtained from pricing service providers and other service providers and with the values calculated using valuation models such as discounted cash flows method to substantiate the indicative prices of the debt securities. The key inputs used in the valuation models are the interest rate data, which are observable at the end of the reporting period. The objective of valuation models is to arrive at a fair value estimation that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length.

The fair value of foreign currency forward contracts is measured by comparing the contracted forward rates and the quoted forward exchange rates, which are observable at the end of the reporting period.

The fair value of interest rate swaps and cross-currency interest rate swaps are measured by the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates, which are observable at the end of the reporting period.

There were no changes in the Group's valuation techniques during the period.

**4. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS** (continued)

**4.3 Reconciliation of Level 3 fair value measurements of financial assets**

	Available- for-sale securities/ financial assets measured at FVOCI HK\$'000
<b>Balance at 1 January 2017</b>	275
Total net gain recognised in the investment revaluation reserve	2
<b>Balance at 1 January 2018</b>	<b>277</b>
Total net gain recognised in the investment revaluation reserve	<b>1</b>
<b>Balance at 30 June 2018</b>	<b>278</b>

The majority of the Group's investments are valued based on quoted market information or observable market data. A small percentage, less than 0.01% (31 December 2017: less than 0.01%), assets recorded at fair value, are based on estimates and recorded as Level 3 investments. Whilst such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not have a material impact on the Group's financial positions.

**5. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

The Group has financial assets and financial liabilities that:

- are offset in the Group's condensed consolidated statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the condensed consolidated statement of financial position.

The Group entered into International Swaps and Derivatives Association ("ISDA") Master Agreements and Global Master Repurchase Agreements ("GMRA") for derivatives and sale and repurchase agreements. In addition, the Group receives and pledges collateral in the form of cash in respect of its derivative transactions and sale and repurchase agreements. Such collateral is subject to the standard industry terms of ISDA Credit Support Annex or GMRA. Collateral received or pledged must be returned on maturity of the transactions.

Under the Continuous Net Settlement, money obligations receivable and payable with the Hong Kong Securities Clearing Company Limited on the same settlement date are settled on a net basis.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

## 6. NET INTEREST INCOME

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Interest income		
Balances and placements with central bank and banks	300,582	225,559
Investments in securities	552,024	477,387
Loans and advances	1,433,400	1,095,208
	<b>2,286,006</b>	1,798,154
Interest expense		
Deposits and balances of banks	(52,896)	(49,406)
Deposits from customers	(642,470)	(498,279)
Financial assets sold under repurchase agreements	(63,967)	(64,430)
Certificates of deposit	(29,104)	(3,218)
Debt securities issued	(34,780)	(30,058)
Loan capital in issue	(102,405)	(38,506)
	<b>(925,622)</b>	(683,897)
Net interest income	<b>1,360,384</b>	1,114,257
Included within interest income		
Interest income on impaired loans and advances	4,193	130

Included within interest income and interest expense are HK\$2,286,006,000 (2017: HK\$1,798,154,000) and HK\$925,622,000 (2017: HK\$683,897,000) earned and incurred from financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

Included above is interest income from unlisted investments in debt securities of HK\$552,024,000 (2017: HK\$477,387,000).

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

## 7. NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Fee and commission income		
Securities dealings	84,585	57,210
Loans, overdrafts and guarantees	44,952	31,391
Trade finance	8,173	7,409
Credit card services	65,393	48,082
Agency services	58,797	37,479
Others	20,982	11,971
Total fee and commission income	282,882	193,542
Less: Fee and commission expenses	(56,652)	(46,347)
Net fee and commission income	226,230	147,195
of which:		
Net fee and commission, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities, that are not measured at FVPL (2017: held for trading) nor designated at fair value through profit or loss		
– Fee income	96,779	90,786
– Fee expenses	(55,046)	(45,055)
	41,733	45,731

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

### 8. NET INCOME (LOSS) FROM TRADING AND INVESTMENTS

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Foreign exchange gains (losses)	95,477	(131,794)
Net income from financial assets designated at fair value	888	469
Net (losses) gains on financial instruments at fair value through profit or loss	(6,830)	6,705
Net (losses) gains on fair value hedge:		
– Net (losses) gains on hedged items attributable to the hedged risk	(491,298)	112,788
– Net gains (losses) on hedging instruments	490,534	(106,916)
Net gains on disposal of financial assets at FVOCI (2017: available-for-sale securities):		
– Debt securities	19,629	85,498
– Equity securities	–	7,489
	<b>108,400</b>	<b>(25,761)</b>

“Foreign exchange gains (losses)” includes gains and losses from spot and forward contracts, swaps and translated foreign currency assets and liabilities, which are not designated as qualifying hedging relationship.

The Group entered into foreign exchange swaps for its liquidity management and funding activities. It involves swapping a currency (“original currency”) into another currency (“swap currency”) at the spot exchange rate for short-term placement and simultaneously entering into a forward contract to convert the funds back to the original currency on maturity of the placement. The exchange difference between the spot and forward contracts as well as the corresponding interest differential between the surplus funds in the original currency and swap currency are recognised as “Foreign exchange gains (losses)”.

## 8. NET INCOME (LOSS) FROM TRADING AND INVESTMENTS (continued)

“Foreign exchange gains (losses)” also includes certain translation gains and losses reported in accordance with Hong Kong Accounting Standard 21 “The Effects of Changes in Foreign Exchange Rates” in relation to the Group’s Mainland operation. There were translation gains of approximately HK\$10,204,000 (2017: losses HK\$25,417,000) arising from translation of non-Renminbi net monetary assets maintained in the Mainland branches and there were translation losses of approximately HK\$960,000 (2017: HK\$61,920,000) arising from the translation of Renminbi net monetary liabilities at Head Office level in relation to the working capital provided to the Mainland branches. These translation differences from monetary items had been reported as “Foreign exchange gains (losses)” whereas the corresponding translation losses from the consolidation of the Mainland branches had been reported as part of exchange differences arising on translation under other comprehensive income.

Net gains on disposal of the financial assets at FVOCI (2017: available-for-sale securities) were included in the net income (loss) from trading and investments of the Group which form part of the business operation. This is in line with the current business model of the Group.

## 9. OTHER OPERATING INCOME

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Dividend income		
– Listed investments	998	1,022
– Unlisted investments	3,460	3,400
	4,458	4,422
Gross rents from investment properties	4,274	4,206
Less: Outgoings	(222)	(214)
Net rental income	4,052	3,992
Safe deposit box rentals	27,667	24,797
Net insurance income (Note)	6,134	7,775
Other banking services income	28,102	30,868
Others	5,247	8,234
	<b>75,660</b>	<b>80,088</b>



# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

## 9. OTHER OPERATING INCOME (continued)

Note: Details of net insurance income are as follows:

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Gross insurance premium income	20,226	21,788
Reinsurers' share of gross insurance premium income	(6,116)	(6,639)
	14,110	15,149
Increase in gross outstanding claims	(16,227)	(8,362)
Gross claim paid	(7,739)	(6,815)
	(23,966)	(15,177)
Increase in recoverable from reinsurance of outstanding claims	13,845	4,960
Reinsurance claims recoveries	392	726
	14,237	5,686
Net insurance commission income	1,753	2,117
Net insurance income	6,134	7,775

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

## 10. OPERATING EXPENSES

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Auditor's remuneration	3,454	2,921
Staff costs (including directors' emoluments)		
– Salaries and other costs	437,930	352,274
– Retirement benefits scheme contributions	24,573	24,380
– Capitalised to intangible assets	(19,205)	(19,620)
Total staff costs	443,298	357,034
Depreciation	40,913	42,217
– Capitalised to intangible assets	(2,084)	(2,084)
	38,829	40,133
Release of prepaid lease payments for land	33	33
Premises and equipment expenses, excluding depreciation and release of prepaid lease payments for land		
– Rentals and rates for premises	84,468	73,920
– Capitalised to intangible assets	(1,811)	(1,811)
	82,657	72,109
– Others	15,960	12,774
Other operating expenses	141,942	133,050
– Capitalised to intangible assets	(784)	(784)
	141,158	132,266
	725,389	617,270

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

## 11. IMPAIRMENT ASSESSMENT ON GOODWILL

For the six-month period ended 30 June 2018, the management has reviewed goodwill for impairment testing purposes. The review comprised a comparison of the carrying amount and the fair value less cost to sell, of an acquired subsidiary (the smallest cash-generating unit) to which the goodwill has been allocated. The acquired subsidiary is involved in insurance business.

The fair value of the acquired subsidiary as at 30 June 2018 was estimated by applying market approach based on a price-to-book ratio of 1.

The management of the Group determines that there is no impairment loss on the goodwill for the six-month period ended 30 June 2018 (30 June 2017: Nil).

## 12. TAXATION

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
The tax charge comprises:		
Hong Kong Profits Tax	102,042	61,022
Overseas taxation	40,840	21,349
Deferred tax	45,210	1,924
	<b>188,092</b>	84,295

Hong Kong Profits Tax is calculated at 16.5% (2017: 16.5%) of the estimated assessable profit for the period.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

## 13. EARNINGS PER SHARE – BASIC AND DILUTED

The calculation of basic earnings per share is based on the profit attributable to equity owners of the Bank of HK\$854,154,000 (2017: HK\$511,887,000) with deduction of distribution payment for additional equity instruments of HK\$76,314,000 (2017: HK\$75,676,000) and on 652,500,000 (2017: 652,500,000) ordinary shares in issue.

There were no potential dilutive instrument in issue during both periods.

## 14. DIVIDENDS

On 5 June 2018, a dividend of HK\$0.39 per share totalling HK\$254,475,000 was paid to shareholders as the final dividend for 2017.

On 5 June 2017, a dividend of HK\$0.39 per share totalling HK\$254,475,000 was paid to shareholders as the final dividend for 2016.

Subsequent to the end of the interim period, the Board has declared the interim dividend in respect of the financial year ending 31 December 2018 of HK\$0.17 (2017: HK\$0.15) per share should be paid to the shareholders of the Bank whose names appear on the Register of Members on 27 September 2018.

On the basis of 652,500,000 ordinary shares in issue as at the date of this report, the total amount of the interim dividend is HK\$110,925,000 (2017: HK\$97,875,000). If the total number of issued ordinary shares as at the record date for the interim dividend differs from that as at the date of this report, the total amount of the interim dividend paid to the shareholders of the Bank may change.

## 15. CASH AND SHORT-TERM FUNDS

	<b>30 June 2018 HK\$'000</b>	31 December 2017 HK\$'000
Cash and balances with central bank and banks	<b>2,663,487</b>	9,593,548
Money at call and short notice	<b>10,220,574</b>	11,170,870
Exchange fund bills	–	4,400,223
	<b>12,884,061</b>	25,164,641

Included in the “Cash and balances with central bank and banks” are surplus reserve deposits placed with People’s Bank of China in the Mainland China by the Mainland branches of HK\$119,448,000 (31 December 2017: HK\$378,234,000).

As a result of the adoption of HKFRS 9, exchange fund bills are included in investments in securities (see note 2(b)).

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

### 16. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2018		
	Notional amount HK\$'000	Fair value	
		Assets HK\$'000	Liabilities HK\$'000
Derivatives held for trading			
– Foreign currency forward contracts	196,020,445	481,273	596,556
– Interest rate swaps	10,204,690	19,145	22,045
– Foreign exchange options	129,763	2,381	2,381
Derivatives designated as hedging instruments			
– Interest rate swaps	27,252,132	633,758	249,465
		<b>1,136,557</b>	<b>870,447</b>

	31 December 2017		
	Notional amount HK\$'000	Fair value	
		Assets HK\$'000	Liabilities HK\$'000
Derivatives held for trading			
– Foreign currency forward contracts	148,149,348	361,561	500,892
– Interest rate swaps	5,314,612	12,113	12,029
– Foreign currency options	4,490,336	898	898
Derivatives designated as hedging instruments			
– Interest rate swaps	24,642,872	182,221	368,460
		<b>556,793</b>	<b>882,279</b>

As at 30 June 2018, the currencies of foreign currency forward contracts mainly comprise buying Hong Kong dollars and United States dollars (31 December 2017: Hong Kong dollars and United States dollars). As at 30 June 2018, all of these contracts have settlement dates within 2 years (31 December 2017: 1 year) from the end of the reporting period.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

## 17. INVESTMENTS IN SECURITIES

	Financial assets at fair value through profit or loss HK\$'000	Financial assets at FVOCI HK\$'000	Financial assets measured at amortised cost HK\$'000	Total HK\$'000
<b>30 June 2018</b>				
Equity securities:				
Listed in Hong Kong	257	47,119	–	47,376
Listed overseas	–	3,018	–	3,018
	257	50,137	–	50,394
Unlisted	–	42,065	–	42,065
	257	92,202	–	92,459
Debt securities:				
Unlisted	–	41,792,516	228,852	42,021,368
	257	41,884,718	228,852	42,113,827
Total:				
Listed in Hong Kong	257	47,119	–	47,376
Listed overseas	–	3,018	–	3,018
Unlisted	–	41,834,581	228,852	42,063,433
	257	41,884,718	228,852	42,113,827
As analysed by issuing entities:				
Central government and central banks	–	9,101,832	145,556	9,247,388
Banks	–	12,988,092	61,981	13,050,073
Corporate entities	257	19,794,794	21,315	19,816,366
	257	41,884,718	228,852	42,113,827
Included within debt securities are:				
Treasury bills	–	3,994,630	145,556	4,140,186
Other debt securities	–	37,797,886	83,296	37,881,182
	–	41,792,516	228,852	42,021,368

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

## 17. INVESTMENTS IN SECURITIES (continued)

	Financial assets at fair value through profit or loss – Held for trading HK\$'000	Available- for-sale securities HK\$'000	Held-to- maturity securities HK\$'000	Loan and receivable securities HK\$'000	Total HK\$'000
<b>31 December 2017</b>					
Equity securities:					
Listed in Hong Kong	265	49,166	–	–	49,431
Listed overseas	–	3,932	–	–	3,932
	265	53,098	–	–	53,363
Unlisted	–	34,735	–	–	34,735
	265	87,833	–	–	88,098
Debt securities:					
Unlisted	–	35,362,459	3,640,146	62,798	39,065,403
	265	35,450,292	3,640,146	62,798	39,153,501
Total:					
Listed in Hong Kong	265	49,166	–	–	49,431
Listed overseas	–	3,932	–	–	3,932
Unlisted	–	35,397,194	3,640,146	62,798	39,100,138
	265	35,450,292	3,640,146	62,798	39,153,501
As analysed by issuing entities:					
Central government and central banks	–	4,101,191	–	–	4,101,191
Banks	–	13,024,732	836,787	62,798	13,924,317
Corporate entities	265	18,324,369	2,803,359	–	21,127,993
	265	35,450,292	3,640,146	62,798	39,153,501
Included within debt securities are:					
Treasury bills	–	–	–	–	–
Other debt securities	–	35,362,459	3,640,146	62,798	39,065,403
	–	35,362,459	3,640,146	62,798	39,065,403

## **17. INVESTMENTS IN SECURITIES** (continued)

Debt securities classified as FVOCI (2017: available-for-sale) amounting to HK\$5,191,025,000 (31 December 2017: HK\$238,061,000) were issued by the Government of Hong Kong Special Administrative Region and the Mainland China.

The debt securities classified as FVOCI (2017: available-for-sale and held-to-maturity) held by the Group are mainly guaranteed or issued by corporates and financial institutions from Hong Kong and Mainland China.

The Group has disposed certain securities classified as FVOCI (2017: available-for-sale) financial instruments during the six-month period ended 30 June 2018 and 30 June 2017. Net gains on disposal of FVOCI (2017: available-for-sale) securities included in net income (loss) from trading and investments (refers to the gains on the disposal of securities which form part of the business operation).



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

### 18. TRANSFER OF FINANCIAL ASSETS

The following were the Group's debt securities classified as financial assets measured at amortised cost (2017: held-to-maturity) and financial assets measured at FVOCI (2017: available-for-sale) as at 30 June 2018 and 31 December 2017 that were transferred to an entity with terms to repurchase these debt securities at agreed dates and prices. As the Group has retained substantially all the risks and rewards relating to these debt securities, the full carrying amount of these debt securities continued to be recognised. The cash received on the transfer was reported as liabilities under "Financial assets sold under repurchase agreements" (see Note 25). The transferred debt securities serve as collateral to secure these liabilities. During the covered periods, the legal title of the debt securities are transferred to the counterparty entity and there is no restriction for the counterparty entity to sell or repledge the collateral. These debt securities are either measured at amortised cost or carried at fair value in the condensed consolidated statement of financial position.

	30 June 2018		Total HK\$'000
	Financial assets measured at FVOCI HK\$'000	Financial assets measured at amortised cost HK\$'000	
Carrying amount of transferred assets	6,590,801	–	6,590,801
Carrying amount of associated liabilities (Note 25)	5,829,952	–	5,829,952

  

	31 December 2017		Total HK\$'000
	Available- for-sale debt securities HK\$'000	Held-to- maturity debt securities HK\$'000	
Carrying amount of transferred assets	11,743,378	1,929,075	13,672,453
Carrying amount of associated liabilities (Note 25)	10,840,377	1,162,612	12,002,989

**19. ADVANCES AND OTHER ACCOUNTS**

	<b>30 June 2018 HK\$'000</b>	31 December 2017 HK\$'000
Advances to customers		
Bills receivable	<b>729,893</b>	845,295
Trade bills	<b>719,984</b>	283,588
Other advances to customers	<b>89,623,128</b>	85,569,489
	<b>91,073,005</b>	86,698,372
Interest receivable	<b>746,238</b>	644,368
Impairment allowances		
– Collectively assessed	–	(329,639)
– Individually assessed	–	(394,393)
– Stage 1	<b>(289,719)</b>	–
– Stage 2	<b>(55,355)</b>	–
– Stage 3	<b>(212,984)</b>	–
	<b>91,261,185</b>	86,618,708
Advances to banks	<b>942,800</b>	107,829
Other accounts	<b>4,788,596</b>	4,223,250
	<b>96,992,581</b>	90,949,787

Included in the “Other accounts” is variation margin of HK\$436,545,000 (31 December 2017: HK\$849,906,000) deposited in banks for certain interest rate swaps, foreign currency forward contracts and repurchase agreements and an amount of approximately HK\$3,541,603,000 (31 December 2017: HK\$2,657,492,000) placed as reserve funds with a financial institution in the Mainland China by the Mainland branches. Among which, HK\$2,669,008,000 (31 December 2017: HK\$1,776,005,000) are the mandatory reserve deposits placed with the People’s Bank of China. The mandatory reserve deposits are not available for the Group’s daily operation; HK\$872,595,000 (31 December 2017: HK\$881,487,000) are the fixed deposits placed with a bank in the Mainland in compliance with the requirements of Regulations Governing Foreign Financial Institutions of the Mainland.

The remaining balance of “Other accounts” of the Group amounting to HK\$810,448,000 (31 December 2017: HK\$715,852,000) mainly included account receivables from Hong Kong Securities Clearing Company Limited, Hong Kong Futures Exchange Clearing Corporation Limited and brokerage clients in relation to securities dealing of HK\$429,210,000 (31 December 2017: HK\$420,605,000).

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

### 19. ADVANCES AND OTHER ACCOUNTS (continued)

Details of the impaired loans are as follows:

	<b>30 June 2018 HK\$'000</b>	31 December 2017 HK\$'000
Gross impaired loans	<b>607,548</b>	398,100
Less: Impairment allowances under stage 3 (2017: individual assessment)	<b>(212,984)</b>	(394,393)
Net impaired loans	<b>394,564</b>	3,707
Gross impaired loans as a percentage of gross advances to customers	<b>0.67%</b>	0.46%
Market value of collateral pledged	<b>592,392</b>	3,873

Details of the non-performing loans are as follows:

	<b>30 June 2018 HK\$'000</b>	31 December 2017 HK\$'000
Gross non-performing loans ( <i>Note</i> )	<b>532,663</b>	485,492
Less: Impairment allowances under stage 3 (2017: individual assessment)	<b>(211,516)</b>	(394,393)
Net non-performing loans	<b>321,147</b>	91,099
Gross non-performing loans as a percentage of gross advances to customers	<b>0.58%</b>	0.56%
Market value of collateral pledged	<b>424,306</b>	200,716

*Note:* Non-performing loans represent advances which are either classified as “substandard”, “doubtful” or “loss” under the Group’s classification of loan quality. The occurrence of loss event(s) may not necessarily result in impairment loss where the advances are fully collateralised. While such advances are of “substandard” or lower grades, they are regarded as not being impaired and have been included as non-performing loans.

## 20. INTERESTS IN ASSOCIATES

On 20 March 2017, the Group entered into a Share Sale Agreement (“the Agreement”) to sell the Group’s stake in Hong Kong Life Insurance Limited (the “Disposal”) to First Origin International Limited (“the Purchaser”) for a consideration of approximately HK\$1,183,333,000. Under the Agreement, the closing of the Disposal is subject to the satisfaction of certain conditions. As at 30 June 2018, the Group’s interest in Hong Kong Life Insurance Limited is accounted for using the equity method as the Disposal was not completed. On 15 March 2018, the Group and the Purchaser agreed to extend the long stop date to 30 September 2018 or a date falling no later than 24 months after the date of the Agreement.

## 21. INVESTMENT PROPERTIES

	<b>2018</b> <i>HK\$’000</i>	2017 <i>HK\$’000</i>
At 1 January	298,765	282,927
Transfer from land and buildings	5,400	–
Net increase in fair value recognised in the profit or loss	8,960	12,632
Exchange adjustments	(701)	3,206
At 30 June / 31 December	<b>312,424</b>	298,765

All of the Group’s property interests held under operating leases to earn rentals and/or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

Net gains on fair value adjustments on investment properties:

	<b>Six months ended 30 June</b>	
	<b>2018</b> <i>HK\$’000</i>	2017 <i>HK\$’000</i>
Net gains on fair value adjustments on investment properties	<b>8,960</b>	5,774

*For the six months ended 30 June 2018*

### **21. INVESTMENT PROPERTIES** (continued)

Investment properties owned by the Group were revalued at 30 June 2018 by adopting the direct comparison approach and with reference to the recent transactions for similar premises by Vigers Appraisal and Consulting Limited, independent professional qualified valuer. The fair value is mainly arrived at by reference to comparable market transactions for similar properties.

The fair value of investment properties is estimated based on assumptions that there would be no forced sale situation in any manner for these investment properties and the structure of these investment properties were in a reasonable condition at the end of the reporting period.

The investment properties are rented out under operating leases or are held for capital appreciation purposes.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

One of the key inputs used in valuing the investment properties was the unit sale rate taking into account of time, location and individual factors such as size and levels of building, which ranged from HK\$3,480 to HK\$50,280 (2017: HK\$3,300 to HK\$49,400) per square feet. A decrease in the unit sale rate would result in decrease in fair value measurement of the investment properties by the same percentage decrease and vice versa.

Investment properties are classified as Level 3 under fair value hierarchy as at 30 June 2018 and 31 December 2017. There were no transfer into or out of Level 3 during the periods.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

## 22. PROPERTY AND EQUIPMENT

	Leasehold land HK\$'000	Buildings HK\$'000	Equipment HK\$'000	Total HK\$'000
<b>COST</b>				
<b>At 1 January 2018</b>	345,257	113,217	825,184	1,283,658
Additions	–	–	16,772	16,772
Disposals	–	–	(2,797)	(2,797)
Transfer to investment properties	(32)	–	–	(32)
Exchange adjustments	–	(559)	(2,717)	(3,276)
<b>At 30 June 2018</b>	345,225	112,658	836,442	1,294,325
<b>ACCUMULATED DEPRECIATION</b>				
<b>At 1 January 2018</b>	83,279	32,987	576,646	692,912
Depreciation	3,914	1,387	35,612	40,913
Eliminated on disposals	–	–	(233)	(233)
Transfer to investment properties	(18)	–	–	(18)
Exchange adjustments	–	121	(1,912)	(1,791)
<b>At 30 June 2018</b>	87,175	34,495	610,113	731,783
<b>CARRYING AMOUNTS</b>				
<b>At 30 June 2018</b>	258,050	78,163	226,329	562,542
<b>At 1 January 2018</b>	261,978	80,230	248,538	590,746
<b>COST</b>				
<b>At 1 January 2017</b>	478,312	161,440	705,814	1,345,566
Additions	–	–	133,276	133,276
Disposals	(133,055)	(49,048)	(24,078)	(206,181)
Exchange adjustments	–	825	10,172	10,997
<b>At 31 December 2017</b>	345,257	113,217	825,184	1,283,658
<b>ACCUMULATED DEPRECIATION</b>				
<b>At 1 January 2017</b>	140,206	51,501	520,255	711,962
Depreciation	9,863	3,604	70,670	84,137
Eliminated on disposals	(66,790)	(22,150)	(18,059)	(106,999)
Exchange adjustments	–	32	3,780	3,812
<b>At 31 December 2017</b>	83,279	32,987	576,646	692,912
<b>CARRYING AMOUNTS</b>				
<b>At 31 December 2017</b>	261,978	80,230	248,538	590,746
<b>At 1 January 2017</b>	338,106	109,939	185,559	633,604

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

### 23. PREPAID LEASE PAYMENTS FOR LAND

The prepaid lease payments for land comprise:

	2018 HK\$'000	2017 HK\$'000
<b>COST</b>		
Outside Hong Kong held on:		
Leases of between 10 to 50 years	2,850	2,850
Net book value at 1 January	2,134	2,201
Release of prepaid operating lease payments	(33)	(66)
Exchange adjustments	6	(1)
Net book value at 30 June / 31 December	2,107	2,134
Analysed as:		
Current portion	33	66
Non-current portion	2,074	2,068
Total	2,107	2,134

### 24. INTANGIBLE ASSETS

	30 June 2018 HK\$'000	31 December 2017 HK\$'000
Internally developed software and others	397,590	330,800
Goodwill (Note 11)	39,606	39,606
	437,196	370,406

**25. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS**

	<b>30 June 2018 HK\$'000</b>	31 December 2017 HK\$'000
Analysed by collateral type:		
Debt securities classified as:		
Financial assets at FVOCI (2017: Available-for-sale)	<b>5,829,952</b>	10,840,377
Financial assets at amortised cost (2017: Held-to-maturity)	-	1,162,612
	<b>5,829,952</b>	12,002,989

As at 30 June 2018, debt securities which are classified as financial assets at FVOCI (2017: available-for-sale) and financial assets at amortised cost (2017: held-to-maturity) with carrying amounts of HK\$6,590,801,000 (31 December 2017: HK\$11,743,378,000) and Nil (31 December 2017: HK\$1,929,075,000) respectively were sold under repurchase agreements with other banks. All repurchase agreements are due within 12 months (31 December 2017: within 12 months) from the end of the reporting period.

**26. DEPOSITS FROM CUSTOMERS**

	<b>30 June 2018 HK\$'000</b>	31 December 2017 HK\$'000
Demand deposits and current accounts	<b>11,986,392</b>	12,624,082
Savings deposits	<b>35,278,869</b>	37,667,095
Time, call and notice deposits	<b>73,818,968</b>	68,467,497
	<b>121,084,229</b>	118,758,674



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

### 27. CERTIFICATES OF DEPOSIT AND DEBT SECURITIES ISSUED

The Group has issued certificates of deposit which are measured at amortised cost with a total carrying amount of HK\$1,241,499,000 as at 30 June 2018 (31 December 2017: HK\$3,217,451,000). Certificates of deposit bear contractual interest rates between 1.6% to 4.8% (31 December 2017: 0.95% to 4.65%) per annum and will mature within 3 years. All certificates of deposit issued are not secured by any collateral.

The Group has issued debt securities which are measured at amortised cost with a total carrying amount of HK\$1,773,581,000 as at 30 June 2018 (31 December 2017: HK\$1,796,069,000). The debt securities issued bear contractual interest rate at 3.6% per annum and will mature in 2019. The debt securities issued are not secured by any collateral.

#### Analysis of changes in financing cash flows of debt securities issued during the six months ended 30 June 2018

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
<b>At 1 January</b>	<b>1,796,069</b>	1,663,774
<b>Changes from financing cash flows:</b>		
Interest paid on debt securities issued	(66,599)	(59,030)
	<b>1,729,470</b>	1,604,744
<b>Exchange adjustments</b>	<b>(23,400)</b>	57,904
<b>Other changes</b>		
Interest expense	34,780	30,058
Other non-cash movements ( <i>Note</i> )	32,731	30,052
Total other changes	<b>67,511</b>	60,110
<b>At 30 June</b>	<b>1,773,581</b>	1,722,758

*Note:* Included in "Other non-cash movements" mainly represents decrease in interest payable

28. LOAN CAPITAL

	<b>30 June 2018 HK\$'000</b>	31 December 2017 HK\$'000
Subordinated notes, at amortised cost with fair value hedge adjustments		
US\$204 million fixed rate subordinated note due 2020 (Notes (a) & (c))	1,589,934	1,615,531
US\$383 million fixed rate subordinated note due 2027 (Notes (b) & (c))	2,874,804	2,925,849
	<b>4,464,738</b>	4,541,380

Notes:

- (a) This represented a subordinated note (“the Note 1”) in 2017 qualifying as tier 2 capital under Basel II accord with face value of US\$225,000,000 issued on 5 November 2010. The Note 1 will mature on 4 November 2020. If at any time on or after 1 January 2013, the Note 1 no longer fully qualifies as term subordinated debt for inclusion in Category II – Supplementary Capital of the Bank upon changes to regulatory requirements, the Bank may, at its option and subject to the prior written approval of the HKMA, exercise a change of the status of the Note 1 by serving the “Change in Status Notice” to the noteholders. Upon a “Change in Status Notice” becoming effective, the Note 1 shall thereafter constitute unsubordinated obligations and the rate of interest on the Note 1 shall be reduced from 6% per annum to 5.5% per annum. As “Change in Status Notice” has not been served, the rate of interest on the Note 1 remains at 6% per annum. Pursuant to the exchange offer by the Bank, the Bank settled and exchanged US\$20,976,000 of the Note 1 for tier 2 subordinated note due 2027 (Note (b)). Following the settlement of the exchange offer US\$204,024,000 in aggregate principal amount of the Note 1 remains outstanding.
- (b) This represented a subordinated note qualifying as tier 2 capital under Basel III accord with face value of US\$382,903,000 tier 2 subordinated notes issued on 26 July 2017 (“the Note 2”). The Note 2 are 10-year non-call 5-year fixed rate notes, with a fixed coupon rate of 3.876% per annum payable semi-annually for the first 5 years; the interest rate will be reset on 26 July 2022. This includes US\$22,903,000 of “New Exchange Notes” (being the Note 2 issued pursuant to the exchange offer by the Bank to the holders of its US\$225 million 6.000% subordinated Notes due 2020) and US\$360 million of “New Money Notes”. The Note 2 have been listed on the Stock Exchange of Hong Kong under stock code of 05249 on 27 July 2017.
- (c) The subordinated note issued is not secured by any collateral.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

### 28. LOAN CAPITAL (continued)

Analysis of changes in financing cash flows of loan capital during the six months ended 30 June 2018

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
<b>At 1 January</b>	<b>4,541,380</b>	1,792,267
<b>Changes from financing cash flows:</b>		
Interest paid on loan capital	(93,406)	(35,864)
	<b>4,447,974</b>	1,756,403
<b>Exchange adjustments</b>	<b>21,456</b>	10,729
<b>Fair value hedge adjustments</b>	<b>(98,871)</b>	(5,308)
<b>Other changes</b>		
Interest expense	102,405	38,506
Other non-cash movements	(8,226)	(919)
Total other changes	<b>94,179</b>	37,587
<b>At 30 June</b>	<b>4,464,738</b>	1,799,411

### 29. DEFERRED TAXATION

For the purpose of presentation in the condensed consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	30 June 2018 HK\$'000	31 December 2017 HK\$'000
Deferred tax liabilities	(44,678)	(50,136)

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

## 29. DEFERRED TAXATION (continued)

The following are the major deferred tax assets (liabilities) recognised and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation HK\$'000	Impairment allowance (Note) HK\$'000	Investment properties HK\$'000	Revaluation of FVOCI securities HK\$'000	Remeasurement of retirement benefits HK\$'000	Total HK\$'000
<b>At 1 January 2018</b>	140	35,997	(13,156)	(68,693)	(4,424)	(50,136)
Changes on initial application of HKFRS 9	-	20,625	-	(6,783)	-	13,842
Restated balance at 1 January 2018	140	56,622	(13,156)	(75,476)	(4,424)	(36,294)
Charge to the income statement for the period	(29,197)	(10,599)	(5,414)	-	-	(45,210)
Charge to other comprehensive income for the period	-	-	-	36,700	-	36,700
Exchange adjustments	-	-	126	-	-	126
<b>At 30 June 2018</b>	<b>(29,057)</b>	<b>46,023</b>	<b>(18,444)</b>	<b>(38,776)</b>	<b>(4,424)</b>	<b>(44,678)</b>
<b>At 1 January 2017</b>	(2,899)	35,365	(8,473)	(29,074)	(3,492)	(8,573)
Credit (charge) to income statement for the year	3,039	632	(3,823)	-	-	(152)
Charge to other comprehensive income for the year	-	-	-	(39,619)	(932)	(40,551)
Exchange adjustments	-	-	(860)	-	-	(860)
<b>At 31 December 2017</b>	140	35,997	(13,156)	(68,693)	(4,424)	(50,136)

*Note:* Upon the initial application of HKFRS 9, the Group has recognised deferred tax assets on the additional impairment losses recognised under the ECL model as well as deferred tax liabilities arising on revaluation of financial assets that reclassified to FVOCI securities.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

### 30. ADDITIONAL EQUITY INSTRUMENTS

	<b>30 June 2018 HK\$'000</b>	31 December 2017 HK\$'000
US\$300 million undated non-cumulative subordinated additional tier 1 capital securities	<b>2,312,030</b>	2,312,030

On 25 September 2014, the Bank issued undated non-cumulative subordinated additional tier 1 capital securities (“Additional Tier 1 Capital Securities”) with a face value of US\$300 million (equivalent to HK\$2,312,030,000 net of related issuance costs). The Additional Tier 1 Capital Securities are undated and bear a 6.50% coupon until the first call date on 25 September 2019. The coupon will be reset every five years if the Additional Tier 1 Capital Securities are not redeemed to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 4.628% per annum.

The coupon shall be payable semi-annually. The Bank has the right to cancel coupon payment (subject to the requirement as set out in the terms and conditions of the Additional Tier 1 Capital Securities) and the coupon cancelled shall not be cumulative. However, the Bank is stopped from declaring dividend to its ordinary shareholders unless the next scheduled coupon payment is paid.

The principal of the Additional Tier 1 Capital Securities will be written off up to the amount as directed or agreed with the HKMA if the HKMA notifies the Bank that in the opinion of the HKMA, the Bank would become non-viable if there is no written off of the principal.

The Bank has a call option to redeem all the outstanding capital securities from 25 September 2019 or any subsequent coupon payment date, but subject to restriction as set out in the terms and conditions.

During the period, a distribution payment of US\$9,750,000 (2017: US\$9,750,000) (equivalent to HK\$76,314,000) (2017: HK\$75,675,000) was paid to the securities holders.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

## 31. MATURITY PROFILES

The maturity analysis of financial assets and liabilities shown on the condensed consolidated statement of financial position are presented based on the Group's remaining contractual maturity information provided to and reviewed by management, is shown below:

	Repayable on demand HK\$'000	Repayable within 1 month (except those on demand) HK\$'000	Repayable after 1 month but within 3 months HK\$'000	Repayable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
<b>At 30 June 2018</b>								
<b>Assets</b>								
Cash and short-term funds	2,738,803	10,026,510	118,748	-	-	-	-	12,884,061
Placements with banks	-	-	2,364,798	1,235,049	-	-	-	3,599,847
Derivative financial instruments	-	111,079	106,751	202,503	191,302	524,922	-	1,136,557
Financial assets at fair value through profit or loss	-	-	-	-	-	-	257	257
Financial assets at FVOCI	1,764	189,382	7,113,819	6,436,300	12,945,091	15,106,160	92,202	41,884,718
Financial assets at amortised cost	-	-	29,130	178,416	21,306	-	-	228,852
Advances to customers	1,658,191	3,112,179	10,092,900	17,556,530	39,777,807	18,724,228	151,170	91,073,005
Advances to banks	829,184	113,616	-	-	-	-	-	942,800
Other financial assets	1,053,599	332,134	3,038,959	1,066,319	40,829	4,698	(559,762)	4,976,776
<b>Total financial assets</b>	<b>6,281,541</b>	<b>13,884,900</b>	<b>22,865,105</b>	<b>26,675,117</b>	<b>52,976,335</b>	<b>34,360,008</b>	<b>(316,133)</b>	<b>156,726,873</b>
<b>Liabilities</b>								
Deposits and balances of banks	57,506	1,341,886	1,449,764	485,484	-	-	-	3,334,640
Financial assets sold under repurchase agreements	-	1,576,414	4,253,538	-	-	-	-	5,829,952
Deposits from customers	49,097,159	21,517,248	27,171,537	18,117,532	5,180,753	-	-	121,084,229
Certificates of deposit	-	196,199	235,414	574,621	235,265	-	-	1,241,499
Derivative financial instruments	-	140,156	204,778	192,168	268,307	65,038	-	870,447
Debt securities issued	-	-	-	1,773,581	-	-	-	1,773,581
Loan capital	-	-	-	-	1,717,207	2,747,531	-	4,464,738
Other financial liabilities	777,289	217,851	379,106	304,170	98,380	-	38,625	1,815,421
<b>Total financial liabilities</b>	<b>49,931,954</b>	<b>24,989,754</b>	<b>33,694,137</b>	<b>21,447,556</b>	<b>7,499,912</b>	<b>2,812,569</b>	<b>38,625</b>	<b>140,414,507</b>
<b>Net position</b>								
<b>- Total financial assets and liabilities</b>	<b>(43,650,413)</b>	<b>(11,104,854)</b>	<b>(10,829,032)</b>	<b>5,227,561</b>	<b>45,476,423</b>	<b>31,547,439</b>	<b>(354,758)</b>	<b>16,312,366</b>
Of which debt securities included in:								
Financial assets at FVOCI	1,764	189,382	7,113,819	6,436,300	12,945,091	15,106,160	-	41,792,516
Financial assets at amortised cost	-	-	29,130	178,416	21,306	-	-	228,852
	<b>1,764</b>	<b>189,382</b>	<b>7,142,949</b>	<b>6,614,716</b>	<b>12,966,397</b>	<b>15,106,160</b>	<b>-</b>	<b>42,021,368</b>

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

## 31. MATURITY PROFILES (continued)

	Repayable on demand HK\$'000	Repayable within 1 month (except those repayable on demand) HK\$'000	Repayable after 1 month but within 3 months HK\$'000	Repayable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
<b>At 31 December 2017</b>								
<b>Assets</b>								
Cash and short-term funds	9,184,243	12,701,567	2,891,996	386,835	-	-	-	25,164,641
Placements with banks	-	-	4,222,802	2,136,202	-	-	-	6,359,004
Derivative financial instruments	-	86,759	117,664	86,605	137,091	128,674	-	556,793
Financial assets at fair value through profit or loss	-	-	-	-	-	-	265	265
Available-for-sale securities	-	1,081,041	1,239,594	7,142,326	11,303,800	14,595,698	87,833	35,450,292
Held-to-maturity securities	-	61,045	-	124,100	3,455,001	-	-	3,640,146
Loan and receivable securities	-	-	-	62,798	-	-	-	62,798
Advances to customers	1,403,473	3,221,935	9,532,838	14,986,516	39,652,060	17,686,431	215,119	86,698,372
Advances to banks	-	-	-	107,829	-	-	-	107,829
Other financial assets	1,337,148	325,035	1,778,121	616,464	53,835	6,364	26,619	4,143,586
<b>Total financial assets</b>	<b>11,924,864</b>	<b>17,477,382</b>	<b>19,783,015</b>	<b>25,649,675</b>	<b>54,601,787</b>	<b>32,417,167</b>	<b>329,836</b>	<b>162,183,726</b>
<b>Liabilities</b>								
Deposits and balances of banks	6,290	790,916	1,625,477	629,249	-	-	-	3,051,932
Financial assets sold under repurchase agreements	-	3,566,353	7,512,447	924,189	-	-	-	12,002,989
Deposits from customers	51,629,989	25,194,216	25,525,257	13,016,732	3,392,480	-	-	118,758,674
Certificates of deposit	-	980,066	325,248	1,677,645	234,492	-	-	3,217,451
Derivative financial instruments	-	164,583	187,369	82,716	186,234	261,377	-	882,279
Debt securities issued	-	-	-	-	1,796,069	-	-	1,796,069
Loan capital	-	-	-	-	1,615,531	2,925,849	-	4,541,380
Other financial liabilities	644,967	201,598	320,840	334,379	50,414	-	25,390	1,577,588
<b>Total financial liabilities</b>	<b>52,281,246</b>	<b>30,897,732</b>	<b>35,496,638</b>	<b>16,664,910</b>	<b>7,275,220</b>	<b>3,187,226</b>	<b>25,390</b>	<b>145,828,362</b>
<b>Net position</b>								
<b>- total financial assets and liabilities</b>	<b>(40,356,382)</b>	<b>(13,420,350)</b>	<b>(15,713,623)</b>	<b>8,984,765</b>	<b>47,326,567</b>	<b>29,229,941</b>	<b>304,446</b>	<b>16,355,364</b>
Of which debt securities included in:								
Available-for-sale securities	-	1,081,041	1,239,594	7,142,326	11,303,800	14,595,698	-	35,362,459
Held-to-maturity securities	-	61,045	-	124,100	3,455,001	-	-	3,640,146
Loan and receivable securities	-	-	-	62,798	-	-	-	62,798
	-	1,142,086	1,239,594	7,329,224	14,758,801	14,595,698	-	39,065,403

### 32. RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following material transactions with related parties:

	Interest, commission and rental income Six months ended 30 June		Interest, rental and other operating expenses Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Ultimate holding company	8	–	9,936	8,836
Intermediate holding company	5,751	3,284	535	9,446
Fellow subsidiaries	8,461	12,140	33,547	26,605
Associates	33,419	20,604	1,090	771
Key management personnel (Note)	399	341	236	972

At the end of the reporting period, the Group had the following material outstanding balances with related parties:

	Amounts due from related parties		Amounts due to related parties	
	30 June 2018 HK\$'000	31 December 2017 HK\$'000	30 June 2018 HK\$'000	31 December 2017 HK\$'000
Ultimate holding company	–	–	1,198,598	426,430
Intermediate holding company	799,269	298,008	46,556	53,704
Fellow subsidiaries	798,057	835,733	2,933,429	1,766,326
Associates	–	–	294,481	213,367
Key management personnel (Note)	51,519	572,376	428,755	201,155

The above outstanding balances bear interest at rates similar to those made available to non-related parties. A portion of the loans to related parties are secured with properties, securities and fixed deposits.

As at 30 June 2018, the Group had operating lease commitments with fellow subsidiaries of HK\$23,565,000 (31 December 2017: HK\$18,411,000).

Note: Includes key management personnel, close family members of key management personnel and entities that are controlled or jointly controlled, directly or indirectly, by key management personnel.



# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

## 32. RELATED PARTY TRANSACTIONS (continued)

### Compensation of key management personnel

The remuneration of directors, senior management and key personnel during the period was as follows:

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Short-term benefits	87,354	80,331
Post employment benefits	5,179	4,943
	<b>92,533</b>	85,274

The remuneration of directors, senior management and key personnel is reviewed by the Remuneration Committee having regard to the performance of individuals and market trends.

## 33. ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017 except for the adoption of ECL model under HKFRS 9 from 1 January 2018, which resulted in changes in accounting estimates.

### Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

## 33. ESTIMATES (continued)

### Measurement of the expected credit loss allowance (continued)

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

- Determining criteria for significant increase in credit risk (SICR)

The Group assesses whether there is a significant increase in risk of a credit exposure since origination at reporting date. While determining the significant increase in credit risk, the Group considers all reasonable and supportable information that is available without undue cost or effort and that is relevant for an individual financial instrument, a portfolio, sub-group of a portfolio and groups of portfolios. The Bank's internal lending policy and other credit risk management procedures are referenced and as well as benchmarking with industry practice.

A credit exposure is considered as experiencing significant increase in credit risk if one or more of the following criteria have been met:

- Contractual payments are more than 30 days past due
- Loan is classified as Special Mention according to five classification categories
- Significant change in external credit rating, i.e. migrating from investment grade to speculative grade
- Significant increases in credit risk on other financial instruments of the same borrower
- Any account that is in early warning account list maintained by the Bank;

## 33. ESTIMATES (continued)

### Measurement of the expected credit loss allowance (continued)

- Determining scenario setting and probability weighting assignment

The Group develops three scenarios to derive the unbiased and probability weighted ECL. In the process, management judgement is applied in determination of scenario setting and assignment of probability weighting for each scenario, with quantitative analysis of historical economic performance and qualitative analysis of macroeconomic environment;

The calculation of ECL involves three key measuring parameters, namely Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The forward-looking element is reflected in the ECL model through incorporation of economic factors in PD or LGD models and adoption of scenario-based ECL.

The Group performs statistical analysis to identify a set of economic factors which affect the risk parameter of PD or LGD for various business portfolios. Regression analysis is employed to select the final economic factors and to assess their impact on PD or LGD, with combining experts' judgments. The forecasts of the economic factors are sourced from world-leading economic forecasting services. These forward-looking macroeconomic estimates are then input into the regression model to derive the forecast PD or LGD.

According to the HKFRS 9, ECL is expected to be assessed over a range of economic scenarios and is an unbiased and probability weighted amount. As such, the Group develops three macroeconomic scenarios, namely Good, Base and Bad scenarios. The weighting of each scenario is determined by management judgement with consideration of macroeconomic environment. The ECL for each scenario is calculated and finally the overall weighted-average ECL is derived by applying the weighing to the ECL of each corresponding scenario; and

- Establishing groups of similar financial assets for the purposes of measuring ECL

In defining segmentation for ECL forecast, the Group takes into consideration of the product nature and materiality, policies, geographical locations and availability of historical credit loss data. Management judgement is applied in determination of grouping financial assets into segment in a manner that the financial assets have similar nature.

## 34. COMPARATIVE AMOUNTS

Certain comparative figures have been reclassified to conform with the current period's presentation.

## 1. ADVANCES TO CUSTOMERS – BY INDUSTRY SECTORS

The Group's gross advances to customers (including advances booked in branches outside Hong Kong and subsidiaries) are analysed and reported by industry sectors according to the usage of the loans or business activities of the borrowers as follows:

	30 June 2018				
	Gross loans and advances HK\$'000	Impairment allowances stage 1 & stage 2 HK\$'000	Impairment allowances stage 3 HK\$'000	Loans and advances secured by collateral HK\$'000 (Note 1)	Gross impaired advances HK\$'000
Loans for use in Hong Kong					
Industrial, commercial and financial					
– Property development	6,222,486	3,107	–	3,125,273	–
– Property investment	8,617,984	23,958	–	6,821,674	–
– Financial concerns	7,834,584	1,919	–	1,595,257	–
– Stockbrokers	1,545,751	120	–	1,326,256	–
– Wholesale and retail trade	1,950,112	6,765	7,925	1,771,799	53,068
– Manufacturing	2,180,531	9,084	2,770	1,201,213	151,802
– Transport and transport equipment	2,198,930	1,520	–	927,533	–
– Recreational activities	1,030	1	–	1,030	–
– Information technology	388,718	1,686	–	110,547	–
– Others (Note 2)	8,246,687	15,329	9,181	5,152,480	92,253
Individuals					
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	524,112	71	2	524,112	513
– Loans for the purchase of other residential properties	9,197,467	2,092	163	9,195,605	12,698
– Credit card advances	83,787	1,276	653	–	653
– Others (Note 3)	2,297,262	4,334	1,028	2,003,267	4,028
	51,289,441	71,262	21,722	33,756,046	315,015
Trade finance	3,577,780	15,647	16,576	1,353,655	28,214
Loans for use outside Hong Kong	36,205,784	258,165	174,686	13,413,712	264,319
	91,073,005	345,074	212,984	48,523,413	607,548

Notes: 1. Loans and advances secured by collateral are determined as the lower of the market value of collateral or outstanding loan principal.

2. Major items included in "Others" are for electricity and gas, hotels, catering, margin lending and other business purposes.

3. Major items mainly included loans to professionals and other individuals for various private purposes.

## SUPPLEMENTARY INFORMATION

For the six months ended 30 June 2018

### 1. ADVANCES TO CUSTOMERS – BY INDUSTRY SECTORS (continued)

	31 December 2017				
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	Loans and advances secured by collateral HK\$'000 (Note 1)	Gross impaired advances HK\$'000
Loans for use in Hong Kong					
Industrial, commercial and financial					
– Property development	8,655,602	16,476	–	3,868,090	–
– Property investment	8,469,377	24,066	–	7,238,359	–
– Financial concerns	6,589,728	8,562	200,000	2,302,364	200,000
– Stockbrokers	2,405,034	4,666	–	1,265,898	–
– Wholesale and retail trade	2,666,682	20,358	9,670	2,435,878	9,670
– Manufacturing	1,609,080	55,382	3,023	831,615	3,380
– Transport and transport equipment	1,207,931	17,332	–	982,816	–
– Recreational activities	1,057	–	–	1,057	–
– Information technology	393,723	3,353	–	115,636	–
– Others (Note 2)	8,340,225	77,001	9,165	5,387,101	9,165
Individuals					
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	528,700	63	–	528,700	–
– Loans for the purchase of other residential properties	9,038,308	–	–	9,036,821	–
– Credit card advances	104,714	969	603	–	603
– Others (Note 3)	2,344,531	3,681	1,102	1,993,526	1,102
	52,354,692	231,909	223,563	35,987,861	223,920
Trade finance	2,963,400	5,927	20,271	1,133,247	22,533
Loans for use outside Hong Kong	31,380,280	91,803	150,559	10,875,016	151,647
	86,698,372	329,639	394,393	47,996,124	398,100

Notes: 1. Loans and advances secured by collateral are determined as the lower of the market value of collateral or outstanding loan principal.

2. Major items included in “Others” are for electricity and gas, hotels, catering, margin lending and other business purposes.

3. Major items mainly included loans to professionals and other individuals for various private purposes.

**1. ADVANCES TO CUSTOMERS – BY INDUSTRY SECTORS** (continued)

The Group's advances to customers overdue for over three months as at 30 June 2018 and 31 December 2017, and new impairment allowances and advances written-off during the six months ended 30 June 2018 and 2017 in respect of industry sectors which constitute not less than 10% of gross advances to customers are analysed as follows:

	<b>Advances overdue for over three months as at 30 June HK\$'000</b>	<b>2018 New impairment allowances during the six months ended 30 June HK\$'000</b>	<b>Advances written-off during six months ended 30 June HK\$'000</b>
Individuals			
– Loans for the purchase of other residential properties	1,784	14	–
Loans for use outside Hong Kong	161,796	116	–
		<b>2017</b>	
		New	
	<b>Advances overdue for over three months as at 31 December HK\$'000</b>	<b>impairment allowances during the six months ended 30 June HK\$'000</b>	<b>Advances written-off during six months ended 30 June HK\$'000</b>
Individuals			
– Loans for the purchase of other residential properties	5,780	–	–
Loans for use outside Hong Kong	151,647	777	–

## SUPPLEMENTARY INFORMATION

For the six months ended 30 June 2018

### 2. ADVANCES TO CUSTOMERS – BY GEOGRAPHICAL AREAS

The Group's gross advances to customers by countries or geographical areas after taking into account any risk transfers are as follows:

	30 June 2018				
	Total advances HK\$'000	Advances overdue for over three months HK\$'000	Impaired advances HK\$'000	Impairment allowances stage 3 HK\$'000	Impairment allowance stage 1 & stage 2 HK\$'000
Hong Kong	67,374,619	273,747	601,827	212,101	190,847
Mainland China	19,930,381	–	–	–	151,651
Macau	3,747,996	1,788	5,721	883	2,576
Others	20,009	–	–	–	–
	<b>91,073,005</b>	<b>275,535</b>	<b>607,548</b>	<b>212,984</b>	<b>345,074</b>

	31 December 2017				
	Total advances HK\$'000	Advances overdue for over three months HK\$'000	Impaired advances HK\$'000	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000
Hong Kong	66,635,650	347,802	246,453	243,834	241,053
Mainland China	16,697,292	149,859	149,859	149,859	77,567
Macau	3,342,965	1,788	1,788	700	11,019
Others	22,465	–	–	–	–
	<b>86,698,372</b>	<b>499,449</b>	<b>398,100</b>	<b>394,393</b>	<b>329,639</b>

## SUPPLEMENTARY INFORMATION

For the six months ended 30 June 2018

### 3. INTERNATIONAL CLAIMS

The Group's international claims by countries or geographical areas which constitute 10% or more of the relevant disclosure items after taking into account any risk transfers are as follows:

	At 30 June 2018				Total HK\$'000
	Non-bank private sector				
	Banks HK\$'000	Official sector HK\$'000	Non-bank financial institutions HK\$'000	Non- financial private sector HK\$'000	
Offshore centres	2,219,753	4,848	17,299,281	17,029,432	36,553,314
of which					
– Hong Kong	2,219,571	4,848	3,818,319	7,721,080	13,763,818
Developing					
Asia-Pacific	9,058,296	235,774	899,328	5,577,315	15,770,713
of which					
– Mainland China	8,079,290	235,774	899,328	5,567,799	14,782,191
Developed countries	5,689,282	4,092,438	1,455,689	132,597	11,370,006

  

	At 31 December 2017				Total HK\$'000
	Non-bank private sector				
	Banks HK\$'000	Official sector HK\$'000	Non-bank financial institutions HK\$'000	Non- financial private sector HK\$'000	
Offshore centres	1,531,449	4,200	16,666,358	15,301,720	33,503,727
of which					
– Hong Kong	1,531,206	4,200	4,403,559	8,026,365	13,965,330
Developing					
Asia-Pacific	13,510,809	233,157	948,894	7,437,270	22,130,130
of which					
– Mainland China	12,534,009	233,157	948,894	7,431,108	21,147,168
Developed countries	6,192,052	3,860,788	1,435,606	107,354	11,595,800



## SUPPLEMENTARY INFORMATION

For the six months ended 30 June 2018

### 4. OVERDUE AND RESCHEDULED ASSETS

	30 June 2018		31 December 2017	
	Gross amount of advances HK\$'000	Percentage to total advances %	Gross amount of advances HK\$'000	Percentage to total advances %
Advances overdue for				
– 6 months or less but over 3 months	94,165	0.1	12,656	0.0
– 1 year or less but over 6 months	5,829	0.0	432,113	0.5
– Over 1 year	170,463	0.2	54,680	0.1
Trade bills overdue for				
– 6 months or less but over 3 months	–	0.0	–	0.0
– 1 year or less but over 6 months	5,078	0.0	–	0.0
– Over 1 year	–	0.0	–	0.0
<b>Total overdue advances</b>	<b>275,535</b>	<b>0.3</b>	499,449	0.6
Rescheduled advances				
– 3 months or less	17,851	0.0	12,822	0.0
– Over 3 months	4,948	0.0	5,531	0.0
<b>Total rescheduled advances</b>	<b>22,799</b>	<b>0.0</b>	18,353	0.0
Impairment allowances under stage 3 made in respect of overdue loans and advances (2017: individual assessment)	171,358		388,641	
Covered portion of overdue loans and advances	103,579		110,975	
Uncovered portion of overdue loans and advances	171,956		388,474	
	275,535		499,449	
Market value of collateral held against covered portion of overdue loans and advances	223,311		229,255	

There are no overdue debt securities included in “Financial assets at fair value through profit or loss” and “Financial assets at FVOCI” (2017: “Available-for-sale financial assets”) as at 30 June 2018 and 31 December 2017.

There were no advances to banks which were overdue for over three months as at 30 June 2018 and 31 December 2017, nor were there any rescheduled advances to banks.

Reposessed assets held by the Group as at 30 June 2018 was HK\$3,000,000 (31 December 2017: HK\$10,250,000).

## 5. MAINLAND ACTIVITIES EXPOSURES

The table below summaries the non-bank Mainland China exposures of the Bank's Hong Kong banking operations and the Bank's Mainland branches and sub-branches categorized by types of counterparties:

Type by counterparties	30 June 2018		Total HK\$'000
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	17,827,995	1,593,898	19,421,893
2. Local government, local government-owned entities and their subsidiaries and JVs	3,554,458	647,891	4,202,349
3. Mainland China nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	15,773,257	5,471,652	21,244,909
4. Other entities of central government not reported in item 1 above	6,401,721	330,752	6,732,473
5. Other entities of local government not reported in item 2 above	1,722,231	549,825	2,272,056
6. Mainland China nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	9,357,315	1,521,085	10,878,400
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	5,687,695	1,846,612	7,534,307
<b>Total</b>	<b>60,324,672</b>	<b>11,961,715</b>	<b>72,286,387</b>
<b>Total assets after provision (Note)</b>	<b>157,126,424</b>		
<b>On-balance sheet exposures as percentage of total assets (Note)</b>	<b>38%</b>		

## SUPPLEMENTARY INFORMATION

For the six months ended 30 June 2018

### 5. MAINLAND ACTIVITIES EXPOSURES (continued)

Type by counterparties	31 December 2017		Total HK\$'000
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	16,733,076	1,928,809	18,661,885
2. Local government, local government-owned entities and their subsidiaries and JVs	2,226,715	1,252,874	3,479,589
3. Mainland China nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	14,510,630	3,229,129	17,739,759
4. Other entities of central government not reported in item 1 above	5,739,266	1,006,372	6,745,638
5. Other entities of local government not reported in item 2 above	474,243	45,000	519,243
6. Mainland China nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	9,719,331	1,546,041	11,265,372
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	6,585,223	2,432,079	9,017,302
<b>Total</b>	<b>55,988,484</b>	<b>11,440,304</b>	<b>67,428,788</b>
<b>Total assets after provision (Note)</b>	<b>162,810,827</b>		
<b>On-balance sheet exposures as percentage of total assets (Note)</b>	<b>34%</b>		

The categories of non-bank counterparties and type of direct exposures are disclosed in accordance with Banking (Disclosure) Rules with reference to the Return of Mainland Activities of the HKMA.

*Note:* Include total assets after provisions of the Bank's Hong Kong banking operations and the Bank's Mainland branches and sub-branches.

## SUPPLEMENTARY INFORMATION

For the six months ended 30 June 2018

### 6. CURRENCY RISK

The Group's foreign currency exposures arising from non-trading and structural position which constitute 10% or more of the total net position in all foreign currencies are as follows:

	30 June 2018		Total
	USD	RMB	
Equivalent in thousand of HK\$			
Spot assets	38,158,246	33,386,028	71,544,274
Spot liabilities	(26,836,859)	(35,671,338)	(62,508,197)
Forward purchases	104,929,847	9,845,793	114,775,640
Forward sales	(116,022,734)	(7,018,889)	(123,041,623)
Net long position	228,500	541,594	770,094
	MOP	RMB	Total
Net structural position	48,544	1,301,850	1,350,394
	31 December 2017		Total
	USD	RMB	
Equivalent in thousand of HK\$			
Spot assets	38,794,996	27,732,363	66,527,359
Spot liabilities	(37,371,492)	(27,256,003)	(64,627,495)
Forward purchases	70,397,765	4,855,330	75,253,095
Forward sales	(71,262,225)	(4,859,242)	(76,121,467)
Net long position	559,044	472,448	1,031,492
	MOP	RMB	Total
Net structural position	48,545	351,377	399,922

## SUPPLEMENTARY INFORMATION

For the six months ended 30 June 2018

### 7. CONTINGENT LIABILITIES AND COMMITMENTS

	30 June 2018 HK\$'000	31 December 2017 HK\$'000
<b>Contingent liabilities and commitments</b>		
– contractual amounts		
Direct credit substitutes	990,493	1,315,865
Trade-related contingencies	3,387,828	1,995,688
Forward asset purchases	93,718	82,323
<b>Undrawn formal standby facilities, credit lines and other commitments</b>		
Which are unconditionally cancellable without prior notice	24,538,418	23,797,922
With an original maturity of one year and under	2,929,768	3,738,747
With an original maturity of over one year	7,191,620	7,178,886
<b>Lease commitments</b>	217,382	199,560
	<b>39,349,227</b>	<b>38,308,991</b>

The credit risk-weighted amount of contingent liabilities and commitments is HK\$5,192,747,000 (31 December 2017: HK\$5,604,792,000).

Most of contingent liabilities and commitments are denominated in Hong Kong dollars.

The replacement cost and credit risk-weighted amounts of derivatives exposures are as follows:

	30 June 2018			31 December 2017		
	Notional amount HK\$'000	Replacement cost HK\$'000	Credit risk- weighted amount HK\$'000	Notional amount HK\$'000	Replacement cost HK\$'000	Credit risk- weighted amount HK\$'000
Exchange rate contracts	196,150,208	483,654	905,315	152,639,684	362,459	699,625
Interest rate contracts	37,456,822	652,903	267,972	29,957,484	194,334	167,938
		<b>1,136,557</b>	<b>1,173,287</b>		<b>556,793</b>	<b>867,563</b>

The above amounts do not take into account the effects of bilateral netting arrangements.

Replacement cost is the cost which would be incurred by the Group if it was required to enter into another contract to replace the existing transaction or existing contract with another counterparty with substantially the same economic consequences for the Group and is calculated by marking-to-market the existing transaction or existing contract. If the resultant value is positive for the Group, the replacement cost shall be the resultant value of the existing transaction or existing contract. If the resultant value is negative for the Group, the replacement cost shall be zero. Replacement cost is a close approximation of the credit risk for these contracts at the end of the reporting period.

The credit risk-weighted amount is the amount which has been calculated in accordance with the Banking (Capital) Rules and the guidelines issued by the HKMA.

## 8. CAPITAL ADEQUACY RATIOS, LEVERAGE RATIO AND LIQUIDITY RATIOS

	<b>30 June 2018 %</b>	31 December 2017 %
Total capital ratio	<b>17.39</b>	17.60
Tier 1 capital ratio	<b>13.23</b>	13.30
Common Equity Tier 1 ("CET 1") capital ratio	<b>11.27</b>	11.30
	<b>30 June 2018 %</b>	31 December 2017 %
Capital buffers (as a percentage of risk-weighted assets)		
Capital conservation buffer ratio	<b>1.88</b>	1.25
Countercyclical capital buffer ratio	<b>1.33</b>	0.91
	<b>3.21</b>	2.16
	<b>30 June 2018 %</b>	31 December 2017 %
Leverage ratio	<b>9.30</b>	8.85
	<b>Six months ended 30 June 2018 %</b>	Six months ended 30 June 2017 %
Average liquidity maintenance ratio ("LMR") for the period	<b>43.58</b>	39.92

Capital adequacy ratios are compiled in accordance with the Banking (Capital) Rules under Hong Kong Banking Ordinance for the implementation of the "Basel III" capital accord, which became effective on 1 January 2013. In accordance with the Banking (Capital) Rules, the Bank has adopted the "standardised approach" for the calculation of the risk-weighted assets for credit risk, "standardised (market risk) approach" for the calculation of market risk and "basic indicator approach" for the calculation of operational risk. The capital adequacy ratio is consolidated, under the Banking (Capital) Rules, with reference to the financial information of the Bank, Chong Hing Finance Limited, Right Way Investments Limited, Gallbraith Limited, Chong Hing Information Technology Limited, Card Alliance Company Limited, Top Benefit Enterprise Limited and Hero Marker Limited.

Leverage ratio is disclosed in accordance with the Banking (Disclosure) Rules under Hong Kong Banking Ordinance. The leverage ratio is consolidated with reference to the financial information of the Bank, Chong Hing Finance Limited, Right Way Investments Limited, Gallbraith Limited, Chong Hing Information Technology Limited, Card Alliance Company Limited, Top Benefit Enterprise Limited and Hero Marker Limited.

## 9. OTHER FINANCIAL INFORMATION

The Bank has set up a "Regulatory Disclosure" section on its website to house all of information relating to the disclosure of regulatory capital to comply with Banking (Disclosure) Rules.

The "Regulatory Disclosure" will be available on the Bank's website: [www.chbank.com/en/regulatory-disclosures/index.shtml](http://www.chbank.com/en/regulatory-disclosures/index.shtml) in the "Regulatory Disclosure" section in accordance with the Banking (Disclosure) Rules.

## SUPPLEMENTARY INFORMATION

For the six months ended 30 June 2018

### 10. BASIS OF CONSOLIDATION

This interim financial information covers the condensed consolidated financial information of the Bank and all its subsidiaries and includes the attributable share of interest in the Group's associates.

The capital adequacy ratios of the Group are prepared according to the basis of consolidation determined by the HKMA for regulatory purposes. The main difference between the consolidation basis for accounting and regulatory purposes is that the former includes the Bank, all its subsidiaries and the attributable share of interests in the Group's associates whereas the latter includes the Bank and only some of the Group's subsidiaries which mainly conduct banking business or other businesses incidental to banking business. The LMR is prepared on an unconsolidated basis which includes the Bank only.

Subsidiaries that are included within the accounting scope of consolidation but are not included within the regulatory scope of consolidation are as follows:

Name of company	Principal activities	Total assets		Total equity	
		30 June	31 December	30 June	31 December
		2018	2017	2018	2017
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Chong Hing (Nominees) Limited	Provision of nominee services	100	100	100	100
Chong Hing Securities Limited	Stockbroking	671,731	780,812	423,738	376,854
Chong Hing Commodities and Futures Limited	Investment holding and commodities and futures broking	68,572	68,652	64,629	65,186
Chong Hing Insurance Company Limited	Insurance underwriting	429,587	445,869	142,581	133,824
Chong Hing (Management) Limited	Provision of management services	98	273	98	99

### 11. RISK MANAGEMENT

The Group has established policies, procedures, and controls for measuring, monitoring and controlling risks arising from the banking and related financial services business. These policies, procedures, and controls are implemented by various committees, divisions and departments of the Group and are regularly reviewed by the Board. The internal auditors also play an important role in the risk management process by performing regular, as well as sporadic compliance audits.

The management of assets and liabilities of the Group is conducted under the guidance of the Asset and Liability Management Committee (the "ALCO"). The ALCO holds meetings every two weeks, and more frequent meetings when required, to review and direct the relevant policies, the business strategies and to monitor the bank-wide positions. The day-to-day management of the liquidity, foreign exchange, interest rate and other market risks, and the compliance with the ALCO and the Risk Management Committee (the "RMC") policies are monitored by the Finance and Capital Management Division, the Financial Markets Division and the Market Risk Management Department with the assistance of various qualitative and quantitative analyses.

Complementing the ALCO in the management of assets and liabilities, the RMC also oversees the implementation of the policies and procedures established for managing the Group's credit, strategic, operational, legal, and reputation risks and compliance requirements.

## 11. RISK MANAGEMENT (continued)

### (i) Capital management

The Group has adopted a policy of maintaining a strong capital base to support the development of the Group's business and to ensure compliance with the statutory capital adequacy ratio requirement.

Capital is allocated to the various activities of the Group depending on the risk taken by each business division. The Group's capital adequacy ratio has remained well above the minimum as stipulated in the Banking (Capital) Rules.

### (ii) Credit risk

Credit risk is the risk that a customer or counterparty may fail to meet a commitment when it falls due.

The Group's lending policy sets out in details the credit approval and monitoring mechanism, the exposure classifications system and provisioning policy, which is established in accordance with the requirements and provisions of the Hong Kong Banking Ordinance, the guidelines issued by the HKMA and other regulatory bodies.

Day-to-day credit management is performed by the Credit Risk Management Division with reference to credit policy information, the creditworthiness of a counterparty, the exposure concentration risk and the collateral pledged by a counterparty. Credit decisions are made by individual approvers with the delegated credit authority.

### (iii) Liquidity risk

Liquidity risk is the risk that the Group may not be able to meet obligations as they fall due, without incurring unacceptable losses.

The Group adopts conservative risk appetite in liquidity risk management and maintains adequate liquid assets to meet its normal business obligations as well as to withstand a prolonged period of liquidity stress in accordance with the requirements set out in the Supervisory Policy Manual LM-2 "Sound Systems and Controls for Liquidity Risk Management" ("SPM LM-2") revised by the HKMA in November 2016. The ALCO, established and delegated by the EXCO, has reviewed and approved liquidity risk management policy which specifies a set of liquidity risk metrics and risk control limits for effective liquidity risk management. The key liquidity metrics, e.g. liquidity maintenance ratio, core funding ratio, loan-to-deposit ratio, maturity profile of assets and liabilities, and inter-bank transactions are under ALCO's ongoing and periodic review.

The Group has sufficiently maintained the LMR well above the minimum as stipulated by the Banking (Liquidity) Rules.

### (iv) Market risk

Market risk is the risk of losses in assets, liabilities and off-balance sheet positions arising from movements in market rates and prices.

Market risk arising from the trading book is at an acceptable level, as the Group maintains controllable positions of financial instruments leading to foreign exchange and interest rate exposures. Besides, structural foreign exchange exposure is to be detailed under (v) foreign exchange risk.



## SUPPLEMENTARY INFORMATION

For the six months ended 30 June 2018

### 11. RISK MANAGEMENT (continued)

#### (v) Foreign exchange risk

The Group has maintained a limited level of foreign exchange risk for both trading and customer order fulfillment. Structural foreign exchange exposure arising from investments in branches outside Hong Kong and subsidiaries is accounted for in the reserves account. Day-to-day foreign exchange management is performed by the Financial Markets Division within approved limits.

The Group takes on exposure to effect of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. Off-balance sheet notional position represents the contractual amounts of foreign currencies bought and sold under foreign exchange contracts.

#### (vi) Interest rate risk

Interest rate risk is referred to the risk to the Bank's financial condition resulting from adverse movements in interest rates. This consists of repricing risk, basis risk, option risk and yield curve risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Limits are set on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly. For trading, additional limits on interest rate sensitivities (also known as DV01) and stop loss are being enforced on daily basis.

The Group maintains controllable interest rate positions on its trading book, in addition to certain interest rate contracts entered into for the management of the Group's own risk with holding securities that are classified as trading. Interest rate risk arises primarily from the timing differences in the re-pricing of, and the different bases of pricing interest-bearing assets, liabilities and commitments, and from positions of non-interest bearing balances. Interest rate risk is monitored by regular sensitivity analyses of the net re-pricing gap and of different scenarios of pricing bases of assets and liabilities grouped with reference to their next contractual repricing date or maturity date.

#### (vii) Operational and legal risk

Operational risk is the risk of unexpected losses attributable to human error, systems failures, frauds, or inadequate internal controls and procedures.

Executive directors, division heads, department heads, in-house legal counsels, and internal auditors collaborate to manage operational and legal risks through proper human resources policies, delegation of authorities, segregation of duties, and timely and accurate management information. Senior management and the Audit Committee are accountable to the Board for maintaining a strong and disciplined control environment to provide reasonable assurance that the operational and legal risks are prudently managed.

A comprehensive contingency plan is available to ensure that the Bank's key business functions continue and normal operations are restored effectively and efficiently in the event of business interruption.

#### (viii) Reputation risk

Reputation risk is the risk that the Group's reputation is damaged by one or more than one reputation event that results in negative publicity about the Group's business practices, conduct or financial condition.

Reputation risk is managed by every member of staff. Through proper and adequate communications and public relation efforts, the reputation of the Group is fostered. A reputation risk management mechanism guided by the senior management including executive directors has been established to handle including, without limitation, media exposure as well as customers' and other stakeholders' complaints and suggestions, and to ensure that business activities and agents and/or bodies acting on the Group's behalf do not jeopardise its reputation.



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Chong Hing Bank Limited

