CHINA CONSTRUCTION BANK (ASIA) CORPORATION LIMITED
UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
FOR THE SIX MONTHS ENDED JUNE 30, 2018
(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	**6 months ended June 30, 2018**	6 months ended June 30, 2017
Interest income		**6,398,360**	5,216,641
Interest expense		**(3,253,545)**	(2,889,075)
Net interest income	9	**3,144,815**	2,327,566
Net fees and commission income	10	**819,644**	679,575
Net trading income	11	**192,908**	476,762
Net gains/(losses) from financial instruments designated at fair value through profit or loss	12	**17,004**	(1,131)
Net gains from disposal of financial assets measured at fair value through other comprehensive income		**41**	-
Net gains from disposal of available-for-sale financial assets		**-**	47,588
Other operating income	13	**28,677**	32,783
Total operating income		**4,203,089**	3,563,143
Operating expenses	14	**(1,496,093)**	(1,422,282)
Operating profit before change in expected credit losses and impairment charges		**2,706,996**	2,140,861
Change in expected credit losses	15	**170,355**	-
Charges on impairment allowances	15	**-**	(153,852)
Operating profit		**2,877,351**	1,987,009
(Losses)/gains on disposal of fixed assets		**(79)**	42
Share of losses of an associate		**(63,627)**	(5,034)
Share of profits of a jointly controlled entity		**31,509**	27,177
Profit before taxation		**2,845,154**	2,009,194
Taxation	16	**(499,439)**	(322,987)
Profit for the period		**2,345,715**	1,686,207
Other comprehensive income for the period net of tax			
Items that may not be re-classified subsequently to profit or loss:			
Net change in fair value in fair value reserve		**4,023**	-
		4,023	-
Items that may be re-classified subsequently to profit or loss when specific conditions are met:			
Net change in fair value in fair value reserve		**5,701**	(62,840)
Net amount transferred to profit or loss		**7,238**	47,588
Expected credit losses recognized in profit or loss		**(3,466)**	-
Income tax relating to these items		**1,385**	3,988
Total comprehensive income for the period		**2,360,596**	1,674,943

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**June 30, 2018**	December 31, 2017
Assets			
Cash and balances with banks and central banks	17	**68,065,182**	81,673,241
Placements with banks		**40,109,152**	17,997,303
Advances to banks		**-**	262,498
Financial assets held under resale agreements	18	**2,305,060**	-
Financial assets at fair value through profit or loss		**4,018,566**	-
Advances to customers and trade bills	19	**278,429,267**	288,009,874
Financial assets at fair value through other comprehensive income	20	**92,847,493**	-
Available-for-sale financial assets	21	**-**	98,956,057
Financial assets at amortised costs	22	**15,149,784**	-
Held-to-maturity investments	23	**-**	17,458,857
Derivative financial instruments	24	**4,555,899**	6,788,337
Interest in a joint venture		**1,926,505**	2,044,996
Interest in an associate		**136,285**	199,912
Deferred tax assets		**302,809**	234,912
Fixed assets	25	**3,212,488**	3,325,095
Other assets		**6,288,578**	4,073,631
Total assets		**517,347,068**	521,024,713
Liabilities			
Deposits and balances of banks		**75,368,229**	73,223,622
Financial assets sold under repurchase agreements	26	**1,137,918**	-
Deposits from customers	27	**345,555,438**	353,269,333
Certificates of deposit and other debt securities issued	28	**14,740,617**	14,917,044
Derivative financial instruments	24	**3,357,560**	6,563,076
Current tax payable		**615,662**	167,208
Deferred tax liabilities		**20,902**	20,902
Other liabilities		**9,556,326**	7,733,982
Subordinated debts		**5,815,670**	5,812,111
Total liabilities		**456,168,322**	461,707,278
Equity			
Share capital		**28,827,843**	28,827,843
Other equity instruments		**7,811,732**	7,812,200
Reserves	29	**24,539,171**	22,677,392
Total equity		**61,178,746**	59,317,435
Total equity and liabilities		**517,347,068**	521,024,713

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		6 months ended June 30, 2018								
	Note	Share capital	Other Equity Instruments	General reserve	Investment revaluation reserve	Regulatory reserve	Other reserve	Merger reserve	Retained profits	Total
Balance as at December 31, 2017		**28,827,843**	**7,812,200**	**750,956**	**(562,295)**	**2,307,924**	**15,913**	**62,262**	**20,102,632**	**59,317,435**
Impact on transition to HKFRS 9	5	**-**	**-**	**-**	**119,400**	**-**	**-**	**-**	**(433,450)**	**(314,050)**
Balance as at January 1, 2018		**28,827,843**	**7,812,200**	**750,956**	**(442,895)**	**2,307,924**	**15,913**	**62,262**	**19,669,182**	**59,003,385**
Changes in equity for 2018:										
Profit for the period		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,345,715**	**2,345,715**
Other comprehensive income		**-**	**-**	**-**	**14,881**	**-**	**-**	**-**	**-**	**14,881**
Total comprehensive income		**-**	**-**	**-**	**14,881**	**-**	**-**	**-**	**2,345,715**	**2,360,596**
Cost for issuance of other equity instruments		**-**	**(468)**	**-**	**-**	**-**	**-**	**-**	**-**	**(468)**
Dividend paid		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(184,767)**	**(184,767)**
Regulatory reserve		**-**	**-**	**-**	**-**	**(671,360)**	**-**	**-**	**671,360**	**-**
Balance as at June 30, 2018		**28,827,843**	**7,811,732**	**750,956**	**(428,014)**	**1,636,564**	**15,913**	**62,262**	**22,501,490**	**61,178,746**

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

		6 months ended June 30, 2017							
	Note	Share capital	General reserve	Investment revaluation reserve	Regulatory reserve	Other reserve	Merger reserve	Retained profits	Total
Balance as at January 1, 2017		28,827,843	750,956	(300,618)	2,307,924	15,913	62,262	16,834,482	48,498,762
Changes in equity for 2017:									
Profit for the period		-	-	-	-	-	-	1,686,207	1,686,207
Other comprehensive income		-	-	(11,264)	-	-	-	-	(11,264)
Total comprehensive income		-	-	(11,264)	-	-	-	1,686,207	1,674,943
Regulatory reserve		-	-	-	-	-	-	-	-
Balance as at June 30, 2017		28,827,843	750,956	(311,882)	2,307,924	15,913	62,262	18,520,689	50,173,705

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	6 months ended June 30, 2018	6 months ended June 30, 2017
Net cash inflow/(outflow) from operations	**1,294,053**	(8,473,307)
People's Republic of China ("PRC") withholding tax paid	**(32,497)**	(489)
Net cash inflow/(outflow) from operating activities	**1,261,556**	(8,473,796)
Purchase of financial assets at fair value through other comprehensive income (2017: available-for-sale financial assets)	**(10,430,607)**	(20,146,709)
Purchase of financial assets at amortised costs	**(2,759,934)**	-
Purchase of held-to-maturity investments	**-**	(414,918)
Proceeds received from redemption and disposal of financial assets at fair value through other comprehensive income (2017: available-for-sale financial assets)	**18,281,355**	13,375,064
Proceeds received from redemption and disposal of financial assets at amortised costs	**3,028,587**	-
Proceeds received from redemption and disposal of held-to-maturity investments	**-**	10,066,535
Purchase of property and equipment	**(42,676)**	(58,376)
Dividends received from listed and unlisted investments	**153,678**	2,827
Dividends paid	**(184,767)**	-
Net cash inflow from investing activities	**8,045,636**	2,824,423
Fees paid for other equity instruments	**(468)**	-
Interest paid on subordinated debts	**(124,682)**	(123,696)
Net cash outflow from financing activities	**(125,150)**	(123,696)
Increase/(Decrease) in cash and cash equivalents	**9,182,042**	(5,773,069)
Cash and cash equivalents as at January 1	**90,139,671**	121,855,435
Effect of foreign exchange rate changes	**(807,751)**	1,300,275
Cash and cash equivalents as at June 30	**98,513,962**	117,382,641

Cash flows from operating activities include:

Interest received	**6,358,290**	5,378,043
Interest paid	**(3,261,054)**	(2,725,553)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS

(1) BASIS OF PREPARATION

These condensed consolidated interim financial information disclosure statements were authorised for issue on September 14, 2018 and have been prepared in accordance with the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority ("HKMA") and in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants. The accounting policies applied are consistent with those of the annual financial statements for the year ended December 31, 2017, except for those described in Note 5.

(2) BASIS OF CONSOLIDATION

The condensed consolidated interim financial information disclosure statements cover the consolidated position of the China Construction Bank (Asia) Corporation Limited ("the Bank") and its subsidiaries (together referred to as "the Group"), the Group's interest in an associate and a joint venture up to June 30, 2018.

Unless otherwise stated, all financial information contained is prepared according to the consolidation basis for accounting purposes.

In preparing the capital adequacy ratios of the Group, they are prepared according to the basis of consolidation for regulatory purposes. The main difference between the consolidation basis for accounting and regulatory purposes is that the former includes the Bank and all its subsidiaries, an associate and a joint venture whereas the latter excludes CCB Securities Limited ("CCBS"), CCB Nominee Limited ("CCBN") and CCB (Asia) Trustee Company Limited ("CCBT") which conduct non-banking related business.

(3) STATEMENT OF COMPLIANCE

In preparing the unaudited condensed consolidated interim financial information disclosure statements for the first six months ended June 30, 2018, the Bank has fully complied with the disclosure provisions of the Banking (Disclosure) Rules.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(4) STATUTORY FINANCIAL STATEMENTS AND ACCOUNTING POLICIES

The financial information relating to the year ended December 31, 2017 that is included in the condensed consolidated interim financial information for the six months ended June 30, 2018 as comparative information does not constitute the Group's statutory annual consolidated financial statements for that year but is extracted from those financial statements which have been delivered 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) and to the HKMA.

The Group's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

The accounting policies applied are consistent with those of the annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of Hong Kong Financial Reporting Standards No. 9 ("HKFRS 9") and HKFRS 15 effective for the financial year ending December 31, 2018.

The Group has not applied any new standards or interpretations that are not yet effective for the current accounting period.

(a) Impact of standards issued but not yet applied by the Group

(i) HKFRS 16 Leases

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position, 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 will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of $586,224. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after January 1, 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(5) CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on the Group's financial statements and also discloses the new accounting policies that have been applied from January 1, 2018, where they are different to those applied in prior periods.

(a) Impact on the financial statements

As a result of the changes in the entity's accounting policies, prior year financial statements had to be restated. As explained in 5(b) below, HKFRS 9 was generally adopted without restating comparative information with the exception of certain aspects of hedge accounting. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated statement of financial position as at December 31, 2017, but are recognised in the opening statement of financial position on January 1, 2018.

The following table shows the adjustments recognised for each individual line item.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(5) CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) Impact on the financial statements (continued)

Condensed Consolidated Statement of Financial Position

	December 31, 2017	Adjustments	January 1, 2018
Assets			
Cash and balances with banks and central banks	81,673,241	-	**81,673,241**
Placements with banks	17,997,303	(2,920)	**17,994,383**
Advances to banks	262,498	(235)	**262,263**
Financial assets at fair value through profit or loss	-	5,521,499	**5,521,499**
Advances to customers and trade bills	288,009,874	(5,952,844)	**282,057,030**
Financial assets at fair value through other comprehensive income	-	101,036,702	**101,036,702**
Available-for-sale financial assets	98,956,057	(98,956,057)	**-**
Financial assets at amortised costs	-	15,420,724	**15,420,724**
Held-to-maturity investments	17,458,857	(17,458,857)	**-**
Derivative financial instruments	6,788,337	-	**6,788,337**
Interest in a joint venture	2,044,996	-	**2,044,996**
Interest in an associate	199,912	-	**199,912**
Deferred tax assets	234,912	87,770	**322,682**
Fixed assets	3,325,095	-	**3,325,095**
Other assets	4,073,631	2,349	**4,075,980**
Total assets	521,024,713	(301,869)	**520,722,844**
Liabilities			
Deposits and balances of banks	73,223,622	-	**73,223,622**
Deposits from customers	353,269,333	-	**353,269,333**
Certificates of deposit and other debt securities issued	14,917,044	-	**14,917,044**
Derivative financial instruments	6,563,076	-	**6,563,076**
Current tax payable	167,208	-	**167,208**
Deferred tax liabilities	20,902	-	**20,902**
Other liabilities	7,733,982	12,181	**7,746,163**
Subordinated debts	5,812,111	-	**5,812,111**
Total liabilities	461,707,278	12,181	**461,719,459**
Equity			
Share capital	28,827,843	-	**28,827,843**
Other equity instruments	7,812,200	-	**7,812,200**
Reserves	22,677,392	(314,050)	**22,363,342**
Total equity	59,317,435	(314,050)	**59,003,385**
Total equity and liabilities	521,024,713	(301,869)	**520,722,844**

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(5) CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) Impact on the financial statements (continued)

Reconciliation of impairment allowance balance from HKAS 39 to HKFRS 9

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

Measurement category	**Loan loss allowance under HKAS39/ Provision under HKAS37**	**Reclassification**	**Remeasurement**	**Loan Loss allowance under HKFRS 9**
Loans and receivables (HKAS 39)/ Financial assets at amortised cost (HKFRS 9)				
Placement with Banks	-	-	2,920	2,920
Advances to Banks	-	-	235	235
Loans and advances to Customers	1,315,570	-	442,419	1,757,989
Repossessed Assets	2,349	(2,349)	-	-
Total	1,317,919	(2,349)	445,574	1,761,144
Held to maturity (HKAS 39)/ Financial assets at amortised cost (HKFRS 9)				
Investment securities	9,058	-	2,048	11,106
Available for sale financial instruments (HKAS 39)/ Financial assets at FVOCI (HKFRS 9)				
Investment securities	-	-	82,721	82,721
Loan commitments and financial guarantee contracts				
Loan commitments	-	-	12,181	12,181
Total	1,326,977	(2,349)	542,524	1,867,152

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(5) CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) HKFRS 9 Financial Instruments – Impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 Financial Instruments from January 1, 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in note (c) below.

The total impact on the Group’s retained earnings as at January 1, 2018 and January 1, 2017 is as follows:

	2018
Closing retained earnings at December 31, 2017	**20,102,632**
Reclassify loans and advances to customers from loans and receivables to fair value through profit or loss	**11,074**
Increase in provision for placement with banks at amortised cost	**(2,920)**
Increase in provision for advances to banks at amortised cost	**(235)**
Increase in provision for loans and advances at amortised cost	**(440,070)**
Increase in provision for loan commitments	**(12,181)**
Increase in provision for debt investments at amortised cost	**(2,048)**
Increase in provision for debt investments at fair value through other comprehensive income	**(82,721)**
Increase in deferred tax assets relating to impairment provisions	**95,651**
Opening retained earnings at January 1, 2018	**19,669,182**

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(5) CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) HKFRS 9 Financial Instruments – Impact of adoption (continued)

(i) Classification and measurement

On January 1, 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS categories. The main effects resulting from this reclassification are as follows:

Financial assets	**FVPL**	**FVOCI* (2017: Available-for-sale)**	**Held-to-maturity**	**Amortised costs (2017: Receivables)**
Closing balance at December 31, 2017	-	98,956,057	17,458,857	392,016,547
Reclassify and remeasure loans and advances to customers from loans and receivables to fair value through profit or loss	5,521,499	-	-	(5,953,079)
Reclassify and remeasure debt securities from held-to-maturity to fair value through other comprehensive income	-	8,260,609	(8,258,095)	-
Reclassify and remeasure debt securities from available-for-sale to amortised costs	-	(6,179,964)	-	6,222,010
Reclassify debt securities from held-to-maturity to amortised costs	-	-	(9,200,762)	9,200,762
Opening balance at January 1, 2018	5,521,499	101,036,702	-	401,486,240

* The closing balances as at December 31, 2017 show available-for-sale financial assets under FVOCI. These reclassifications have no impact on the measurement categories. The opening balance as at January 1, 2018 differs from the amounts disclosed in Note 5(a) because of the adjustments of expected credit losses ($2,619).

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(5) CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) HKFRS 9 Financial Instruments – Impact of adoption (continued)

(i) Classification and measurement (continued)

The impact of these changes on the Group's equity is as follows:

Financial assets	Effect on AFS reserve	Effect on FVOCI reserve	Effect on retained earnings*
Closing balance at December 31, 2017	(562,295)	-	20,102,632
Reclassify and remeasure debt securities from available-for-sale to amortised costs	34,582	-	-
Reclassify and remeasure debt securities from held-to-maturity to fair value through other comprehensive income	-	2,097	-
Reclassify and remasure loans and advances to customers from loans and receivables to fair value through profit or loss	-	-	11,074
Reclassify debt securities from available-for-sale to fair value through other comprehensive income	551,695	(551,695)	-
Reclassify non-trading equities from available-for-sale to fair value through other comprehensive income	(23,982)	23,982	-
Opening balance at January 1, 2018	-	(525,616)	20,113,706

* Before adjustment for impairment disclosed in Note 5(a).

(1) Reclassification from available-for-sale to amortised cost

Certain debt securities were reclassified from available-for-sale to amortised cost ($6,179,964 as at January 1, 2018). At the date of initial application the Group's business model is to hold these investments for collection of contractual cash flows, and the cash flows represent solely payments of principal and interest on the principal amount. The fair value of $6,222,010 as at January 1, 2018 was equivalent to the amortised cost for these assets. There was no impact on retained earnings at January 2018.

The fair value of the debt securities at June 30, 2018 is $4,047,137 and a fair value gain of $58,514 would have otherwise been recognised in OCI in the six months to June 2018, had the listed corporate bonds not been reclassified to amortised cost.

The effective interest of these bonds of $64,780 was recognised during the period to June 30, 2018.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(5) CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) HKFRS 9 Financial Instruments – Impact of adoption (continued)

(i) Classification and measurement (continued)

(2) Reclassification from held-to-maturity to FVOCI

Debt instruments were reclassified from held-to-maturity to FVOCI, as the Group's business model is achieved both by collecting contractual cash flows and selling of these assets.

The contractual cash flows of these investments are solely principal and interest. As a result, debt instruments with a fair value of $8,260,609 were reclassified from available-for-sale financial assets to financial assets at FVOCI and fair value gains of $2,514 were remeasured in the FVOCI reserve on January 1, 2018.

(3) Reclassification from loans and receivables to FVPL

Certain loans and advances to customers were reclassified from loans and receivables to FVPL, as the Group's business model is achieved by holding these assets for sale. As a result, loans and advances to customers with a fair value of $5,521,499 were reclassified from loans and receivable to financial assets at FVPL and fair value gains of $11,074 were remeasured in the retained earnings on January 1, 2018.

(4) Reclassification from available-for-sale debt instruments classified as FVOCI

Debt instruments were reclassified from available for sale to FVOCI, as the Group's business model is achieved both by collecting contractual cash flows and selling of these assets.

The contractual cash flows of these investments are solely principal and interest. As a result, debt instruments with a fair value of $92,734,156 were reclassified from available-for-sale financial assets to financial assets at FVOCI and fair value losses of $551,695 were reclassified from the available-for-sale financial assets reserve to the FVOCI reserve on January 1, 2018.

(5) Reclassification from held-to-maturity to amortised cost

The Group intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. There was no difference between the previous carrying amount and the revised carrying amount of the other financial assets at January 1, 2018 to be recognised in opening retained earnings. An increase of $2,048 in the provision for impairment of these assets was recognised in opening retaining earnings for the period (tax impact $338).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(5) CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) HKFRS 9 Financial Instruments – Impact of adoption (continued)

(i) Classification and measurement (continued)

(6) Equity investments previously classified as available-for-sale

The Group elected to present in OCI changes in the fair value of all its equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of $41,937 were reclassified from available-for-sale financial assets to financial assets at FVOCI and fair value gains of $23,982 were reclassified from available-for-sale financial assets reserve to the FVOCI reserve on January 1, 2018.

(ii) Impairment

The Group has two types of financial assets that are subject to HKFRS 9's new expected credit loss model:

- Debt instruments carried at amortised cost, and
- Debt instruments carried at fair value through other comprehensive income ("FVOCI")

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity is disclosed in the table above.

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from issuer's perspective, such as loans, and government and corporate bonds.

The Group assesses on a forward-looking basis to estimate the expected credit losses (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 recognizes a loss allowance for such ECL at each reporting date. The measure 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.

Other financial assets at amortised cost

Other financial assets at amortised cost include prepaid expenses, intergroup receivables and other receivables. Management considers the expected credit loss on other receivables without loss history as remote.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(5) CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(c) HKFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018

(i) Investments and other financial assets

Classification

From January 1, 2018, the Group classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (either through OCI, or through profit or loss), and
- Those to be measured at amortised cost

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in 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.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(5) CHANGES IN ACCOUNTING POLICIES (CONTINUED)

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

(i) Investments and other financial assets (continued)

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest 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 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 other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separated line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt instrument that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment

From January 1, 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

(d) HKFRS 15 Revenue from Contracts with Customers – Accounting policies

Customer loyalty programme

The Group operates a loyalty programme where credit card customers accumulate points for purchases made which entitle them to discount on future purchases. Revenue from the award points is recognised when the points are redeemed or upon the expiry of the programme.

A contract liability is recognised until the points are redeemed or expire.

The application of this new standard has no material financial impact to the Group.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(5) CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(c) New HKFRSs not yet effective for the year ended December 31, 2018

The Group has not applied any new standards or interpretations that are not yet effective for the current accounting period.

<u>HKAS 28 (2011) Investments in Associates and Joint Ventures</u>

Amendments to HKAS 28 clarify that companies account for long-term interests in an associate or joint venture apply HKFRS 9 Financial Instrument to which the equity method is not applied.

<u>Annual Improvements to HKFRSs 2015-2017 Cycle</u>

This cycle of annual improvements contains amendments to four standards. Among them, HKFRS 3 Business Combinations has clarified that when a party to a joint arrangement obtains control of a business that is a joint operation and has rights and obligations to the joint operation immediately before the acquisition date, the transaction is a business combination achieved in stages. HKFRS 11 Joint Arrangements has clarified that, when a party participating in, but not having a joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business, previously held interests in the joint operation are not remeasured. HKAS 12 Income Taxes has clarified that an entity shall recognize the income tax consequences of dividends when it recognizes a liability to pay a dividend. HKAS 23 Borrowing Costs has clarified the criteria of borrowing costs eligible for capitalization.

<u>HKAS 19 Employee Benefits</u>

The amendments require a company to use updated assumptions to determine current service cost and net interest for the remainder of the reporting period after a change is made to a plan.

<u>HKFRS 17 Insurance Contracts</u>

HKFRS 17 supersedes HKFRS 4 Insurance Contracts. The new standard aims to provide a common global insurance accounting standard that makes the insurers' financial statements more useful and consistent.

(6) ESTIMATES

The preparation of condensed consolidated interim financial information requires management to make judgment, 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 judgment 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 December 31, 2017, except for the measurement of expected credit losses listed below.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(6) ESTIMATES (CONTINUED)

The Group applies a three-stage approach to ECL on loans and advances, debt instruments at amortised cost and debt instruments at fair value through other comprehensive income. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

- Stage 1

  For credit exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the ECL associated with the probability of default events occurring within the next 12 months is recognised.

- Stage 2

  For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

- Stage 3

  Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

At each reporting date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition.

In determining whether credit risk has increased significantly since initial recognition, the Group uses its internal credit risk grading system, external risk ratings and latest customer information to assess deterioration in credit quality of a financial asset.

The Group assesses whether the credit risk on a financial asset has increased significantly on an individual basis. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics, taking into account instrument type, credit risk ratings, date of initial recognition, remaining term to maturity and other relevant factors.

The amount of ECL is measured as the probability-weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Group and all the cash flows that the Group expects to receive. The amount of the loss is recognised using a provision for doubtful debts account.

The Group considers its historical loss experience and adjusts this for current observable data. In addition, the Group uses reasonable and supportable forecasts of future economic conditions including experienced judgement to estimate the amount of an expected impairment loss. Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect ECL. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

If, in a subsequent period, credit quality improves and it reverses any previously assessed significant increase in credit risk since origination, the provision for such debts reverts from lifetime ECL to 12-months ECL.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(7) FINANCIAL RISK MANAGEMENT

Maturity analysis

The table below sets out the maturity profile of assets and liabilities analysed by the remaining period to repayment as at the reporting date:

As at June 30, 2018

Assets	Repayable on demand	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Undated	Total
Cash and balances with banks and central banks	4,101,268	63,963,914	-	-	-	-	-	68,065,182
Placements with banks	-	-	38,926,604	1,182,548	-	-	-	40,109,152
Financial assets held under resale agreement	-	1,538,948	766,112	-	-	-	-	2,305,060
Financial assets at fair value through profit or loss	-	157,109	-	230,399	2,739,203	855,026	36,829	4,018,566
Advances to banks	-	-	-	-	-	-	-	-
Advances to customers and trade bills	479,061	54,225,265	20,940,479	52,086,026	111,178,477	39,519,959	-	278,429,267
Financial assets at fair value through other comprehensive income	-	899,954	5,574,611	24,963,435	59,311,394	2,052,139	45,960	92,847,493
Available-for-sale financial assets	-	-	-	-	-	-	-	-
Financial assets at amortised costs	-	666,973	1,989,517	4,931,544	7,561,750	-	-	15,149,784
Held-to-maturity investments	-	-	-	-	-	-	-	-
Derivative financial instruments	-	1,254,083	841,432	1,233,798	1,171,550	55,036	-	4,555,899
Interest in a joint venture	-	-	-	-	-	-	1,926,505	1,926,505
Interest in an associate	-	-	-	-	-	-	136,285	136,285
Deferred tax assets	-	-	-	-	-	-	302,809	302,809
Fixed assets	-	-	-	-	-	-	3,212,488	3,212,488
Other assets	54,802	4,182,351	880,838	518,662	554,682	49,491	47,752	6,288,578
Total assets	4,635,131	126,888,597	69,919,593	85,146,412	182,517,056	42,531,651	5,708,628	517,347,068

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(7) FINANCIAL RISK MANAGEMENT (CONTINUED)

Maturity analysis (Continued)

As at June 30, 2018 (Continued)

	Repayable on demand	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Undated	Total
Liabilities								
Deposits and balances of banks	1,850,818	45,199,874	17,990,976	7,846,800	2,479,761	-	-	75,368,229
Financial assets sold under repurchase agreement	-	374,971	762,947	-	-	-	-	1,137,918
Deposits from customers	82,442,269	71,270,081	109,231,449	81,298,125	1,313,514	-	-	345,555,438
Certificates of deposit and other debt securities issued	-	-	-	2,406,271	11,626,144	708,202	-	14,740,617
Derivative financial instruments	-	1,001,447	664,684	1,560,460	110,173	20,796	-	3,357,560
Current tax payable	-	-	-	615,662	-	-	-	615,662
Deferred tax liabilities	-	-	-	-	-	-	20,902	20,902
Other liabilities	89,854	4,710,693	877,509	1,134,706	22,593	-	2,720,971	9,556,326
Subordinated debts	-	-	-	-	-	5,815,670	-	5,815,670
Total liabilities	84,382,941	122,557,066	129,527,565	94,862,024	15,552,185	6,544,668	2,741,873	456,168,322
Net (liabilities)/assets gap	(79,747,810)	4,331,531	(59,607,972)	(9,715,612)	166,964,871	35,986,983	2,966,755	61,178,746
Of which:								
Debt instruments included in:								
financial assets at fair value through profit or loss	-	157,109	-	230,399	2,739,203	855,026	-	3,981,737
financial assets at fair value through other comprehensive income	-	899,954	5,574,611	24,963,435	59,311,394	2,052,139	-	92,801,533
financial assets at amortised costs	-	666,973	1,989,517	4,931,544	7,561,750	-	-	15,149,784

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(7) FINANCIAL RISK MANAGEMENT (CONTINUED)

Maturity analysis (Continued)

The table below sets out the maturity profile of assets and liabilities analysed by the remaining period to repayment as at the reporting date:

As at December 31, 2017

	Repayable on demand	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Undated	Total
Assets								
Cash and balances with banks and central banks	**5,392,269**	**76,280,972**	**-**	**-**	**-**	**-**	**-**	**81,673,241**
Placements with banks	**-**	**-**	**10,854,026**	**7,143,277**	**-**	**-**	**-**	**17,997,303**
Advances to banks	**-**	**-**	**-**	**262,498**	**-**	**-**	**-**	**262,498**
Advances to customers and trade bills	**430,809**	**42,325,025**	**17,272,621**	**66,714,956**	**118,134,034**	**43,132,429**	**-**	**288,009,874**
Debt investments measured at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Available-for-sale financial assets	**-**	**7,374,488**	**2,596,488**	**15,118,066**	**72,768,216**	**1,056,863**	**41,936**	**98,956,057**
Debt investments measured at amortised costs	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Held-to-maturity investments	**-**	**-**	**4,000,000**	**1,140,000**	**12,318,857**	**-**	**-**	**17,458,857**
Derivative financial instruments	**-**	**1,499,044**	**1,642,519**	**2,683,789**	**939,226**	**23,759**	**-**	**6,788,337**
Interest in a joint venture	**-**	**-**	**-**	**-**	**-**	**-**	**2,044,996**	**2,044,996**
Interest in an associate	**-**	**-**	**-**	**-**	**-**	**-**	**199,912**	**199,912**
Deferred tax assets	**-**	**-**	**-**	**-**	**-**	**-**	**234,912**	**234,912**
Fixed assets	**-**	**-**	**-**	**-**	**-**	**-**	**3,325,095**	**3,325,095**
Other assets	**46,482**	**2,249,527**	**598,044**	**698,657**	**424,274**	**28,554**	**28,093**	**4,073,631**
Total assets	**5,869,560**	**129,729,056**	**36,963,698**	**93,761,243**	**204,584,607**	**44,241,605**	**5,874,944**	**521,024,713**

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(7) FINANCIAL RISK MANAGEMENT (CONTINUED)

Maturity analysis (Continued)

As at December 31, 2017 (Continued)

	Repayable on demand	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Undated	Total
Liabilities								
Deposits and balances of banks	**2,623,699**	**60,235,867**	**7,749,241**	**36,728**	**2,578,087**	**-**	**-**	**73,223,622**
Deposits from customers	**83,182,075**	**89,789,297**	**101,054,309**	**77,955,479**	**1,288,173**	**-**	**-**	**353,269,333**
Certificates of deposit and other debt securities issued	**-**	**-**	**-**	**-**	**14,199,239**	**717,805**	**-**	**14,917,044**
Derivative financial instruments	**-**	**1,740,741**	**1,867,501**	**2,633,901**	**320,773**	**160**	**-**	**6,563,076**
Current tax payable	**-**	**-**	**-**	**167,208**	**-**	**-**	**-**	**167,208**
Deferred tax liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**20,902**	**20,902**
Other liabilities	**6,448**	**2,782,736**	**473,989**	**1,371,025**	**273,616**	**-**	**2,826,168**	**7,733,982**
Subordinated debts	**-**	**-**	**-**	**-**	**-**	**5,812,111**	**-**	**5,812,111**
Total liabilities	**85,812,222**	**154,548,641**	**111,145,040**	**82,164,341**	**18,659,888**	**6,530,076**	**2,847,070**	**461,707,278**
Net (liabilities)/assets gap	**(79,942,662)**	**(24,819,585)**	**(74,181,342)**	**11,596,902**	**185,924,719**	**37,711,529**	**3,027,874**	**59,317,435**
Of which:								
Debt instruments included in:								
available-for-sale financial assets	**-**	**7,374,488**	**2,596,488**	**15,118,066**	**72,768,216**	**1,056,863**	**-**	**98,914,121**
held-to-maturity investments	**-**	**-**	**4,000,000**	**1,140,000**	**12,318,857**	**-**	**-**	**17,458,857**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(8) SEGMENTAL INFORMATION

(a) Reportable segments

The Group manages its businesses by divisions, which are organized by products services and customer types. In a manner consistent with the way in which information is reported internally to the executive management for the purposes of resource allocation and performance assessment, the Group has presented the following four reportable segments.

(i) Corporate and institutional banking

This segment mainly represents the provision of a range of financial products and services to corporations and financial institutions. The products and services mainly include commercial loans, syndicated loans, trade financing, foreign exchange and deposit-taking activities.

(ii) Consumer and commercial banking

This segment mainly represents the provision of a range of financial products and services to individual customers and small and medium sized enterprises. The products and services mainly comprise residential and commercial mortgages, personal loans, credit cards, auto-financing, commercial loans, trade financing, deposit-taking activities, foreign exchange, wealth management, insurance and securities agency services.

(iii) Treasury

This segment covers the Bank’s treasury operations. The Treasury Division enters into inter-bank money market transactions and invests in debt instruments. It also trades in debt instruments, derivatives and foreign currency for its own account. The Treasury carries out customer driven derivatives, such as foreign currency transactions. Its function also includes the management of the Group’s overall liquidity position, including the issuance of certificates of deposit.

(iv) Others

This segment mainly represents management of shareholders’ funds and investments in premises and other unallocated units.

Segment assets and liabilities are mainly composed of placement with banks, advances to banks and customers, investment securities, derivatives financial instruments, deposits and certificates of deposit and other debt securities issued.

Revenue and expenses are allocated to the reportable segments with reference to interest and fee and commission income generated by those segments and the expenses incurred by these segments or which otherwise arise from the depreciation or amortisation of assets attributable to these segments.

The primary revenue stream of the Group is derived from net interest income and the executive management relies to a large extent on net interest income in managing its business. Hence, net interest income for all reportable segments are presented under segmental information.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(8) SEGMENTAL INFORMATION (CONTINUED)

(a) Reportable segments (Continued)

	Corporate and Institutional Banking	Consumer and Commercial Banking	Treasury	Others	Inter-segment elimination	Total
Six months ended June 30, 2018						
Net interest income	791,413	1,558,431	186,955	608,016	-	3,144,815
Total operating income						
– External	2,542,730	(78,456)	1,539,009	199,806	-	4,203,089
– Inter-segment	(1,460,069)	2,099,355	(1,381,184)	741,898	-	-
Total operating income	1,082,661	2,020,899	157,825	941,704	-	4,203,089
Depreciation and amortisation	(17,641)	(94,982)	(5,227)	(37,354)	-	(155,204)
Total operating expenses	(213,597)	(925,896)	(71,648)	(284,952)	-	(1,496,093)
Operating profit before change in expected credit losses and impairment charges	869,064	1,095,003	86,177	656,752	-	2,706,996
Change in expected credit losses	218,283	(35,156)	(12,772)	-	-	170,355
Non-operating profit	-	(79)	-	(32,118)	-	(32,197)
Profit before taxation	1,087,347	1,059,768	73,405	624,634	-	2,845,154
As at December 31, 2018						
Total assets	202,014,245	93,950,459	214,271,994	7,869,905	(759,535)	517,347,068
Total liabilities	81,042,141	272,434,056	99,003,490	4,448,170	(759,535)	456,168,322

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(8) SEGMENTAL INFORMATION (CONTINUED)

(a) Reportable segments (Continued)

	Corporate and Institutional Banking	Consumer and Commercial Banking	Treasury	Others	Inter-segment elimination	Total
Six months ended June 30, 2017						
Net interest income	782,993	1,390,448	(130,628)	284,753	-	2,327,566
Total operating income						
– External	1,304,792	387,783	1,704,305	166,263	-	3,563,143
– Inter-segment	(421,758)	1,428,722	(1,415,915)	408,951	-	-
Total operating income	883,034	1,816,505	288,390	575,214	-	3,563,143
Depreciation and amortisation	(15,598)	(87,868)	(4,907)	(42,875)	-	(151,248)
Total operating expenses	(169,881)	(908,357)	(60,369)	(283,675)	-	(1,422,282)
Operating profit before impairment losses	713,153	908,148	228,021	291,539	-	2,140,861
Charge on impairment allowances	(132,405)	(20,968)	(479)	-	-	(153,852)
Non-operating profit	-	-	-	22,185	-	22,185
Profit before taxation	580,748	887,180	227,542	313,724	-	2,009,194
As at December 31, 2017						
Total assets	205,216,356	97,109,961	211,615,947	7,797,733	(715,284)	521,024,713
Total liabilities	93,980,675	267,349,598	96,733,715	4,358,574	(715,284)	461,707,278

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(8) SEGMENTAL INFORMATION (CONTINUED)

(b) Geographical information

The following table sets out information about the geographical location of the Group's revenue from external customers, profit before taxation, total assets, total liabilities, specified non-current assets, contingent liabilities and commitments. The geographical location of customers is based on the location at which the services were provided. Segment assets or liabilities are based on the geographical location of the asset or liabilities. Specified non-current assets comprise fixed assets, interests in leasehold land, interest in a joint venture and interest in an associate and the geographical location is based on the physical location of the asset for fixed assets, and the location of the operation to which they are allocated for intangible assets, interest in a joint venture and interest in an associate.

	6 months ended June 30, 2018		**As at June 30, 2018**			
	Revenue from external customers	**Profit before taxation**	**Total assets**	**Total liabilities**	**Specified non-current assets**	**Contingent liabilities and commitments**
Hong Kong (place of domicile)	**4,203,089**	**2,845,154**	**517,347,068**	**456,168,322**	**5,275,278**	**83,258,847**

	6 months ended June 30, 2017		As at December 31, 2017			
	Revenue from external customers	Profit before taxation	Total assets	Total liabilities	Specified non-current assets	Contingent liabilities and commitments
Hong Kong (place of domicile)	3,563,143	2,009,194	521,024,713	461,707,278	5,570,003	84,823,295

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(9) NET INTEREST INCOME

	6 months ended June 30, 2018	6 months ended June 30, 2017
Interest income		
Interest income arising from financial assets that are not measured at fair value through profit or loss		
Placements and advances to banks	**756,090**	631,533
Advances to customers and trade bills	**4,254,135**	3,219,158
Financial assets at fair value through other comprehensive income	**1,162,604**	-
Available-for-sale financial assets	**-**	1,140,739
Financial assets at amortised cost	**225,531**	-
Held-to-maturity investments	**-**	225,211
	6,398,360	5,216,641
Interest expense		
Interest expense arising from financial liabilities that are not measured at fair value through profit or loss		
Deposits and balances of banks	**212,163**	309,031
Deposits from customers	**2,716,930**	2,154,746
Certificates of deposit and other debt securities issued	**140,156**	244,832
	3,069,249	2,708,609
Interest expense arising from financial liabilities that are measured at fair value through profit or loss		
Other debt securities issued	**18,475**	16,217
	18,475	16,217
Interest expense arising from financial liabilities under fair value hedge		
Other debt securities issued	**38,407**	37,913
Subordinated debt	**127,414**	126,336
	165,821	164,249
Net interest income	**3,144,815**	2,327,566

There were no interest income accrued on impaired financial assets for the six months ended June 30, 2018 and June 30, 2017.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(10) NET FEES AND COMMISSION INCOME

	6 months ended June 30, 2018	6 months ended June 30, 2017
Fees and commission income		
Investment services	**91,775**	84,221
Securities services	**85,622**	75,648
Insurance	**95,503**	124,982
Remittance, settlement and account management fees	**71,786**	66,775
Fees received from intermediate holding company and a fellow subsidiary	**255,663**	244,171
Trade finance	**25,966**	23,741
Cards	**82,862**	59,390
Credit facilities	**177,532**	71,800
Others	**2,834**	3,563
	889,543	754,291
Fees and commission expense		
Cards	**(19,288)**	(21,912)
Brokerage	**(4,221)**	(2,303)
Management services	**(16,324)**	(21,581)
Settlement accounts	**(7,411)**	(7,065)
Others	**(22,655)**	(21,855)
	(69,899)	(74,716)
Net fees and commission income	**819,644**	679,575

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(11) NET TRADING INCOME

	6 months ended June 30, 2018	6 months ended June 30, 2017
Profits/(losses) from trading activities		
Foreign exchange	**121,733**	553,812
Interest rate derivatives	**(36,805)**	(57,041)
Financial assets at fair value through profit or loss	**91,379**	-
Debt securities	**3,214**	1,789
Other trading	**7,504**	27,588
	187,025	526,148
Net gain/(loss) from hedging activities		
Fair value hedges		
- Net gain/(loss) on hedging instruments	**252,611**	(138,704)
- Net (loss)/gain on hedged items	**(246,728)**	89,318
	5,883	(49,386)
	192,908	476,762

"Foreign exchange" under "Net trading income" includes gains and losses from spot and forward contracts, options and the income and costs from foreign exchange swaps contracts which were used for economically hedging the assets and liabilities of the Bank. It also includes the net translation gains on foreign currency denominated assets and liabilities amounted to $621,273 in 2018 (2017: losses of $1,092,694).

(12) NET GAINS/(LOSSES) FROM FINANCIAL INSTRUMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	6 months ended June 30, 2018	6 months ended June 30, 2017
Net gains/(losses) from certificates of deposit issued	**17,004**	(1,131)

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(13) OTHER OPERATING INCOME

	6 months ended June 30, 2018	6 months ended June 30, 2017
Dividend income from financial assets at fair value through other comprehensive income		
Unlisted	**3,678**	-
Listed	**99**	-
	3,777	-
Dividend income from available-for-sale equity financial assets		
Unlisted	**-**	2,750
Listed	**-**	77
	-	2,827
Others	**24,900**	29,956
	28,677	32,783

(14) OPERATING EXPENSES

	6 months ended June 30, 2018	6 months ended June 30, 2017
Staff costs		
Salaries and other benefits	**812,556**	732,778
Pension and provident fund costs	**53,749**	50,086
	866,305	782,864
Premises and equipment expenses excluding depreciation		
Rental of premises	**200,683**	188,027
Maintenance	**28,006**	33,856
Leasing of equipment	**18,442**	16,819
Utilities	**8,667**	8,407
Others	**55,121**	50,178
	310,919	297,287
Auditors' remuneration	**4,392**	3,591
Depreciation	**155,204**	151,248
Marketing expenses	**70,384**	93,630
Professional fees	**15,883**	17,311
Other operating expenses	**73,006**	76,351
	318,869	342,131
	1,496,093	1,422,282

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(15) LOSS ALLOWANCE

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Explanation of the terms: 12-month ECL, lifetime ECL and credit impaired are included in Note 6. Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

	2018				2017
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total	Total
Loans and advances to customers					
Balance at January 1	**961,847**	**388,824**	**407,318**	**1,757,989**	**1,058,707**
Transfer to other item	**(158,276)**	**(48,875)**	**(27,534)**	**(234,685)**	**-**
Transfer to 12-month ECL	**1,614**	**(1,603)**	**(11)**	**-**	**-**
Transfer to lifetime ECL not credit-impaired	**(424)**	**424**	**-**	**-**	**-**
Transfer to lifetime ECL credit-impaired	**(625)**	**(9,406)**	**10,031**	**-**	**-**
Net remeasurement of loss allowance	**29,924**	**(25,475)**	**145**	**4,594**	**155,890**
New financial assets originated or purchased	**193,280**	**1**	**34,461**	**227,742**	**-**
Financial assets that have been derecognised	**(161,165)**	**(88,950)**	**(106,160)**	**(356,275)**	**-**
Write-offs	**-**	**-**	**(59,256)**	**(59,256)**	**(84,655)**
Recoveries of amounts previously written-off	**-**	**-**	**24,401**	**24,401**	**15,133**
Changes in models/risk parameters	**(60,230)**	**71,323**	**1,202**	**12,295**	**-**
Foreign exchange and other movements	**(2,641)**	**(1,107)**	**510**	**(3,238)**	**-**
Balance at June 30	**803,304**	**285,156**	**285,107**	**1,373,567**	**1,145,075**

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(15) LOSS ALLOWANCE (CONTINUED)

	2018				2017
	12-month ECL	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Total**	**Total**
Debt investment at amortised costs					
Balance at January 1	**11,106**	**-**	**-**	**11,106**	**8,739**
Transfer to other item	**(61)**	**-**	**-**	**(61)**	**-**
Transfer to 12-month ECL	**-**	**-**	**-**	**-**	**-**
Transfer to lifetime ECL not credit-impaired	**-**	**-**	**-**	**-**	**-**
Transfer to lifetime ECL credit-impaired	**-**	**-**	**-**	**-**	**-**
Net remeasurement of loss allowance	**12**	**-**	**-**	**12**	**1,947**
New financial assets originated or purchased	**20,422**	**-**	**-**	**20,422**	**-**
Financial assets that have been derecognised	**(2,185)**	**-**	**-**	**(2,185)**	**-**
Write-offs	**-**	**-**	**-**	**-**	**-**
Recoveries of amounts previously written-off	**-**	**-**	**-**	**-**	**-**
Changes in models/risk parameters	**(2,034)**	**-**	**-**	**(2,034)**	**-**
Foreign exchange and other movements	**-**	**-**	**-**	**-**	**-**
Balance at June 30	**27,260**	**-**	**-**	**27,260**	**10,686**

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(15) LOSS ALLOWANCE (CONTINUED)

	2018				2017
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total	Total
Debt investment at fair value through other comprehensive income					
Balance at January 1	82,721	-	-	82,721	-
Transfer to other item	(511)	-	-	(511)	-
Transfer to 12-month ECL	-	-	-	-	-
Transfer to lifetime ECL not credit-impaired	-	-	-	-	-
Transfer to lifetime ECL credit-impaired	-	-	-	-	-
Net remeasurement of loss allowance	(1,471)	-	-	(1,471)	-
New financial assets originated or purchased	13,719	-	-	13,719	-
Financial assets that have been derecognised	(12,198)	-	-	(12,198)	-
Write-offs	-	-	-	-	-
Recoveries of amounts previously written-off	-	-	-	-	-
Changes in models/risk parameters	(2,903)	-	-	(2,903)	-
Foreign exchange and other movements	(102)	-	-	(102)	-
Balance at June 30	79,255	-	-	79,255	-

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(15) LOSS ALLOWANCE (CONTINUED)

	2018				2017
	12-month ECL	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Total**	**Total**
Loan commitments					
Balance at January 1	**12,181**	**-**	**-**	**12,181**	**-**
Transfer from other item	**157,566**	**48,807**	**-**	**206,373**	**-**
Transfer to 12-month ECL	**-**	**-**	**-**	**-**	**-**
Transfer to lifetime ECL not credit-impaired	**-**	**-**	**-**	**-**	**-**
Transfer to lifetime ECL credit-impaired	**-**	**-**	**-**	**-**	**-**
Net remeasurement of loss allowance	**(29,538)**	**(2,564)**	**-**	**(32,102)**	**-**
New loan commitments issued	**88,754**	**2,270**	**-**	**91,024**	**-**
Financial assets that have been derecognised	**(14,789)**	**-**	**-**	**(14,789)**	**-**
Write-offs	**-**	**-**	**-**	**-**	**-**
Recoveries of amounts previously written-off	**-**	**-**	**-**	**-**	**-**
Changes in models/ risk parameters	**(79,008)**	**(6,490)**	**-**	**(85,498)**	**-**
Foreign exchange and other movements	**(1,002)**	**42**	**-**	**(960)**	**-**
Balance at June 30	**134,164**	**42,065**	**-**	**176,229**	**-**

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(16) TAXATION

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

	6 months ended June 30, 2018	6 months ended June 30, 2017
Current tax – Hong Kong Profits Tax		
Provision for the period	**450,799**	349,506
Current tax – Overseas		
Provision for the period	**473**	524
Withholding tax in the Mainland	**29,678**	527
	30,151	1,051
Deferred tax		
Origination and reversal of temporary differences	**18,489**	(27,570)
	499,439	322,987

The provision for Hong Kong Profits Tax is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the period. Taxation for overseas transactions are charged at the appropriate current rates of taxation in the countries in which the transactions took place.

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

	6 months ended June 30, 2018	6 months ended June 30, 2017
Profit before taxation	**2,845,154**	2,009,194
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	**469,450**	331,517
Income not subject to taxation	**(6,520)**	(11,404)
Expenses not deductible for taxation purposes	**6,831**	2,347
Foreign withholding tax	**29,678**	527
Actual tax expense	**499,439**	322,987

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(17) CASH AND BALANCES WITH BANKS AND CENTRAL BANKS

	June 30, 2018	December 31, 2017
Cash in hand	**250,870**	263,098
Balances with banks	**1,231,646**	2,762,104
Balances with central banks	**2,616,881**	2,367,067
Placement with banks maturing within one month	**63,965,785**	76,280,972
	68,065,182	81,673,241

(18) FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	June 30, 2018
Debt securities issued by government	2,305,060
Total	2,305,060

As at December 31, 2017, there were no financial assets held under resale agreements.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(19) ADVANCES TO CUSTOMERS AND TRADE BILLS

(a) Advances to customers and trade bills

	June 30, 2018	December 31, 2017
Advances to customers		
Gross advances to customers	**278,702,894**	288,027,512
Dealers' commission and deferred fee income	**(256,535)**	(172,801)
	278,446,359	287,854,711
Less: Expected credit losses / Impairment allowances		
collectively assessed	**-**	(925,424)
individually assessed	**-**	(226,147)
12-month ECL	**(745,020)**	-
lifetime ECL but not credit impaired	**(284,826)**	-
lifetime ECL and credit impaired	**(201,083)**	-
Net advances to customers	**277,215,430**	286,703,140
Trade bills		
Trade bills	**1,356,474**	1,470,733
Less: Expected credit losses / Impairment allowances		
collectively assessed	**-**	(23,867)
individually assessed	**-**	(140,132)
12-month ECL	**(1,924)**	-
lifetime ECL but not credit impaired	**-**	-
lifetime ECL and credit impaired	**(140,713)**	-
Net trade bills	**1,213,837**	1,306,734
Net advances to customers and trade bills	**278,429,267**	288,009,874

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(19) ADVANCES TO CUSTOMERS AND TRADE BILLS (CONTINUED)

(b) Impaired advances to customers and allowances are analysed as follows:

	June 30, 2018		December 31, 2017	
		% of gross advances		% of gross advances
Gross impaired advances	**951,571**	**0.34**	635,678	0.22
Expected credit losses / Impairment allowances	**(201,083)**		(226,147)	
	750,488		409,531	
Net realisable value of collateral held against the impaired advances	**1,598,760**		34,965	

Impaired advances are advances with objective evidence of impairment.

The above expected credit losses and impairment allowances were made after taking into account the realisable value of collateral in respect of such advances.

(c) Impaired trade bills and allowances are analysed as follows:

	June 30, 2018		December 31, 2017	
		% of gross trade bills		% of gross trade bills
Gross impaired trade bills	**140,713**	**10.37**	140,132	9.53
Expected credit losses / Impairment allowances	**(140,713)**		(140,132)	
	-		-	
Net realisable value of collateral held against the impaired trade bills	**-**		-	

Impaired trade bills are advances with objective evidence of impairment.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(20) FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	June 30, 2018
Treasury bills issued by central governments	**27,265,867**
Certificates of deposit issued by banks	**3,165,776**
Other debt securities issued by	
Banks	**41,716,479**
Corporate	**20,653,411**
	92,801,533
Equity shares issued by corporate	
Listed outside Hong Kong	**28,718**
Unlisted	**17,242**
	45,960
	92,847,493
Analysed by place of listing	
Listed in Hong Kong	**54,509,875**
Listed outside Hong Kong	**20,748,077**
Unlisted	**17,589,541**
	92,847,493

The unlisted equity shares of $ 17,242 (December 31, 2017: The unlisted equity shares of $17,242 classified as available-for-sale financial assets) is marked at cost. This cost is an appropriate estimation of fair value as there is no active trading market for the private equities and no observable inputs in order to reliably estimate the fair value of the unlisted equity. The equity is an investment made by the Group for being members of the electronic payment system in Hong Kong. Management has no intention to dispose of this investment as at June 30, 2018.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(21) AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31, 2017
Treasury bills issued by central governments	30,176,967
Certificates of deposit issued by banks	664,085
Other debt securities issued by	
Banks	42,132,809
Corporate	25,940,259
	98,914,120
Equity shares issued by corporate	
Listed outside Hong Kong	24,695
Unlisted	17,242
	41,937
	98,956,057
Analysed by place of listing	
Listed in Hong Kong	54,411,766
Listed outside Hong Kong	37,976,552
Unlisted	6,567,739
	98,956,057

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(22) FINANCIAL ASSETS AT AMORTISED COSTS

	June 30, 2018
Financial assets measured at amortised costs	**15,177,044**
Less: Expected credit losses	**27,260**
	15,149,784
Debt securities issued by	
Banks	**9,676,611**
Corporate	**5,500,433**
	15,177,044
Analysed by place of listing	
Listed in Hong Kong	**2,680,801**
Listed outside Hong Kong	**2,017,066**
Unlisted	**10,479,177**
	15,177,044
Market value	
Listed securities	**4,604,903**
Unlisted securities	**10,448,046**
	15,052,949

The fair value of financial assets measured at amortised costs is based on quoted market bid prices.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(23) HELD-TO-MATURITY INVESTMENTS

	December 31, 2017
Held-to-maturity investments	17,467,915
Less: Impairment allowances	
- collectively assessed	9,058
	17,458,857
Debt securities issued by	
Banks	14,921,587
Corporate	2,546,328
	17,467,915
Analysed by place of listing	
Listed in Hong Kong	1,172,861
Listed outside Hong Kong	659,300
Unlisted	15,635,754
	17,467,915
Market value	
Listed securities	1,800,954
Unlisted securities	15,657,241
	17,458,195

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(24) DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives include forward, swap and option transactions undertaken by the Group in the foreign exchange and interest rate markets. The Group uses derivatives for proprietary trading and sale to customers as risk management products. These positions are actively managed through entering into offsetting deals with external parties to ensure the Group's net exposures are within acceptable risk levels. No significant proprietary positions were maintained by the Group as at the reporting date. The Group also uses these derivatives in the management of its own asset and liability portfolios and structural positions.

(a) Notional amounts of derivatives

	June 30, 2018				December 31, 2017			
	Managed in conjunction with financial instruments designated at fair value through profit or loss	**Held for trading**	**Used for hedging**	**Total**	Managed in conjunction with financial instruments designated at fair value through profit or loss	Held for trading	Used for hedging	Total
Exchange rate contracts								
Forwards	**90,893,738**	**314,646,164**	**-**	**405,539,902**	87,586,464	401,440,678	-	489,027,142
Options purchased	**-**	**2,439,869**		**2,439,869**	-	44,459,430	-	44,459,430
Options written	**-**	**2,439,869**		**2,439,869**	-	44,459,430	-	44,459,430
Interest rate swaps	**3,747,484**	**78,468**	**36,253,054**	**40,079,006**	7,794,628	78,144	36,696,248	44,569,020
Currency swaps	**5,585,283**	**-**	**-**	**5,585,283**	5,685,605	-	-	5,685,605
Equity options purchased / issued	**-**	**139,876**	**-**	**139,876**	-	161,556	-	161,556
Equity swaps	**-**	**139,876**	**-**	**139,876**	-	161,556	-	161,556
	100,226,505	**319,884,122**	**36,253,054**	**456,363,681**	101,066,697	490,760,794	36,696,248	628,523,739

The principal derivative instruments used by the Group are interest and foreign exchange rate related contracts, which are primarily over-the-counter derivatives. The Group also participates in exchange traded derivatives.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(24) DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(b) Notional amounts of derivatives by remaining maturity analysis

The following table provides an analysis of the notional amounts of derivatives of the Group by relevant maturity grouping based on the remaining periods to settlement at the reporting date.

	June 30, 2018				December 31, 2017			
	1 year or less	**Over 1 year to 5 years**	**Over 5 years**	**Total**	1 year or less	Over 1 year to 5 years	Over 5 years	Total
Exchange rate contract								
Forwards	**405,217,110**	**322,792**	**-**	**405,539,902**	487,780,766	1,246,376	-	489,027,142
Options purchased	**2,439,869**	**-**	**-**	**2,439,869**	44,459,430	-	-	44,459,430
Options written	**2,439,869**	**-**	**-**	**2,439,869**	44,459,430	-	-	44,459,430
Interest rate swaps	**5,657,694**	**31,034,208**	**3,387,104**	**40,079,006**	7,923,754	33,988,370	2,656,896	44,569,020
Currency swaps	**2,376,138**	**3,209,145**	**-**	**5,585,283**	-	5,685,605	-	5,685,605
Equity options purchased / issued	**139,876**	**-**	**-**	**139,876**	161,556	-	-	161,556
Equity swaps	**139,876**	**-**	**-**	**139,876**	161,556	-	-	161,556
	418,410,432	**34,566,145**	**3,387,104**	**456,363,681**	584,946,492	40,920,351	2,656,896	628,523,739

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(24) DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair values and credit risk weighted amounts of derivatives

	June 30, 2018			December 31, 2017		
	Fair value assets	**Fair value liabilities**	**Credit risk weighted amount**	Fair value assets	Fair value liabilities	Credit risk weighted amount
Exchange rate contracts						
Forwards	**3,276,998**	**2,903,326**	**2,293,578**	5,672,279	6,093,294	3,284,434
Options purchased	**18,057**	**-**	**9,720**	142,764	-	-
Options written	**-**	**18,057**	**-**	-	142,764	224,226
Interest rate swaps	**630,010**	**132,468**	**200,936**	333,325	85,382	168,573
Currency Swaps	**618,404**	**291,279**	**243,642**	635,737	237,404	288,747
Equity options purchased/issued	**12,427**	**3**	**-**	4,137	95	-
Equity swaps	**3**	**12,427**	**4,196**	95	4,137	4,796
	4,555,899	**3,357,560**	**2,752,072**	6,788,337	6,563,076	3,970,776

As at June 30, 2018 and December 31, 2017, the credit risk weighted amount was calculated in accordance with the Capital Rules and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 20% to 100% (December 31, 2017: 20% to 100%) for all derivatives.

Derivative financial instruments are presented in net when there is legally enforceable right to set off the recognised amounts, and there is an intention to settle them on a net basis or realise the asset and settle the liability simultaneously. As at June 30, 2018, no derivative financial instruments have fulfilled the above criteria, and therefore no derivative financial instruments were offset on the statement of financial position (December 31, 2017: Nil).

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(24) DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(d) Fair values of derivatives designated as hedging instruments

	June 30, 2018		December 31, 2017	
	Assets	**Liabilities**	Assets	Liabilities
Interest rate contracts	**541,881**	**88,498**	281,947	80,389

Fair value hedges

Fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of available for sale debt securities held, certificates of deposit, medium term notes and sub-ordinated debts issued due to movements in market interest rates. At June 30, 2018, the net fair value of interest rate swaps was assets of $453,383 while at December 31, 2017, the net fair value of interest rate swaps was assets of $201,558.

(25) FIXED ASSETS

	Leasehold land (*)	Buildings	Leasehold improvements	Furniture and equipment	Total
Cost:					
As at January 1, 2018	**610,110**	**2,806,556**	**566,136**	**877,860**	**4,860,662**
Additions	**-**	**-**	**12,908**	**29,768**	**42,676**
Disposals	**-**	**-**	**(5,865)**	**(598)**	**(6,463)**
As at June 30, 2018	**610,110**	**2,806,556**	**573,179**	**907,030**	**4,896,875**
Accumulated depreciation:					
As at January 1, 2018	**76,514**	**445,953**	**354,254**	**658,846**	**1,535,567**
Charge for the period	**1,008**	**38,734**	**44,476**	**70,986**	**155,204**
Disposals	**-**	**-**	**(5,846)**	**(538)**	**(6,384)**
As at June 30, 2018	**77,522**	**484,687**	**392,884**	**729,294**	**1,684,387**
Net book value:					
As at June 30, 2018	**532,588**	**2,321,869**	**180,295**	**177,736**	**3,212,488**
As at December 31, 2017	533,596	2,360,603	211,882	219,014	3,325,095

(*) All leasehold land are held under finance leases.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(26) FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	June 30, 2018
Securities	
Government	1,137,918
Total	1,137,918

As at December 31, 2017, there were no financial assets sold under purchase agreements.

(27) DEPOSITS FROM CUSTOMERS

	June 30, 2018	December 31, 2017
Demand deposits and current accounts	**24,829,032**	23,666,420
Savings deposits	**57,347,067**	58,952,499
Time and call deposits	**262,983,299**	269,925,700
Structured notes	**129,871**	161,556
Other deposits	**266,169**	563,158
	345,555,438	353,269,333

(28) CERTIFICATES OF DEPOSIT AND OTHER DEBT SECURITIES ISSUED

	June 30, 2018	December 31, 2017
Issued at amortised cost:		
Certificates of deposit	**-**	-
Other debt securities	**9,989,620**	10,127,917
	9,989,620	10,127,917
Issued at fair value:		
Other debt securities	**2,410,129**	2,454,154
Under fair value hedge:		
Other debt securities	**2,340,868**	2,334,973
	14,740,617	14,917,044

As at June 30, 2018, the fair values of other debt securities issued at amortised cost were at $10,040,534 (December 31, 2017: $10,212,531). The fair values were measured using level 2 hierarchy method.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(29) RESERVES

	June 30, 2018	December 31, 2017
Regulatory reserve (note i)	**1,636,564**	2,307,924
Investment revaluation reserve	**(428,014)**	(562,295)
Merger reserve	**62,262**	62,262
Other reserve	**15,913**	15,913
General reserve (note ii)	**750,956**	750,956
Retained profits	**22,501,490**	20,102,632
	24,539,171	22,677,392

All reserves, except for general reserve and retained profits, are not available for distribution.

(i) Regulatory reserve comprises reserves maintained in accordance with Hong Kong regulations. It includes a regulatory reserve of $1,636,564 (December 31, 2017: $2,307,924) to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes. Movement in this reserve is made directly through retained profits and in consultation with HKMA.

(ii) General reserve is appropriated from the retained profits for future use.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(30) CONTINGENT LIABILITIES AND COMMITMENTS

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

	June 30, 2018	December 31, 2017
Direct credit substitutes	**722,051**	659,080
Transaction-related contingencies	**2,865,605**	2,454,818
Trade-related contingencies	**1,373,452**	1,074,184
Other commitments:		
which are unconditionally cancellable or automatically cancellable due to the deterioration in the credit worthiness of the borrower	**54,548,514**	53,002,350
with an original maturity up to one year	**4,490,489**	7,064,387
with an original maturity over one year	**19,258,736**	20,568,476
	83,258,847	84,823,295

Contingent liabilities and commitments are credit-related instruments which include letter of credits, guarantees and commitments to extend credit. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for the loans. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client defaults. As the facilities may expire without being drawn upon, the contractual amounts do not represent expected future cash flows.

The aggregate credit risk weighted amounts of the above contingent liabilities and commitments are as follows:

	June 30, 2018	December 31, 2017
Credit risk weighted amounts	**12,100,530**	12,631,505

The risk weights used in the computation of credit risk weighted amounts range from 0% to 100% (December 31, 2017: 0% to 100%).

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(31) MATERIAL RELATED PARTY TRANSACTIONS

During the period, the Group entered into transactions with related parties in the normal course of its banking business including lending, acceptance and placement of inter-bank deposits, correspondent banking transactions, securities brokerage and derivative transactions. The transactions were priced at the relevant market rates at the time of each transaction.

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

	Intermediate holding company		**Fellow subsidiaries**		**Associate**	
	For the six months ended		For the six months ended		For the six months ended	
	June 30, 2018	June 30, 2017	**June 30, 2018**	June 30, 2017	**June 30, 2018**	June 30, 2017
Interest income	**394,490**	496,115	**71,835**	67,073	**-**	-
Interest expense	**170,770**	211,512	**3,745**	4,504	**5,306**	3,675
	As at June 30, 2018	As at December 31, 2017	**As at June 30, 2018**	As at December 31, 2017	**As at June 30, 2018**	As at December 31, 2017
Amounts due from:						
Cash and balances with banks and central banks	**60,420,567**	67,738,488	**-**	-	**-**	**-**
Placements with banks	**34,210,784**	8,266,633	**-**	-	**-**	**-**
Financial assets held under resale agreements	**2,305,060**	-	**-**	-	**-**	**-**
Advance to customers and trade bills	**899,357**	926,918	**2,444,572**	3,136,235	**-**	**-**
Available-for-sale securities / held-to-maturity securities	**-**	992,234	**-**	1,901,961	**-**	**-**
Financial assets at FVOCI / financial assets at amortised costs	**2,676,221**	-	**1,894,608**	-	**-**	**-**
Derivative financial instruments	**583,914**	906,912	**-**	-	**-**	**-**
Other assets	**1,145,911**	851,128	**24,057**	18,951	**-**	**-**
Amounts due to:						
Deposits and balances of banks	**70,347,507**	69,248,616	**1,491**	177,551	**-**	**-**
Deposits from customers	**2,848**	2,847	**3,815,100**	7,201,863	**580,770**	602,549
Derivative financial instruments	**1,402,478**	3,613,958	**-**	-	**-**	**-**
Other liabilities	**2,777,964**	2,900,956	**238**	371	**9,182**	5,493
Contingencies and commitments:						
Direct credit substitutes	**85,000**	85,000	**-**	-	**-**	**-**
Transaction-related contingencies	**19,299**	5,974	**-**	-	**-**	**-**
Other commitments	**-**	-	**678,468**	52,992	**-**	**-**
Derivative financial instrument: (notional amount)						
Exchange rate contracts	**154,531,801**	220,207,045	**-**	-	**-**	**-**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(32) EVENTS AFTER THE REPORTING PERIOD

There are no significant events after the reporting period.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

SUPPLEMENTARY FINANCIAL INFORMATION

(1) OVERDUE AND RESCHEDULED ASSETS

(a) Gross advances to customers overdue for more than three months

	June 30, 2018		December 31, 2017	
		% on total advances to customers		% on total advances to customers
Six months or less but over three months	**20,184**	0.01	23,793	0.01
One year or less but over six months	**770**	-	2,987	-
Over one year	**122,313**	0.04	123,582	0.04
Total gross amount of advances overdue for more than three months	**143,267**	0.05	150,362	0.05
Expected credit losses / Impairment allowances made in respect of the above overdue advances	**134,505**		127,180	
Net realisable value of collateral held against the overdue advances	**135,385**		29,648	
Covered portion of overdue advances	**12,595**		8,536	
Uncovered portion of overdue advances	**130,672**		141,826	
	143,267		150,362	

Collateral held with respect of overdue advances to customers was mainly auto vehicles and residential properties.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(1) OVERDUE AND RESCHEDULED ASSETS (CONTINUED)

(b) Gross trade bills overdue for more than three months

	June 30, 2018		December 31, 2017	
		% on total trade bills		% on total trade bills
Six months or less but over three months	**-**	**-**	-	-
One year or less but over six months	**-**	**-**	-	-
Over one year	**140,713**	**10.37**	140,132	9.53
Total gross amount of trade bills overdue for more than three months	**140,713**	**10.37**	140,132	9.53
Expected credit losses / Impairment allowances made in respect of the above overdue trade bills	**140,713**		140,132	
Net realisable value of collateral held against the overdue trade bills	**-**		-	
Covered portion of overdue trade bills	**-**		-	
Uncovered portion of overdue trade bills	**140,713**		140,132	
	140,713		140,132	

As at June 30, 2018 and December 31, 2017, there were no overdue advances to banks.

(c) Rescheduled advances to customers

	June 30, 2018		December 31, 2017	
		% on total advances to customers		% on total advances to customers
Rescheduled advances to customers	**58,733**	**0.02**	59,153	0.02

Rescheduled advances are those advances which have been restructured or renegotiated because of deterioration in the financial position of the borrower, or the inability of the borrower to meet the original repayment schedule and for which the revised payment terms are non-commercial to the Bank. The rescheduled advances are stated net of any advances that have subsequently become overdue for over three months and reported as overdue advances as above.

As at June 30, 2018 and December 31, 2017, there were no rescheduled advances to banks and trade bills.

(d) Other overdue and rescheduled assets

As at June 30, 2018 and December 31, 2017, there were no other overdue and rescheduled assets.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(2) CAPITAL MANAGEMENT

(a) Capital adequacy ratios

	June 30, 2018	December 31, 2017
Common Equity Tier 1 Capital Ratio	**14.0%**	13.2%
Tier 1 Capital Ratio	**16.2%**	15.4%
Total Capital Ratio	**18.6%**	17.8%

Capital adequacy ratios ("CAR") were compiled in accordance with the Banking (Capital) Rules ("Capital Rules") issued by the Hong Kong Monetary Authority ("HKMA"). The ratios as at June 30, 2018 and December 31, 2017 were in compliance with the amended Capital Rules effective from January 1, 2013 for the implementation of the "Basel III" capital accord.

Other capital disclosure requirements under the Banking (Disclosure) Rules are published on the Bank's website: http://www.asia.ccb.com/hongkong.

(3) LIQUIDITY INFORMATION

(a) Average liquidity coverage ratio ("LCR")

	2018	2017
Average liquidity coverage ratio - First quarter	144.74%	116.8%
- Second quarter	168.95%	122.8%

The average LCR for each quarter is based on the arithmetic mean of its LCR as at the end of each working day for each quarter for the Bank as required by the HKMA for its regulatory purposes.

The average LCR of the Bank was maintained at a stable level in the first half of 2018.

The Bank's High Quality Liquidity Assets ("HQLA") consists of cash, balances at central banks and high quality marketable securities issued or guaranteed by sovereigns, central banks, mainland policy banks and non-financial corporate debt securities.

The Bank's primary sources of funds were retail and corporate customer deposits. The funding base was also supplemented by wholesale funding such as issuance of certificates of deposit, term debts and short-term interbank money market borrowing.

The Bank's customer deposits are mainly denominated in HKD. To meet customers' loan demand, the Bank swaps surplus HKD funding into USD and other foreign currencies. This results in some currency mismatch in the LCR.

The currency mismatch between the HQLA and the net cash outflow in the calculation of LCR is controlled and monitored via individual currency LCR limits. The HQLA mix is further governed by concentration caps and limits in accordance with statutory requirements and internal policy requirements for risk management purposes.

SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(3) LIQUIDITY INFORMATION (CONTINUED)

(a) Average liquidity coverage ratio ("LCR") (CONTINUED)

The Bank closely monitors all its exchange traded and over-the-counter derivative exposures arising from customer transactions and their corresponding hedging activities. Collateral may be required to be posted to counterparties depending on the marked-to-market position of the derivative contracts. Nonetheless, such exposures are not material and hence the impact of the relevant cash outflows was minimal to the LCR levels.

The Bank manages its liquidity independently of other members of the CCB Group and has not granted any liquidity facility to any group member. However, CCB Head Office provides strong liquidity support to the Bank which forms an important part of the Bank's funding sources.

Other LCR disclosure requirements under the Banking (Disclosure) Rules are published on the Bank's website: http://www.asia.ccb.com/hongkong.

(b) Quarter-end net stable funding ratio ("NSFR")

			2018
Quarter-end NSFR	-	First quarter	**126.55%**
	-	Second quarter	**128.04%**

The NSFR of the Bank was maintained at a stable level in the first half of 2018.

Net stable funding ratio means the ratio of the amount of the Bank's available stable funding ("ASF") to the amount of the Bank's required stable funding ("RSF").

ASF is sum of weighted amounts of the Bank's capital and on-balance sheet liabilities. Retail and corporate customer deposits are the Bank's primary sources of liabilities. Other liabilities include certificates of deposit and term debts issued by the Bank and interbank money market borrowing.

RSF is sum of weighted amounts of the Bank's on-balance sheet assets and off-balance sheet obligations. Loans and funds provided to retail customers and wholesale customers are major components of RSF. Other RSF items include debt securities held by the Bank and interbank money market lending. The Bank's off-balance sheet obligations mainly involve potential drawdown of undrawn committed facilities.

Other NSFR disclosure requirements under the Banking (Disclosure) Rules are published on the Bank's website: http://www.asia.ccb.com/hongkong.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(3) LIQUIDITY INFORMATION (CONTINUED)

(c) Liquidity cushion

The size and composition of the Bank's liquidity cushion as of June 30, 2018 and December 31, 2017 was:

	June 30, 2018	December 31, 2017
Cash & Central Bank reserves	**2,867,612**	2,630,025
Hong Kong Exchange Fund Bills	**14,138,683**	14,393,765
Other securities which fulfil the definition of HQLA	**50,759,914**	57,925,412

(d) Liquidity risk management framework

The Board of Directors is ultimately responsible for an effective liquidity risk management framework in place. Risk Committee (RC) is one of the committees set up by the Board of Directors. The duties of RC are to approve the risk management framework that is in line with the Bank's business objectives and risk profile, and ensure that the liquidity framework is duly implemented and maintained by the senior management members.

Risk Management Committee (RMC) is set up to oversee the Bank's overall asset quality as well as resolving all important risk-related or governance issues on liquidity risk. The RMC is responsible for providing guidance and overseeing the Bank's liquidity risk management strategy and development; reviewing or approving liquidity risk management policies and reviewing the Bank's liquidity risk position.

Asset and Liability Committee (ALCO) is a functional committee delegated by the Bank's senior management to oversee the liquidity risk management in light of the business strategy.

Regular meetings of various committees are held to review the compliance status of liquidity measurements and the needs of change in strategy and policy. Daily liquidity management is performed by the Treasury. Risk Management Division is responsible for the daily monitoring of the liquidity limits and measurements, and submits regular reports of the liquidity profile to ALCO. Internal Audit periodically performs independent reviews on liquidity management framework to ensure the validity and effectiveness of the Bank's liquidity risk management functions.

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(4) GROSS ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS

	June 30, 2018		December 31, 2017	
	Outstanding balance	**% of advances covered by collateral**	Outstanding balance	% of advances covered by collateral
Advances for use in Hong Kong				
Industrial, commercial and financial				
Property development	**16,140,593**	**13.94**	16,993,073	11.31
Property investment	**33,487,365**	**72.88**	34,511,542	81.09
Financial concerns	**38,091,738**	**53.05**	44,486,011	50.78
Stockbrokers	**1,415,542**	**22.29**	405,719	92.61
Wholesale and retail trade	**8,045,179**	**66.62**	8,283,535	65.81
Manufacturing	**4,800,958**	**28.79**	4,317,801	34.47
Transport and transport equipment	**8,991,277**	**59.90**	11,153,593	62.11
Recreational activities	**352,926**	**8.35**	351,368	7.80
Information technology	**2,819,426**	**34.59**	3,114,372	25.26
Others	**13,066,486**	**41.11**	11,921,817	55.58
	127,211,490		135,538,831	
Individuals				
Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**4,054**	**100.00**	4,420	100.00
Loans for the purchase of other residential properties	**15,158,214**	**99.28**	15,087,680	99.29
Credit card advances	**4,332,010**	**0.00**	4,878,873	0.00
Others	**19,436,470**	**32.08**	20,619,908	26.64
	38,930,748		40,590,881	
Trade finance	**4,575,547**	**57.59**	4,354,428	46.77
Advances for use outside Hong Kong	**107,985,109**	**52.83**	107,543,372	47.53
Gross advances to customers	**278,702,894**	**52.62**	288,027,512	51.32

Hong Kong, September 14, 2018