

FOR IMMEDIATE RELEASE



**China Construction Bank (Asia) Announces
Consolidated Net Profit after Tax of HKD1,534 Million for the First Half Year of 2020**

HONG KONG – September 30, 2020 – China Construction Bank (Asia) Corporation Limited [“CCB (Asia)”] today announced its consolidated net profit after tax to reach HKD1,534 million for the first six months ended June 30, 2020, a decrease of HKD275 million or 15.2%, as compared with the same period in 2019. Set out below are the highlights:

Total operating income of CCB (Asia) for the first half year of 2020 amounted to HKD4,244 million, an increase of 9.9% as compared with the first half year of 2019. If including the interest income of trading advances to customers and trade bills of HKD124 million and the amortised hedging FX and interest rate swap income of HKD91 million, net interest income amounted to HKD3,012 million, increased by 3.9% as compared with the same period of 2019. Non-interest income after excluding the aforesaid interest income and swap income was HKD1,232 million, representing an increase of 27.7% as compared with the same period of 2019, mainly attributable to the increase in net fees and commission income of HKD144 million and net gains from disposal of financial assets measured at fair value through other comprehensive income of HKD127 million.

Total operating expenses rose by 1.9% to HKD1,573 million and the cost-to-income ratio enhanced by 2.9 percentage points to 37.1% year-on-year.

In the first half year of 2020, the amount of impairment allowance charges was HKD875 million, increased by HKD737 million compared with the same period of 2019, mainly due to the increase in balances of gross advances to customers and trade bills, the increase of expected probability of default reflecting the downturn of economic conditions and certain loan downgrades. The impaired loan ratio at end of June 2020 was 0.9%.

Taxation expenses decreased by 23.5% to HKD289 million as compared with the same period in 2019, mainly driven by the decrease in profit before tax.

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Total consolidated assets remained stable and stood at HKD495.8 billion as at June 30, 2020, representing a slight increase of 1.5% from that at the end of 2019. The asset structure was further enhanced, with the advances to customers and trade bills increased by 7.3% to HKD311.6 billion as compared with that at the end of 2019. The cash and balances with banks and central banks, placement with banks also slightly increased by 2.7% to HKD82.5 billion. On the other hand, the financial assets at fair value through other comprehensive income and financial assets at amortised cost decreased in aggregate by 12.6% to HKD82.3 billion, while those measured at fair value through profit or loss decreased by 18.3% to HKD8.9 billion as compared with that at the end of 2019.

The liability structure was also strengthened. While deposits from customers slightly decreased by 0.7% to HKD392.5 billion as compared with that at the end of 2019, the demand, current and savings deposits increased by 39.7% to HKD125.6 billion. Besides, deposits from other banks increased by 46.8% to HKD11.6 billion, and other debt securities issued reduced by 71.0% to HKD1.8 billion.

As at June 30, 2020, CCB (Asia)'s Total Capital Ratio was 19.1%, Net Stable Funding Ratio was 134.7% and Leverage Ratio was 14.2%. The Average Liquidity Coverage Ratio for the first half year of 2020 was 173.0%. All the aforementioned ratios were maintained at sound levels and well above regulatory requirements.

CCB (Asia)'s interim financial disclosure statements of 2020 have been compiled in compliance with the Banking (Disclosure) Rules and are available on the Bank's website at www.asia.ccb.com.

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About China Construction Bank (Asia) Corporation Limited

China Construction Bank (Asia) Corporation Limited ["CCB (Asia)"] is the comprehensive and integrated commercial banking business platform of China Construction Bank Corporation in Hong Kong. CCB (Asia) has offered a wide array of banking products and services to customers, including consumer banking services, commercial banking services, corporate banking services, private banking services, treasury business and cross-border financial services, etc.

For more information about CCB (Asia), please visit www.asia.ccb.com.

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CHINA CONSTRUCTION BANK (ASIA) CORPORATION LIMITED
UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
FOR THE SIX MONTHS ENDED JUNE 30, 2020

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	6 months ended June 30, 2020	6 months ended June 30, 2019
Interest income		6,088,927	6,723,019
Interest expense		<u>(3,291,912)</u>	<u>(3,690,835)</u>
Net interest income	10	2,797,015	3,032,184
Fees and commission income		946,960	800,098
Fees and commission expense		<u>(50,473)</u>	<u>(47,112)</u>
Net fees and commission income	11	896,487	752,986
Net trading income/(losses)	12	312,165	(62,845)
Net gains from financial instruments designated at fair value through profit or loss	13	6,479	25,040
Net gains from disposal of financial assets measured at fair value through other comprehensive income		213,248	85,987
Other operating income	14	<u>18,077</u>	<u>29,141</u>
Total operating income		4,243,471	3,862,493
Operating expenses	15	<u>(1,572,749)</u>	<u>(1,543,725)</u>
Operating profit before net charges of expected credit losses		2,670,722	2,318,768
Net charge of expected credit losses	16	<u>(874,573)</u>	<u>(138,188)</u>
Operating profit		1,796,149	2,180,580
Gains/(losses) on disposal of fixed assets		2,087	(61)
Share of profit of joint venture/associate		<u>25,403</u>	<u>6,270</u>
Profit before taxation		1,823,639	2,186,789
Taxation	17	<u>(289,445)</u>	<u>(377,888)</u>
Profit for the period		<u>1,534,194</u>	<u>1,808,901</u>

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	6 months ended June 30, 2020	6 months ended June 30, 2019
Profit for the period	1,534,194	1,808,901
Other comprehensive income		
Items that will be reclassified subsequently to profit or loss:		
Debt instruments measured at fair value through other comprehensive income:		
Changes in fair value recognised during the period	12,621	492,023
Reclassification adjustments for amounts transferred to profit or loss	(46,420)	(29,486)
Expected credit losses recognised in profit or loss	86,811	1,237
Tax effect	5,406	(74,903)
Item that will not be reclassified subsequently to profit or loss:		
Equity instruments designated at fair value through other comprehensive income	1,452	6,649
Other comprehensive income for the period, net of tax	59,870	395,520
Total comprehensive income for the period	1,594,064	2,204,421

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	June 30, 2020	December 31, 2019
Assets			
Cash and balances with banks and central banks	18	47,323,713	39,258,940
Placements with banks	19	34,767,777	38,328,199
Advances to banks		388,084	1,919,518
Advances to customers and trade bills	20	311,602,543	290,249,557
Financial assets held under resale agreements	21	-	783,381
Financial assets measured at fair value through profit or loss	22	8,852,694	10,852,514
Financial assets measured at fair value through other comprehensive income	23	71,213,972	76,046,838
Other assets measured at amortised cost	24	11,131,496	18,136,241
Derivative financial instruments	25	1,057,099	1,907,768
Interest in a joint venture		1,869,268	1,913,865
Deferred tax assets		578,068	548,379
Fixed assets	26	2,518,518	2,594,611
Right-of-use assets	27	2,095,538	2,223,150
Other assets		2,349,782	3,585,693
Total assets		495,748,552	488,348,654
Liabilities			
Deposits and balances of banks	29	10,189,643	7,909,125
Deposits from customers	30	392,475,561	395,198,137
Financial assets sold under repurchase agreements	31	1,391,682	-
Financial liabilities designated at fair value through profit or loss	32	242,062	127,102
Other debt securities issued	33	1,758,484	6,215,679
Derivative financial instruments	25	1,058,933	998,406
Lease liabilities	28	1,623,324	1,736,851
Current tax payable		495,423	1,176,516
Deferred tax liabilities		19,982	19,288
Other liabilities		11,023,899	4,702,906
Total liabilities		420,278,993	418,084,010
Equity			
Share capital		28,827,843	28,827,843
Other equity instruments	34	15,589,333	11,712,840
Reserves	35	31,052,383	29,723,961
Total equity		75,469,559	70,264,644
Total equity and liabilities		495,748,552	488,348,654

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		6 months ended June 30, 2020								
	Note	Share capital	Other equity instruments	General reserve	Investment revaluation reserve	Regulatory reserve	Other reserve	Merger reserve	Retained earnings	Total
Balance as at January 1, 2020		28,827,843	11,712,840	750,956	396,603	649,984	15,913	62,262	27,848,243	70,264,644
Changes in equity for 2020:										
Profit for the period		-	-	-	-	-	-	-	1,534,194	1,534,194
Other comprehensive income, net of tax		-	-	-	59,870	-	-	-	-	59,870
Total comprehensive income for the period		-	-	-	59,870	-	-	-	1,534,194	1,594,064
Issuance of other equity instruments	34	-	3,876,493	-	-	-	-	-	-	3,876,493
Coupon paid for other equity instruments		-	-	-	-	-	-	-	(265,642)	(265,642)
Regulatory reserve		-	-	-	-	(113,848)	-	-	113,848	-
Balance as at June 30, 2020		28,827,843	15,589,333	750,956	456,473	536,136	15,913	62,262	29,230,643	75,469,559
		6 months ended June 30, 2019								
	Note	Share capital	Other equity instruments	General reserve	Investment revaluation reserve	Regulatory reserve	Other reserve	Merger reserve	Retained earnings	Total
Balance as at January 1, 2019		28,827,843	7,811,732	750,956	(173,930)	576,966	15,913	62,262	24,606,262	62,478,004
Changes in equity for 2019:										
Profit for the period		-	-	-	-	-	-	-	1,808,901	1,808,901
Other comprehensive income, net of tax		-	-	-	395,520	-	-	-	-	395,520
Total comprehensive income for the period		-	-	-	395,520	-	-	-	1,808,901	2,204,421
Coupon paid for other equity instruments		-	-	-	-	-	-	-	(183,607)	(183,607)
Regulatory reserve		-	-	-	-	127,076	-	-	(127,076)	-
Balance as at June 30, 2019		28,827,843	7,811,732	750,956	221,590	704,042	15,913	62,262	26,104,480	64,498,818

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	6 months ended June 30, 2020	6 months ended June 30, 2019
Operating activities		
Operating profit	1,796,149	2,180,580
Adjustments for:		
Dividend income	(3,233)	(3,262)
Depreciation	284,409	273,248
Net interest income	(2,797,015)	(3,032,184)
Net charge of expected credit losses	874,573	138,188
Written-off of loans and advances, net of recoveries	(125,562)	(50,361)
Fair value adjustments	(119,675)	(19,200)
Interest received	6,316,802	6,941,367
Interest paid	(3,903,581)	(3,700,666)
Interest portion of lease payment	(29,573)	(32,800)
Effect of foreign exchange rate changes	98,914	(344,837)
	<u>2,392,208</u>	<u>2,350,073</u>
(Increase)/decrease in operating assets		
Balances and placements with banks and centrak banks with original maturity beyond three months	2,588,669	(16,120,056)
Financial assets held under resale agreements with original maturity beyond three months	-	(47,562)
Gross advances to banks	1,531,434	(1,921,965)
Gross advances to customers and trade bills	(21,889,859)	(12,386,635)
Financial assets measured at fair value through profit or loss with original maturity beyond three months	2,120,382	(678,032)
Derivative financial instruments	850,669	865,499
Other assets	888,640	(4,398,255)
	<u>(13,910,065)</u>	<u>(34,687,006)</u>
Increase/(decrease) in operating liabilities		
Deposits and balances of banks	2,280,518	(7,609,503)
Financial assets sold under repurchase agreements	1,391,682	(2,420,859)
Deposits from customers	(2,722,576)	6,936,977
Derivative financial instruments	60,527	(1,019,270)
Other debt securities issued	(4,458,010)	(2,726,065)
Financial liabilities designated at fair value through profit or loss	114,073	246,296
Other liabilities	6,865,425	807,195
	<u>3,531,639</u>	<u>(5,785,229)</u>
Net cash outflow from operations	<u>(7,986,218)</u>	<u>(38,122,162)</u>

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

	6 months ended June 30, 2020	6 months ended June 30, 2019
Net cash outflow from operations	(7,986,218)	(38,122,162)
Hong Kong Profits Tax paid	(994,128)	-
Withholding tax paid	-	(1,874)
Net cash outflow from operating activities	(8,980,346)	(38,124,036)
Purchase of financial assets measured at fair value through other comprehensive income	(40,324,671)	(15,122,811)
Purchase of other assets measured at amortised cost	(4,822,875)	(15,579,127)
Proceeds received from redemption and disposal of financial assets measured at fair value through other comprehensive income	52,350,705	32,534,027
Proceeds received from redemption and disposal of other assets measured at amortised cost	8,159,464	8,386,980
Purchase of property and equipment	(65,272)	(96,715)
Proceeds from disposal of fixed assets	3,126	-
Dividend received from a joint venture	70,000	100,000
Dividends received from listed and unlisted investments	3,233	3,262
Net cash inflow from investing activities	15,373,710	10,225,616
Interest paid on subordinated debt	-	(124,521)
Issuance of other equity instruments	3,876,650	-
Cost paid for issuance of other equity instruments	(157)	-
Coupon paid for other equity instruments	(265,642)	(183,607)
Principal portion of lease payments	(129,742)	107,414
Net cash inflow/(outflow) from financing activities	3,481,109	(200,714)
Increase/(decrease) in cash and cash equivalents	9,874,473	(28,099,134)
Cash and cash equivalents as at January 1	51,473,632	98,236,963
Effect of foreign exchange rate changes	(294,750)	9,379
Cash and cash equivalents as at June 30	61,053,355	70,147,208

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FOR THE SIX MONTHS ENDED JUNE 30, 2020

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

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 28, 2020 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.

(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"), and the Group's interest in a joint venture up to June 30, 2020.

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 and a joint venture whereas the latter excludes CCB Securities Limited ("CCBS"), CCB Nominees 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, 2020, the Bank has fully complied with the disclosure provisions of the Banking (Disclosure) Rules.

(4) STATUTORY FINANCIAL STATEMENTS

The financial information relating to the year ended December 31, 2019 that is included in the condensed consolidated interim financial information for the six months ended June 30, 2020 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).

(5) CHANGES IN ACCOUNTING POLICIES

The accounting policies applied, Hong Kong Financial Reporting Standards ("HKFRS"s), are consistent with those of the consolidated financial statements for the year ended December 31, 2019, except for the following revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial information:

Amendment to HKFRS 16	Covid-19 related Rent Concessions (early adopted)
Amendments to HKFRS 3	Definition of Business
Amendments to HKFRS 9, HKAS39 and HKFRS 7	Interest Rate Benchmark reform
Amendments to HKAS 1 and HKAS 8	Definition of Material

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

(5) CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Amendment to HKFRS 16 Covid-19 related Rent Concessions (early adopted)

Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before June 30, 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after June 1, 2020 with earlier application permitted.

During the period ended June 30, 2020, certain monthly lease payments for the leases premises have been reduced or waived by the lessors as a result of the covid-19 pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on January 1, 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the covid-19 pandemic during the period ended June 30, 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of \$47 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the period ended June 30, 2020.

HKFRS 3 “Definition of Business”

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered as a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 “Interest Rate Benchmark reform”

Interest Rate Benchmark reform is a global initiative to replace or reform interbank offered rates (IBORs) that are used to determine interest cash flows on financial instruments such as advance to customers, debt securities and derivatives. The objective of the reform is to replace IBORs with alternative nearly risk-free rates (RFRs) that are based on actual market transactions. Consequently, financial contracts referencing these benchmarks may need to be amended to reference the alternative RFR in the applicable currency.

The amendments modify certain specific hedge accounting requirements to provide temporary relief allowing the continuous use of hedge accounting under the uncertainties caused by interest rate benchmark reform (“IBOR reform”) on the cash flows of the hedge relationships. Pursuant to the amendments, the relief would deem to be ended at the earlier of (i) when there is no longer uncertainty arising from IBOR reform over the cash flows of the hedging relationships, and (ii) when the hedging relationship to which the relief applied is discontinued, or in case of cash flow hedges, when the entire amount accumulated in the cash flow hedge reserve with respect to the discontinued hedging relationship has been reclassified to profit or loss. The amendments have been applied retrospectively.

As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective.

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

(5) CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 “Interest Rate Benchmark reform” (continued)

The table below indicates the nominal amount and weighted average remaining days to maturity of derivatives in hedging relationships that will be affected by IBOR reform, analysed by interest rate basis.

	<u>June 30, 2020</u>	
	Nominal amount	Weighted average remaining days to maturity
<i>Impacted by IBOR reform</i>		
<i>Interest rate swaps</i>		
EURIBOR (6 month)	434,980	660
LIBOR (6 month)	<u>13,954,003</u>	659
	14,388,983	
Not impacted by IBOR reform	-	
	<u><u>14,388,983</u></u>	

Amendments to HKAS 1 and HKAS 8 “Definition of Material”

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

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

(5) CHANGES IN ACCOUNTING POLICIES (CONTINUED)

New HKFRSs not yet effective for the year ending December 31, 2020

The Group does not early adopt the following HKFRSs which were issued, but not yet effective for the financial year ending December 31, 2020:

Amendments to HKFRS 3	Reference to the Conceptual Framework, which effective for annual period beginning on or after January 1, 2022.
Amendments to HKFRS 10 and HKAS 28 (2011)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, which effective date is to be determined.
HKFRS 17	Insurance Contracts, which effective for annual period beginning on or after January 1, 2021.
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current, which effective for annual period beginning on or after January 1, 2023.
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use, which effective for annual period beginning on or after January 1, 2022.
Amendments to HKAS 37	Onerous Contracts Cost of Fulfilling a Contract, which effective for annual period beginning on or after January 1, 2022.
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, HKAS 41 and Illustrative Examples accompanying HKFRS 16, which effective for annual period beginning on or after January 1, 2022.

(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, 2019.

(7) FINANCIAL RISK MANAGEMENT

The Group continuously monitors and identifies risks. Our principal risks are credit risk, liquidity risk, market risk, operational risk, regulatory compliance risk, financial crime risk, reputational risk, pension risk and sustainability risk. There is no material change in the principal risks and uncertainties for the remaining six months of the financial year, the description of which can be found in the risk report of the consolidated financial statements for the year ended December 31, 2019. A summary of our current policies and practices regarding the management of risk is set out in the "Financial risk management" section of the Annual Report 2019.

(a) Credit risk

Credit risk is the risk of loss arising from a borrower's or counterparty's inability to meet its obligations. Credit risk exists in the Group's loans, leases, credit cards, trade finance and treasury transactions. There is also credit risk in off-balance sheet financial arrangements such as loan commitments, trade-related contingencies and transaction-related contingencies.

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

(7) FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(i) Expected credit loss measurement

Distribution of financial instruments to which the impairment requirements in HKFRS 9 are applied, by credit quality and by staging:

As at June 30, 2020	Gross carrying/ notional amount					Total	ECL allowances	Net amount
	Normal	Special mentioned	Sub-standard	Doubtful	Loss			
On balance sheet:								
Placements with and advances to bank at amortised cost – stage 1	35,161,705	-	-	-	-	35,161,705	(5,844)	35,155,861
Advances to customers and trade bills at amortised cost:								
Stage 1	300,245,202	4,545	-	-	-	300,249,747	(1,645,659)	298,604,088
Stage 2	10,539,772	827,974	-	-	-	11,367,746	(508,406)	10,859,340
Stage 3	-	-	2,462,696	295,344	75,244	2,833,284	(1,089,948)	1,743,336
Advances to customers	310,784,974	832,519	2,462,696	295,344	75,244	314,450,777	(3,244,013)	311,206,764
Stage 1	395,822	-	-	-	-	395,822	(43)	395,779
Trade bills	395,822	-	-	-	-	395,822	(43)	395,779
Other financial assets measured at amortised cost:								
Cash and balances with banks and central banks – stage 1	47,324,842	-	-	-	-	47,324,842	(1,129)	47,323,713
Stage 1	11,140,454	-	-	-	-	11,140,454	(46,980)	11,093,474
Stage 2	39,116	-	-	-	-	39,116	(1,094)	38,022
Other assets measured at amortised cost	11,179,570	-	-	-	-	11,179,570	(48,074)	11,131,496

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(7) FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(i) Expected credit loss measurement (continued)

Distribution of financial instruments to which the impairment requirements in HKFRS 9 are applied, by credit quality and by staging: (continued)

As at June 30, 2020 (continued)	Gross carrying/ notional amount					Total	ECL allowances	Net amount
	Normal	Special mentioned	Sub-standard	Doubtful	Loss			
On balance sheet: (continued)								
Stage 1	2,335,000	-	-	-	-	2,335,000	-	2,335,000
Stage 2	-	427	-	-	-	427	-	427
Stage 3	-	-	-	18,499	-	18,499	(4,144)	14,355
Other assets	2,335,000	427	-	18,499	-	2,353,926	(4,144)	2,349,782
Stage 1	68,886,872	-	-	-	-	68,886,872	(133,450)	68,753,422
Stage 2	2,327,100	-	-	-	-	2,327,100	(33,905)	2,293,195
Financial assets measured at fair value through other comprehensive income	71,213,972	-	-	-	-	71,213,972	(167,355)	71,046,617
Total gross carrying amount/ fair value on balance sheet	478,395,885	832,946	2,462,696	313,843	75,244	482,080,614	(3,470,602)	478,610,012
Off balance sheet:								
Loans and other credit related commitments	97,559,140	-	-	-	-	97,559,140	(348,541)	97,210,599
Total nominal amount off balance sheet	97,559,140	-	-	-	-	97,559,140	(348,541)	97,210,599
Total at as June 30, 2020	575,955,025	832,946	2,462,696	313,843	75,244	579,639,754	(3,819,143)	575,820,611

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(7) FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(i) Expected credit loss measurement (continued)

Distribution of financial instruments to which the impairment requirements in HKFRS 9 are applied, by credit quality and by staging: (continued)

As at December 31, 2019

	Gross carrying/notional amount					Total	ECL allowances	Net amount
	Normal	Special mentioned	Sub-standard	Doubtful	Loss			
On balance sheet:								
Placements with and advances to banks at amortised cost – stage 1	40,253,382	-	-	-	-	40,253,382	(5,665)	40,247,717
Advances to customers and trade bills at amortised cost:								
Stage 1	284,741,557	-	-	-	-	284,741,557	(1,299,588)	283,441,969
Stage 2	2,446,418	4,896,920	-	-	-	7,343,338	(905,420)	6,437,918
Stage 3	-	-	692,904	7,116	155,969	855,989	(502,175)	353,814
Advances to customers	287,187,975	4,896,920	692,904	7,116	155,969	292,940,884	(2,707,183)	290,233,701
Trade bills	15,856	-	-	-	-	15,856	-	15,856
Other financial assets measured at amortised cost:								
Cash and balances with banks and central banks – stage 1	39,259,524	-	-	-	-	39,259,524	(584)	39,258,940
Financial assets held under resale agreements – stage 1	783,381	-	-	-	-	783,381	-	783,381
Other assets measured at amortised cost – stage 1	18,161,298	-	-	-	-	18,161,298	(25,057)	18,136,241

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(7) FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(i) Expected credit loss measurement (continued)

Distribution of financial instruments to which the impairment requirements in HKFRS 9 are applied, by credit quality and by staging: (continued)

As at December 31, 2019	Gross carrying/notional amount					Total	ECL allowances	Net amount
	Normal	Special mentioned	Sub-standard	Doubtful	Loss			
On balance sheet: (continued)								
Stage 1	3,578,690	-	-	-	-	3,578,690	(27)	3,578,663
Stage 2	819	-	-	-	-	819	(92)	727
Stage 3	-	-	6,608	-	-	6,608	(305)	6,303
Other assets	3,579,509	-	6,608	-	-	3,586,117	(424)	3,585,693
Financial assets measured at fair value through other comprehensive income	76,046,838	-	-	-	-	76,046,838	(80,041)	75,966,797
Total gross carrying amount on balance sheet	465,287,763	4,896,920	699,512	7,116	155,969	471,047,280	(2,818,954)	468,228,326
Off balance sheet:								
Loans and other credit related commitments	92,352,143	-	-	-	-	92,352,143	(251,173)	92,100,970
Total nominal amount - off balance sheet	92,352,143	-	-	-	-	92,352,143	(251,173)	92,100,970
Total as at December 31, 2019	557,639,906	4,896,920	699,512	7,116	155,969	563,399,423	(3,070,127)	560,329,296

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(7) FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk

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, 2020

	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	Over 5 years	Undated	Total
Assets								
Cash and balances with banks and central banks	8,193,842	39,129,871	-	-	-	-	-	47,323,713
Placements with banks	-	-	12,932,746	5,459,312	16,375,719	-	-	34,767,777
Advances to banks	-	-	-	388,084	-	-	-	388,084
Advances to customers and trade bills	545,657	82,829,997	37,016,663	49,002,493	109,478,474	32,729,259	-	311,602,543
Financial assets measured at fair value through profit or loss	-	1,425	-	737,376	6,689,547	1,304,861	119,485	8,852,694
Financial assets measured at fair value through other comprehensive income	-	5,223,126	9,884,556	15,198,034	31,851,674	8,900,041	156,541	71,213,972
Other assets measured at amortised cost	-	-	2,801,906	3,123,222	5,206,368	-	-	11,131,496
Derivative financial instruments	-	528,127	228,251	236,099	25,587	39,035	-	1,057,099
Interest in a joint venture	-	-	-	-	-	-	1,869,268	1,869,268
Deferred tax assets	-	-	-	-	-	-	578,068	578,068
Fixed assets	-	-	-	-	-	-	2,518,518	2,518,518
Right-of-use assets	-	-	363	19,550	344,625	1,202,442	528,558	2,095,538
Other assets	3,408	1,838,668	133,250	291,389	427	9,724	72,916	2,349,782
Total assets	8,742,907	129,551,214	62,997,735	74,455,559	169,972,421	44,185,362	5,843,354	495,748,552

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(7) FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

As at June 30, 2020 (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	Over 5 years	Undated	Total
Liabilities								
Deposits and balances of banks	1,339,793	3,657,202	5,113,789	78,859	-	-	-	10,189,643
Deposits from customers	126,476,687	125,317,785	106,456,040	34,225,049	-	-	-	392,475,561
Financial assets sold under repurchase agreements	-	762,640	629,042	-	-	-	-	1,391,682
Financial liabilities designated at fair value through profit or loss	-	150,132	16,355	75,575	-	-	-	242,062
Other debt securities issued	-	-	-	8,448	1,750,036	-	-	1,758,484
Derivative financial instruments	-	135,287	207,052	258,659	224,228	233,707	-	1,058,933
Lease liabilities	-	24,621	40,450	181,855	760,917	615,481	-	1,623,324
Current tax payable	-	-	-	495,423	-	-	-	495,423
Deferred tax liabilities	-	-	-	-	-	-	19,982	19,982
Other liabilities	-	7,485,364	128,046	756,223	-	-	2,654,266	11,023,899
Total liabilities	127,816,480	137,533,031	112,590,774	36,080,091	2,735,181	849,188	2,674,248	420,278,993
Net assets/(liabilities) gap	(119,073,573)	(7,981,817)	(49,593,039)	38,375,468	167,237,240	43,336,174	3,169,106	75,469,559
Of which:								
Debt securities included in:								
- Financial assets measured at fair value through other comprehensive income	-	5,223,126	9,884,556	15,198,034	31,851,674	8,900,041	-	71,057,431
- Other assets measured at amortised cost	-	-	2,801,906	3,123,222	5,206,368	-	-	11,131,496

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(7) FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (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: (continued)

As at December 31, 2019	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	Over 5 years	Undated	Total
Assets								
Cash and balances with banks and central banks	4,735,836	34,523,104	-	-	-	-	-	39,258,940
Placements with banks	-	-	10,405,483	6,004,481	21,918,235	-	-	38,328,199
Advances to banks	-	1,919,518	-	-	-	-	-	1,919,518
Advances to customers and trade bills	189,787	74,396,002	23,196,713	53,902,917	102,783,021	35,781,117	-	290,249,557
Financial assets held under resale agreements	-	783,381	-	-	-	-	-	783,381
Financial assets measured at fair value through profit or loss	-	1,558,620	-	857,179	6,864,282	1,292,793	279,640	10,852,514
Financial assets measured at fair value through other comprehensive income	3,194	7,011,262	15,739,074	16,851,211	33,056,204	3,230,803	155,090	76,046,838
Other assets measured at amortised cost	-	3,974,256	6,356,194	2,332,247	5,473,544	-	-	18,136,241
Derivative financial instruments	-	535,184	890,776	444,044	34,495	3,269	-	1,907,768
Interest in a joint venture	-	-	-	-	-	-	1,913,865	1,913,865
Deferred tax assets	-	-	-	-	-	-	548,379	548,379
Fixed assets	-	-	-	-	-	-	2,594,611	2,594,611
Right-of-use assets	-	-	990	11,293	388,737	1,292,565	529,565	2,223,150
Other assets	78	2,549,260	171,891	171,624	622,034	6,150	64,656	3,585,693
Total assets	4,928,895	127,250,587	56,761,121	80,574,996	171,140,552	41,606,697	6,085,806	488,348,654

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(7) FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

As at December 31, 2019 (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	Over 5 years	Undated	Total
Liabilities								
Deposits and balances with banks	3,818,105	2,235,578	1,855,442	-	-	-	-	7,909,125
Deposits from customers	90,766,407	100,795,924	151,684,072	51,947,809	3,925	-	-	395,198,137
Financial liabilities designated at fair value through profit or loss	-	104,647	10,195	12,260	-	-	-	127,102
Other debt securities issued	-	-	4,421,674	8,620	1,785,385	-	-	6,215,679
Derivative financial instruments	747	131,441	292,309	506,493	61,326	6,090	-	998,406
Lease liabilities	-	25,310	61,978	163,846	787,245	698,472	-	1,736,851
Current tax payable	-	-	-	1,176,516	-	-	-	1,176,516
Deferred tax liabilities	-	-	-	-	-	-	19,288	19,288
Other liabilities	-	1,015,635	181,181	863,692	-	-	2,642,398	4,702,906
Total liabilities	94,585,259	104,308,535	158,506,851	54,679,236	2,637,881	704,562	2,661,686	418,084,010
Net assets/(liabilities) gap	(89,656,364)	22,942,052	(101,745,730)	25,895,760	168,502,671	40,902,135	3,424,120	70,264,644
Of which:								
Debt securities included in:								
- Financial assets measured at fair value through other comprehensive income	3,194	7,011,262	15,739,074	16,851,211	33,056,204	3,230,803	-	75,891,748
- Other assets measured at amortised cost	-	3,974,256	6,356,194	2,332,247	5,473,544	-	-	18,136,241

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(8) FAIR VALUE MEASUREMENT

(a) Financial assets and liabilities measured at fair value

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group measures fair value using the following hierarchy method:

- Level 1: fair values measured using quoted market prices (unadjusted) in active markets for identical financial instruments.
- Level 2: fair values measured using valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes quoted prices in active markets for similar financial instruments, or quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: fair values measured using significant unobservable inputs. This category includes inputs to valuation techniques not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Where available, the most suitable measure for fair value is the quoted market prices in an active market. In the absence of active markets for most of the unlisted securities and over-the-counter derivatives, direct market prices of these financial instruments may not be available. The fair values of such instruments are therefore calculated based on established valuation techniques (i.e. Market Comparable Approach) by using observable and comparable market parameters or market prices provided by counterparties. Independent price verification or reasonableness check is performed if fair values are determined by reference to externally quoted prices.

Options and equity swaps traded over the counter are valued using broker quotes price. The fair value of foreign exchange contracts are valued by observable foreign exchange rates and forward points at the reporting date. Other derivative financial instruments, including interest rate swaps and currency swaps, are valued through estimated future cash flows and discounting with appropriate yield curves.

For structured deposits, this class of instruments includes certain deposits received from customers that are embedded with derivatives. The valuation of the underlying deposits is derived by using net present value of expected cash flow taking the Group's own credit risk into account. The valuation method of the embedded derivative is the same as other derivatives mentioned as above.

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(CONTINUED)

(8) FAIR VALUE MEASUREMENT (CONTINUED)

(a) Financial assets and liabilities measured at fair value (continued)

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value treatment is categorised:

As at June 30, 2020	Level 1	Level 2	Level 3	Total
Assets				
Financial assets measured at fair value through profit or loss				
Fund investments	27,397	92,088	-	119,485
Other debt securities	-	38,751	-	38,751
Trading loans	-	8,694,458	-	8,694,458
Financial assets measured at fair value through other comprehensive income				
Treasury bills/bonds	11,875,026	13,596,767	-	25,471,793
Certificates of deposit	-	4,509,360	-	4,509,360
Other debt securities	34,633,082	6,443,196	-	41,076,278
Equity securities	41,310	-	115,231	156,541
Derivative financial instruments				
Exchange rate contracts				
Forwards	-	980,843	-	980,843
Options purchased	-	6,524	-	6,524
Interest rate swaps	-	61,582	-	61,582
Currency swaps	-	6,583	-	6,583
Equity swaps	-	1,567	-	1,567
	46,576,815	34,431,719	115,231	81,123,765
Liabilities				
Financial liabilities designated at fair value through profit or loss	-	242,062	-	242,062
Derivative financial instruments				
Exchange rate contracts				
Forwards	-	541,646	-	541,646
Options written	-	7,023	-	7,023
Interest rate swaps	-	499,551	-	499,551
Currency swaps	-	8,297	-	8,297
Equity swaps	-	2,416	-	2,416
	-	1,300,995	-	1,300,995

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(8) FAIR VALUE MEASUREMENT (CONTINUED)

(a) Financial assets and liabilities measured at fair value (continued)

The table below analyses financial instruments measured at fair value, excluding accrued interest, at the end of the reporting period, by the level in the fair value hierarchy into which the fair value treatment is categorised: (continued)

As at December 31, 2019	Level 1	Level 2	Level 3	Total
Assets				
Financial assets measured at fair value through profit or loss				
Fund investments	28,385	94,376	-	122,761
Trading securities	-	495,550	-	495,550
Other debt securities	-	158,742	-	158,742
Trading loans	-	10,075,461	-	10,075,461
Financial assets measured at fair value through other comprehensive income				
Treasury bills/bonds	16,137,559	22,517,037	-	38,654,596
Certificates of deposit	-	3,163,467	-	3,163,467
Other debt securities	33,513,424	560,261	-	34,073,685
Equity shares	40,412	-	114,678	155,090
Derivative financial instruments				
Exchange rate contracts				
Forwards	-	1,275,424	-	1,275,424
Options purchased	-	14,086	-	14,086
Interest rate swaps	-	82,634	-	82,634
Currency swaps	-	535,326	-	535,326
Equity swaps	-	298	-	298
	<u>49,719,780</u>	<u>38,972,662</u>	<u>114,678</u>	<u>88,807,120</u>
Liabilities				
Financial liabilities designated at fair value through profit or loss				
	-	127,102	-	127,102
Derivative financial instruments				
Exchange rate contracts				
Forwards	-	781,645	-	781,645
Options written	-	14,820	-	14,820
Interest rate swaps	-	180,347	-	180,347
Currency swaps	-	21,316	-	21,316
Equity swaps	-	278	-	278
	<u>-</u>	<u>1,125,508</u>	<u>-</u>	<u>1,125,508</u>

There were no significant transfers between instruments in Level 1 and Level 2 for the period ended June 30, 2020 and year ended December 31, 2019.

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(8) FAIR VALUE MEASUREMENT (CONTINUED)

(a) Financial assets and liabilities measured at fair value (continued)

Reconciliation of Level 3 items

	2020
<i>Financial assets measured at FVOCI - Unlisted equity securities</i>	
As at January 1	114,678
Change in fair value recognised in other comprehensive income	553
As at June 30	115,231

As at June 30, 2020 and December 31, 2019, financial assets categorised as Level 3 are unlisted equity securities. The fair values of unlisted equity securities are determined with reference to multiples of comparable listed companies in the market, such as price/earnings ratios of comparables, or EV/EBITDA ratios per Bloomberg. The fair value is positively correlated to these market comparable parameters. Had the earning of the underlying equity investments increased/decreased by 5%, the Group's other comprehensive income would have increased/decreased by \$5,762.

Information about Level 3 fair value measurements

As at June 30, 2020, the valuation method and significant unobservable inputs used in the fair value measurement of the Group's financial assets classified as Level 3 are as follows:

	Valuation model used	Significant unobservable valuation inputs parameters	Average	Relationship of unobservable inputs to fair value
Unlisted equities securities	Market-comparable approach	Earnings multiples (P/E ratio)	11.61 (2019: 11.94)	The higher the ratio, the higher the fair value
		EV/EBITDA multiples	6.92 (2019: 9.12)	The higher the multiple, the higher the fair value
		Marketability discount	40% (2019: 40%)	The higher the discount, the lower the fair value

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(CONTINUED)

(8) FAIR VALUE MEASUREMENT (CONTINUED)

(b) Financial assets and liabilities not measured at fair value

Financial assets and liabilities that are not presented at their fair value on the consolidated statement of financial position mainly represent cash and balances with banks and central banks, placements with banks, advances to banks, advances to customers and trade bills, and other assets measured at amortised cost. These financial assets are measured at amortised cost less expected credit losses. Financial liabilities not presented at their fair value on the consolidated statement of financial position mainly represent deposits and balances of banks, deposits from customers, financial assets sold under repurchase agreements, lease liabilities and other debt securities issued at amortised cost. These financial liabilities are measured at amortised cost.

- i) Cash and balances with banks and central banks, Placements with banks, Advances to banks and Financial assets held under resale agreements

These balances are mainly priced at market interest rates and mature within one year. Accordingly, the carrying values approximate the fair values. The differences between fair values and carrying amounts of these financial assets not presented on the Group's consolidated statement of financial position.

- ii) Advances to customers and trade bills

Majority of the advances to customers and trade bills are on floating rate terms, bear interest at prevailing market interest rate. Accordingly, their carrying values approximate the fair values. The differences between fair values and carrying amounts of advances to customers and trade bills not presented on the Group's consolidated statement of financial position.

- iii) Other financial assets and other debt securities issued which measured at amortised cost

The fair value of securities measured at amortised cost is determined using the same approach as those securities measured at fair value.

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(9) SEGMENTAL INFORMATION

(a) Reportable segments

The Group manages its businesses by divisions, which are organised 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, under which there was a change in the grouping of the management in shareholders' funds. Starting from the second half of 2019, to further align with the internal management structure and reporting information, the management of shareholders' funds was grouped with treasury & management pool in lieu of grouping under others. Comparatives amounts have been restated to ensure consistent basis with the revised segment information.

(i) Corporate, institutional and commercial banking

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

(ii) Consumer banking

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

(iii) Treasury & management pool

This segment covers the Bank's treasury operations and management of shareholders' funds. 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 and 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 investments in premises, subsidiaries and others.

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 these 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 net fees and commission income. The executive management relies to a large extent on net interest income and net fees and commission income in managing its business. Hence, net interest income and net fees and commission income for all reportable segments are presented under segmental information.

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(9) SEGMENTAL INFORMATION (CONTINUED)

(a) Reportable segments (continued)

	Corporate, institutional and commercial Banking	Consumer Banking	Treasury & management pool	Others	Inter- segment elimination	Total
Six months ended June 30, 2020						
Net interest income	1,142,221	831,206	824,818	(1,230)	-	2,797,015
Net fees and commission income	267,284	287,830	(3,258)	344,631	-	896,487
Total operating income						
– External	3,228,359	(1,205,138)	1,862,012	358,238	-	4,243,471
– Inter-segment	(1,597,580)	2,375,910	(774,571)	(3,759)	-	-
Total operating income	1,630,779	1,170,772	1,087,441	354,479	-	4,243,471
Depreciation	(49,430)	(166,521)	(8,104)	(60,354)	-	(284,409)
Operating expenses	(378,694)	(807,151)	(78,234)	(308,670)	-	(1,572,749)
Operating profit before net charges of expected credit losses	1,252,085	363,621	1,009,207	45,809	-	2,670,722
Net (charge)/release of expected credit losses	(591,284)	(260,795)	(22,727)	233	-	(874,573)
Non-operating (losses)/income	(274)	(26)	-	27,790	-	27,490
Profit before taxation	660,527	102,800	986,480	73,832	-	1,823,639
As at June 30, 2020						
Total assets	292,586,269	45,666,624	149,639,166	8,733,755	(877,262)	495,748,552
Total liabilities	156,197,400	241,111,611	19,082,014	4,765,230	(877,262)	420,278,993

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(9) SEGMENTAL INFORMATION (CONTINUED)

(a) Reportable segments (continued)

	Corporate, institutional and commercial Banking	Consumer Banking	Treasury & management pool	Others	Inter- segment elimination	Total
<u>Six months ended June 30, 2019 (restated)</u>						
Net interest income	1,172,221	1,028,134	835,715	(3,886)	-	3,032,184
Net fees and commission income	190,548	275,235	8,331	278,872	-	752,986
Total operating income						
– External	3,071,694	(1,190,106)	1,663,364	317,541	-	3,862,493
– Inter-segment	(1,605,221)	2,540,145	(930,056)	(4,868)	-	-
Total operating income	1,466,473	1,350,039	733,308	312,673	-	3,862,493
Depreciation	(62,236)	(156,183)	(11,043)	(43,786)	-	(273,248)
Operating expenses	(394,515)	(787,721)	(86,222)	(275,267)	-	(1,543,725)
Operating profit before net charges of expected credit losses	1,071,958	562,318	647,086	37,406	-	2,318,768
Net (charge)/release of expected credit losses	(143,413)	1,466	3,609	150	-	(138,188)
Non-operating (losses)/income	(42)	-	-	6,251	-	6,209
Profit before taxation	928,503	563,784	650,695	43,807	-	2,186,789
<u>As December 31, 2019</u>						
Total assets	271,103,376	43,803,012	164,075,398	9,972,463	(605,595)	488,348,654
Total liabilities	161,317,932	239,940,444	11,561,213	5,870,016	(605,595)	418,084,010

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(9) SEGMENTAL INFORMATION (CONTINUED)

(b) Geographical information

The following table sets out information about the geographical location of the Group's total operating income, 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, right-of-use assets, 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.

	6 months ended June 30, 2020		As at June 30, 2020			
	Revenue from external customers	Profit before taxation	Total assets	Total liabilities	Specified non-current assets	Contingent liabilities and commitments
Hong Kong (place of domicile)	<u>4,243,471</u>	<u>1,823,639</u>	<u>495,748,552</u>	<u>420,278,993</u>	<u>6,483,324</u>	<u>97,559,140</u>

	6 months ended June 30, 2019		As at December 31, 2019			
	Revenue from external customers	Profit before taxation	Total assets	Total liabilities	Specified non- current assets	Contingent liabilities and commitments
Hong Kong (place of domicile)	<u>3,862,493</u>	<u>2,186,789</u>	<u>488,348,654</u>	<u>418,084,010</u>	<u>6,731,626</u>	<u>92,352,143</u>

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(10) NET INTEREST INCOME

	6 months ended June 30, 2020	6 months ended June 30, 2019
Interest income		
<i>Interest income calculated using the effective interest rate</i>		
Placements and advances to banks	725,884	1,102,810
Advances to customers and trade bills	4,337,018	4,351,911
Financial assets measured at fair value through other comprehensive income	846,164	1,015,394
Other assets measured at amortised cost	179,861	252,904
Total interest income	6,088,927	6,723,019
Interest expense		
<i>Interest expense arising from financial liabilities that are not measured at fair value through profit or loss</i>		
Deposits and balances of banks	99,639	139,834
Deposits from customers	3,119,468	3,205,939
Other debt securities issued	43,232	132,307
	3,262,339	3,478,080
<i>Interest expense arising from financial liabilities that are measured at fair value through profit or loss</i>		
Other debt securities issued	-	14,139
	-	14,139
<i>Interest expense arising from financial liabilities under fair value hedge</i>		
Other debt securities issued	-	38,227
Subordinated debt	-	127,589
	-	165,816
<i>Interest expense arising from lease liabilities</i>	29,573	32,800
Total interest expense	3,291,912	3,690,835
Net interest income	2,797,015	3,032,184

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(11) NET FEES AND COMMISSION INCOME

	6 months ended June 30, 2020	6 months ended June 30, 2019
Fees and commission income		
Investment services	106,806	86,057
Securities broking and related services	69,047	59,641
Insurance	111,513	95,519
Remittance, settlement and account management fees	71,398	63,929
Fee received from intermediate holding company (Note 37)	305,816	263,387
Trade finance	18,006	23,554
Cards	77,449	77,345
Credit facilities	186,223	129,856
Others	702	810
Total fees and commission income	946,960	800,098
Fees and commission expense		
Cards	(22,509)	(10,623)
Brokerage	(804)	(3,253)
Fee paid to intermediate holding company (Note 37)	(6,317)	(9,545)
Settlement accounts	(5,508)	(5,514)
Others	(15,335)	(18,177)
Total fees and commission expense	(50,473)	(47,112)
Net fees and commission income	896,487	752,986

(12) NET TRADING INCOME/(LOSSES)

	6 months ended June 30, 2020	6 months ended June 30, 2019
Gains/(losses) from trading activities		
Foreign exchange	179,695	(135,668)
Interest rate derivatives	(21,521)	(9,233)
Other debt instruments	130,511	58,567
Other trading	5,608	9,908
	294,293	(76,426)
Other trading income		
Hedge ineffectiveness on fair value hedge	17,872	13,581
	312,165	(62,845)

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(13) NET GAINS FROM FINANCIAL INSTRUMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	6 months ended June 30, 2020	6 months ended June 30, 2019
Net gains from other securities issued	-	20,303
Net gains from structured deposits	6,479	4,737
	6,479	25,040

(14) OTHER OPERATING INCOME

	6 months ended June 30, 2020	6 months ended June 30, 2019
Dividend income		
Unlisted investments	3,143	3,183
Listed investments	90	79
	3,233	3,262
Others	14,844	25,879
	18,077	29,141

(15) OPERATING EXPENSES

	6 months ended June 30, 2020	6 months ended June 30, 2019
Staff costs		
Salaries and other benefits	895,444	882,637
Pension and provident fund costs	43,825	50,049
	939,269	932,686
General and administrative expenses		
Rental expense	44,605	70,450
Other premises and equipment	63,256	56,533
Marketing expenses	85,028	68,182
Auditors' remuneration	3,007	3,704
Professional fees	27,394	23,288
Other operating expenses	125,781	115,634
	349,071	337,791
Depreciation		
Fixed assets	140,326	144,387
Right-of-use assets	144,083	128,861
	284,409	273,248
	1,572,749	1,543,725

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(16) NET CHARGE OF EXPECTED CREDIT LOSSES

	6 months ended June 30, 2020	6 months ended June 30, 2019
New allowances charged, net of allowance releases	884,461	150,250
Recoveries of amounts previously written off	(9,888)	(12,062)
Net charge of expected credit losses	874,573	138,188
Attributable to:		
Balances with banks and central banks and placements with banks	721	(557)
Financial assets held under resale agreements	-	342
Advances to customers and trade bills	662,435	66,350
Financial assets measured at fair value through other comprehensive income	87,315	1,237
Other assets measured at amortised cost	23,017	7,506
Other assets	3,718	216
Loan and other credit related commitments	97,367	63,094
Net charge of expected credit losses	874,573	138,188

(17) TAXATION

(a) Taxation in the consolidated statement of profit or loss represents:

	6 months ended June 30, 2020	6 months ended June 30, 2019
Current tax – Hong Kong Profits Tax		
Provision for the period	312,947	384,339
Current tax – Overseas		
Provision for the period	23	107
Withholding tax for the period	65	1,872
	88	1,979
Deferred tax		
Origination and reversal of temporary differences	(23,590)	(8,430)
	289,445	377,888

The provision for Hong Kong Profits Tax is calculated at 16.5% (2019: 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.

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(17) TAXATION (CONTINUED)

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

	6 months ended June 30, 2020	6 months ended June 30, 2019
Profit before taxation	<u>1,823,639</u>	<u>2,186,789</u>
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	300,901	360,820
Income not subject to taxation	(18,910)	(15,025)
Expenses not deductible for taxation purposes	7,389	30,221
Foreign withholding tax	65	1,872
Actual tax expense	<u>289,445</u>	<u>377,888</u>

(18) CASH AND BALANCES WITH BANKS AND CENTRAL BANKS

	June 30, 2020	December 31, 2019
Cash in hand	284,236	438,299
Balances with banks	3,727,636	1,448,845
Balances with central banks	4,181,970	2,848,692
Placement with banks maturing within one month	<u>39,131,000</u>	<u>34,523,688</u>
Gross cash and balances with banks and central banks	47,324,842	39,259,524
Less: Expected credit loss allowances Stage 1: 12-month ECL	<u>(1,129)</u>	<u>(584)</u>
Net cash and balances with banks and central banks	<u>47,323,713</u>	<u>39,258,940</u>

(19) PLACEMENTS WITH BANKS

	June 30, 2020	December 31, 2019
Maturing between one and twelve months	18,397,892	16,415,627
Maturing more than twelve months	<u>16,375,718</u>	<u>21,918,235</u>
Gross placements with banks	34,773,610	38,333,862
Less: Expected credit loss allowances Stage 1: 12-month ECL	<u>(5,833)</u>	<u>(5,663)</u>
Net placements with banks	<u>34,767,777</u>	<u>38,328,199</u>

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(20) ADVANCES TO CUSTOMERS AND TRADE BILLS

(a) Advances to customers and trade bills

	June 30, 2020	December 31, 2019
Advances to customers		
Gross advances to corporate customers	267,078,329	247,429,931
Gross advances to personal customers	47,372,448	45,510,953
	<u>314,450,777</u>	<u>292,940,884</u>
Less: Expected credit loss allowances		
Stage 1: 12-month ECL	(1,645,659)	(1,299,588)
Stage 2: Lifetime ECL but not credit-impaired	(508,406)	(905,420)
Stage 3: Lifetime ECL and credit-impaired	(1,089,948)	(502,175)
	<u>311,206,764</u>	<u>290,233,701</u>
Net advances to customers		
Trade bills		
Gross trade bills	395,822	15,856
Less: Expected credit loss allowances		
Stage 1: 12-month ECL	(43)	-
	<u>395,779</u>	<u>15,856</u>
Net trade bills		
	<u>311,602,543</u>	<u>290,249,557</u>
Net advances to customers and trade bills		

As at June 30, 2020, net advances to customers and trade bills included accrued interest of \$514,815 (December 31, 2019: \$635,641).

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

(b) Movement in gross carrying amount and expected credit loss allowances on advances to customers and trade bills

Reconciliation of changes in gross carrying amount, excluding accrued interest, and expected credit loss allowances on advances to customers and trade bills for the six months ended June 30, 2020:

Six months ended June 30, 2020	Non-credit impaired				Credit impaired		Total	
	Stage 1		Stage 2		Stage 3		Gross carrying amount	ECL allowance
	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance		
Balance as at January 1, 2020	284,757,413	1,299,588	7,343,338	905,420	855,989	502,175	292,956,740	2,707,183
Transfer to stage 1: 12-month ECL	225,596	39,855	(191,953)	(5,937)	(33,643)	(33,918)	-	-
Transfer to stage 2: lifetime ECL not credit-impaired	(4,490,130)	(28,350)	4,490,130	28,350	-	-	-	-
Transfer to stage 3: lifetime ECL credit-impaired	(26,098)	(138)	(2,289,007)	(335,981)	2,315,105	336,119	-	-
Net remeasurement of loss allowances	-	42,963	-	(2,703)	-	39,903	-	80,163
New financial assets originated or purchased*	139,462,837	296,869	5,160,285	176,330	289,682	262,953	144,912,804	736,152
Financial assets that have been derecognised	(119,284,049)	(229,283)	(3,145,047)	(470,034)	(458,399)	(227,155)	(122,887,495)	(926,472)
Write-offs	-	-	-	-	(135,450)	(135,450)	(135,450)	(135,450)
Recoveries of amounts previously written-offs	-	-	-	-	-	9,888	-	9,888
Changes in risk parameters	-	226,678	-	213,007	-	334,599	-	774,284
Foreign exchange and other movements	-	(2,480)	-	(46)	-	834	-	(1,692)
Balance as at June 30, 2020	300,645,569	1,645,702	11,367,746	508,406	2,833,284	1,089,948	314,846,599	3,244,056

* During the period, all advances to customers and trade bills were initially classified in Stage 1 and were not considered as credit-impaired at the time of origination or purchase. Some were subsequently transferred into Stage 2 or Stage 3 based on the result of credit assessments.

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

(b) Movement in gross carrying amount and expected credit loss allowances on advances to customers and trade bills (continued)

Reconciliation of changes in gross carrying amount, excluding accrued interest, and expected credit loss allowances on advances to customers and trade bills for the period ended June 30, 2019:

Six months ended June 30, 2019	Non-credit impaired				Credit impaired		Total	
	Stage 1		Stage 2		Stage 3		Gross carrying amount	ECL allowance
	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance		
Balance as at January 1, 2019	241,376,373	1,093,402	15,029,908	781,810	797,989	200,271	257,204,270	2,075,483
Transfer to stage 1: 12-month ECL	4,681,795	74,956	(4,544,877)	(74,956)	(136,918)	-	-	-
Transfer to stage 2: lifetime ECL not credit-impaired	(823,259)	(6,941)	1,055,601	6,941	(232,342)	-	-	-
Transfer to stage 3: lifetime ECL credit-impaired	(16,417)	(92)	(5,615)	(71)	22,032	163	-	-
Net remeasurement of loss allowances	-	22,490	-	(8,002)	-	(3,330)	-	11,158
New financial assets originated or purchased*	108,166,319	196,971	2,915,753	79,773	79,353	64,149	111,161,425	340,893
Financial assets that have been derecognised	(93,316,138)	(174,935)	(5,274,812)	(98,861)	(125,073)	(4,979)	(98,716,023)	(278,775)
Write-offs	-	-	-	-	(62,423)	(62,423)	(62,423)	(62,423)
Recoveries of amounts previously written-offs	-	-	-	-	-	12,062	-	12,062
Changes in risk parameters	-	(71,072)	-	55,166	-	12,949	-	(2,957)
Foreign exchange and other movements	-	(1,296)	-	(2,645)	-	(17)	-	(3,958)
Balance as at June 30, 2019	<u>260,068,673</u>	<u>1,133,483</u>	<u>9,175,958</u>	<u>739,155</u>	<u>342,618</u>	<u>218,845</u>	<u>269,587,249</u>	<u>2,091,483</u>

* During the period, all advances to customers and trade bills were initially classified in Stage 1 and were not considered as credit-impaired at the time of origination or purchase. Some were subsequently transferred into Stage 2 or Stage 3 based on the result of credit assessments.

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

(c) Impaired advances to customers and trade bills and impairment allowances

Impaired advances to customers and allowances are analysed as follows:

	June 30, 2020		December 31, 2019	
		% of gross advances		% of gross advances
Gross impaired advances	2,833,284	0.90	855,989	0.29
Less: Expected credit loss allowances	(1,089,948)		(501,175)	
	1,743,336		353,814	
Gross individually assessed impaired advances	2,433,300	0.77	751,362	0.26
Less: Expected credit loss allowances	(792,627)		(434,810)	
	1,640,673		316,552	
Net realisable value of collateral held against the impaired advances	2,411,757		324,363	

As at June 30, 2020 and December 31, 2019, there were no impaired trade bills.

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(21) FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

Financial assets held under resale agreements by underlying assets are shown as follows:

	June 30, 2020	December 31, 2019
Debt securities issued by policy banks	-	783,381
Less: Expected credit loss allowances Stage 1: 12-month ECL	-	-
Net financial assets held under resale agreements	-	783,381

(22) FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	June 30, 2020	December 31, 2019
Fund investments issued by non-bank financial institutions	119,485	122,761
Trading securities issued by central banks	-	495,550
Other debt securities issued by corporates	-	158,742
Other debt securities issued by non-bank financial institutions	38,751	-
Trading loans	8,694,458	10,075,461
	8,852,694	10,852,514
<u>Analysed by place of listing:</u>		
Listed outside Hong Kong		
Fund investments	27,397	28,385
Unlisted		
Fund investments	92,088	94,376
Trading securities	-	495,550
Other debt securities	38,751	158,742
Trading loans	8,694,458	10,075,461
	8,825,297	10,824,129
	8,852,694	10,852,514

As of June 30, 2020, the Group held all the shares issued by CCBS Prudent Wealth Fund 2020 First Series SP ("Segregated Portfolio"), a segregated portfolio of CCB Securities Private Fund Series SPC incorporated with limited liability in Cayman Islands. The Group is considered to have control over this Segregated Portfolio as the Group has the rights to variable returns from its involvement and has ability to affect those returns through its power over the Segregated Portfolio.

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(23) FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	June 30, 2020	December 31, 2019
<i>Financial assets measured at fair value through other comprehensive income</i>		
Debt investments		
Treasury bills/ bonds issued by central banks/governments	25,471,793	38,654,596
Certificates of deposit issued by banks	4,509,360	3,163,467
Other debt securities issued by		
Banks and non-bank financial institutions	26,586,637	17,209,442
Corporate	14,489,641	16,864,243
	<u>71,057,431</u>	<u>75,891,748</u>
<i>Financial assets designated at fair value through other comprehensive income</i>		
Equity investments		
Equity shares issued by corporates	156,541	155,090
	<u>71,213,972</u>	<u>76,046,838</u>
<u>Analysed by place of listing</u>		
Listed in Hong Kong		
Debt investments	35,616,285	36,277,628
Listed outside Hong Kong		
Debt investments	10,891,823	13,373,355
Equity investments	41,310	40,412
	<u>10,933,133</u>	<u>13,413,767</u>
Unlisted		
Debt investments	24,549,323	26,240,765
Equity investments	115,231	114,678
	<u>24,664,554</u>	<u>26,355,443</u>
	<u>71,213,972</u>	<u>76,046,838</u>

Under the Group's business strategy, the equity investments are made for being members of the electronic payment system in Hong Kong and are held for long term purpose. These investments are designated at FVOCI. Management has no intention to dispose of these investments as at June 30, 2020.

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(24) OTHER ASSETS MEASURED AT AMORTISED COST

	June 30, 2020	December 31, 2019
Treasury bills issued by central banks	999,747	3,892,924
Certificates of deposit issued by banks	1,522,419	2,327,793
Other debt securities issued by		
Banks and non-bank financial institutions	5,695,365	7,632,436
Corporates	2,962,039	4,308,145
	<u>11,179,570</u>	<u>18,161,298</u>
Less: Expected credit loss allowances	(48,074)	(25,057)
	<u>11,131,496</u>	<u>18,136,241</u>
<u>Analysed by place of listing:</u>		
Listed in Hong Kong	4,454,205	3,519,045
Listed outside Hong Kong	826,004	934,835
Unlisted	5,899,361	13,707,418
	<u>11,179,570</u>	<u>18,161,298</u>
<u>Market value:</u>		
Listed securities	5,273,678	4,480,323
Unlisted securities	5,913,072	13,713,820
	<u>11,186,750</u>	<u>18,194,143</u>

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

There were no overdue financial investments as at June 30, 2020 for the Group. The Group did not hold any asset-backed securities, mortgage-backed securities and collateralised debt obligations.

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(25) 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 trading activities 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.

The following table provides an analysis of the notional amounts, carrying amounts and credit risk weighted amounts of derivatives of the Group at the reporting date.

	June 30, 2020				December 31, 2019			
	Notional amount	Fair value assets	Fair value liabilities	Credit risk weighted amount	Notional amount	Fair value assets	Fair value liabilities	Credit risk weighted amount
Exchange rate contracts								
Forwards	232,898,359	980,843	541,646	796,466	238,000,446	1,275,424	781,645	1,121,474
Options purchased	529,544	6,524	-	1,014	671,213	14,086	-	15,979
Options written	832,070	-	7,023	608	895,660	-	14,820	-
Interest rate swaps	20,548,275	61,582	499,551	66,091	24,622,041	82,634	180,347	62,445
Currency swaps	3,168,277	6,583	8,297	59,193	4,682,914	535,326	21,316	189,661
Equity swaps	147,740	1,567	2,416	-	26,230	298	278	791
	<u>258,124,265</u>	<u>1,057,099</u>	<u>1,058,933</u>	<u>923,372</u>	<u>268,898,504</u>	<u>1,907,768</u>	<u>998,406</u>	<u>1,390,350</u>

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(26) FIXED ASSETS

	Buildings	Leasehold improvements	Furniture and equipment	Total
Cost:				
As at January 1, 2020	2,818,069	592,255	1,221,247	4,631,571
Additions	-	12,929	52,343	65,272
Disposals	-	(9,348)	(5,773)	(15,121)
As at June 30, 2020	<u>2,818,069</u>	<u>595,836</u>	<u>1,267,817</u>	<u>4,681,722</u>
Accumulated depreciation:				
As at January 1, 2020	603,122	494,085	939,753	2,036,960
Charge for the period	38,897	24,101	77,328	140,326
Disposals	-	(8,876)	(5,206)	(14,082)
As at June 30, 2020	<u>642,019</u>	<u>509,310</u>	<u>1,011,875</u>	<u>2,163,204</u>
Net book value:				
As at June 30, 2020	<u>2,176,050</u>	<u>86,526</u>	<u>255,942</u>	<u>2,518,518</u>
	Buildings	Leasehold improvements	Furniture and equipment	Total
Cost:				
As at January 1, 2019	2,818,069	586,626	1,019,932	4,424,627
Additions	-	14,240	205,404	219,644
Disposals	-	(8,611)	(4,089)	(12,700)
As at December 31, 2019	<u>2,818,069</u>	<u>592,255</u>	<u>1,221,247</u>	<u>4,631,571</u>
Accumulated depreciation:				
As at January 1, 2019	525,308	428,431	801,508	1,755,247
Charge for the year	77,814	74,265	142,072	294,151
Disposals	-	(8,611)	(3,827)	(12,438)
As at December 31, 2019	<u>603,122</u>	<u>494,085</u>	<u>939,753</u>	<u>2,036,960</u>
Net book value:				
As at December 31, 2019	<u>2,214,947</u>	<u>98,170</u>	<u>281,494</u>	<u>2,594,611</u>

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(27) RIGHT-OF-USE ASSETS

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Right-of-use assets			
	Leasehold land	Buildings	Equipment	Total
As at January 1, 2020	529,566	1,659,885	33,699	2,223,150
Additions	-	20,699	413	21,112
Remeasurement	-	(4,641)	-	(4,641)
Depreciation charge for the period	(1,007)	(138,428)	(4,648)	(144,083)
As at June 30, 2020	<u>528,559</u>	<u>1,537,515</u>	<u>29,464</u>	<u>2,095,538</u>

	Right-of-use assets			
	Leasehold land	Buildings	Equipment	Total
As at January 1, 2019	531,581	1,858,502	41,486	2,431,569
Additions	-	96,277	1,548	97,825
Remeasurement	-	(35,088)	-	(35,088)
Depreciation charge for the year	(2,015)	(259,806)	(9,335)	(271,156)
As at December 31, 2019	<u>529,566</u>	<u>1,659,885</u>	<u>33,699</u>	<u>2,223,150</u>

(28) LEASE LIABILITIES

The carrying amounts of lease liabilities (included under interest-bearing bank and other borrowings) and the movements during the year are as follows:

	2020	2019
As at January 1	1,736,851	1,954,697
Additions	20,703	96,133
Remeasurement	(4,489)	(76,943)
Interest expense	29,573	63,806
Payments	(159,314)	(300,842)
As at June 30	<u>1,623,324</u>	<u>1,736,851</u>
Total lease liabilities		
Current	246,926	251,133
Non-current	<u>1,376,398</u>	<u>1,485,718</u>
	<u>1,623,324</u>	<u>1,736,851</u>

The Group recognised rental expenses from short-term leases and leases of low-value assets of \$1,051 for the six months ended June 30, 2020 (June 30, 2019: \$25,712).

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(29) DEPOSITS AND BALANCES OF BANKS

	June 30, 2020	December 31, 2019
Deposits from banks	1,339,794	3,818,105
Takings from banks	8,849,849	4,091,020
	10,189,643	7,909,125

(30) DEPOSITS FROM CUSTOMERS

	June 30, 2020	December 31, 2019
Demand deposits and current accounts	32,194,851	21,853,514
Savings deposits	93,574,647	68,048,165
Time and call deposits	266,154,822	304,431,731
Other deposits	551,241	864,727
	392,475,561	395,198,137

(31) FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

Financial assets sold under repurchase agreements by underlying assets are shown as follows:

	June 30, 2020	December 31, 2019
Bonds issued by governments	351,421	-
Other debt securities issued by		
Banks and non-bank financial institutions	611,482	-
Corporates	428,779	-
	1,391,682	-

(32) FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	June 30, 2020	December 31, 2019
Structured deposits	242,062	127,102

(33) OTHER DEBT SECURITIES ISSUED

	June 30, 2020	December 31, 2019
Other debt securities issued at amortised cost	1,758,484	6,215,679

As at June 30, 2020, the fair values of other debt securities issued at amortised cost were at \$1,810,931 (December 31, 2019: \$6,234,204).

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(34) OTHER EQUITY INSTRUMENTS

		June 30, 2020	December 31, 2019
Nominal value	Description		
USD1 billion	Fixed rate perpetual capital instrument callable from December 29, 2022	7,811,732	7,811,732
USD0.5 billion	Fixed rate perpetual capital instrument callable from December 13, 2024	3,901,108	3,901,108
USD0.5 billion	Fixed rate perpetual capital instrument callable from March 26, 2025	3,876,493	-
		<u>15,589,333</u>	<u>11,712,840</u>

The additional tier 1 capital instruments are perpetual and subordinated, and the coupon payments may be cancelled at the sole discretion of the Group. The capital instruments will be written down at the point of non-viability on the occurrence of a trigger event as defined in the Banking (Capital) Rule. They rank higher than ordinary shares in the event of a winding-up.

(35) RESERVES

(a) General reserve

General reserve is appropriated from the retained earnings for future use.

(b) Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of financial assets measured at fair value through other comprehensive income until the financial assets are derecognised and is dealt with in accordance with the accounting policies adopted for the measurement of these financial assets at fair value.

(c) Regulatory reserve

Regulatory reserve comprises reserves maintained in accordance with Hong Kong regulations. At Group level, it includes a regulatory reserve of \$536,136 (December 31, 2019: \$649,984) to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes. Movement in this reserve is made directly through retained earnings and in consultation with HKMA.

(d) Other reserve

Other reserve is used to record the corresponding amount of the share options and bonus rewards granted by the former parent company to the Bank's employees. The options and rewards granted are classified as equity-settled share-based payments and the amount recognised in other reserve represents capital contribution from its former parent company and is not distributable.

(e) Merger reserve

Merger reserve arises as a result of the acquisition of a majority of the corporate banking business ("Acquired Business") of CCB Hong Kong Branch ("HKBR"). This amount represented the difference between the net book value of the Acquired Business and the consideration paid.

(f) Retained earnings

The Bank and its financial subsidiaries are required to maintain minimum capital adequacy ratios under their respective regulatory jurisdictions. The minimum capital requirements could therefore potentially restrict the amount of retained earnings available for distribution to the shareholders.

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

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(36) 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, 2020	December 31, 2019
Direct credit substitutes	230,183	361,765
Transaction-related contingencies	4,345,553	3,985,512
Trade-related contingencies	2,739,988	1,417,186
Other commitments:		
which are unconditionally cancellable or automatically cancellable due		
to the deterioration in the credit worthiness of the borrower	55,390,115	52,942,232
with an original maturity up to one year	2,072,872	3,245,985
with an original maturity over one year	32,780,429	30,399,463
	97,559,140	92,352,143

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.

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(37) 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:

	Immediate holding company		Fellow subsidiaries		Joint venture and associate	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
For the period ended						
Interest income	484,988	433,469	43,078	54,348	-	-
Interest expense	78,988	135,756	18,613	20,380	16,552	18,501
Fee and commission income	305,816	263,387	-	-	-	-
Fee and commission expense	6,317	9,545	-	-	-	-
Other operating income	8,202	10,106	-	-	-	-
Operating expenses	1,768	169	-	-	52,861	53,028
As at	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019
Amounts due from:						
Cash and balances with banks and central banks	18,091,749	11,254,140	-	-	-	-
Placements with banks	25,298,562	22,148,761	-	-	-	-
Advances to banks	388,084	1,919,518	-	-	-	-
Advance to customers and trade bills	199,724	8,044	2,542,013	901,266	-	-
Financial assets held under resale agreements	-	783,381	-	-	-	-
Financial assets measured at fair value through other comprehensive income	-	-	1,170,236	1,542,320	-	-
Other assets measured at amortised cost	220,913	-	-	-	-	-
Derivative financial instruments	178,009	265,672	-	-	-	-
Right-of-use assets	-	-	-	-	857,194	913,957
Other assets	305,612	548,657	4,479	494	-	-
Amounts due to:						
Deposits and balances of banks	8,513,023	4,604,239	20,572	27,831	-	-
Deposits from customers	-	2,852	3,023,871	3,498,403	-	-
Derivative financial instruments	206,431	154,129	-	-	-	-
Lease liabilities	-	-	-	-	910,836	963,934
Other liabilities	2,686,868	2,667,002	97	104	16,672	13,794

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(37) MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

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

As at	<u>Immediate holding company</u>		<u>Fellow subsidiaries</u>		<u>Joint venture and associate</u>	
	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019
Contingencies and commitments:						
Direct credit substitutes	-	-	-	-	-	-
Transaction-related contingencies	4,158	12,538	-	-	-	-
Other commitments	-	-	1,880,028	2,352,340	-	-
Derivative financial instrument: (notional amount)						
Exchange rate contracts	72,363,293	103,229,973	-	-	-	-
Interest rate swaps	956,188	2,199,417	-	-	-	-
Currency swaps	612,887	-	-	-	-	-

(38) COMPARATIVES

Certain comparative figures have been adjusted to conform with the presentation and disclosures in the current period.

(39) EVENTS AFTER THE REPORTING PERIOD

There are no significant events after the reporting period.

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SUPPLEMENTARY FINANCIAL INFORMATION

(1) OVERDUE AND RESCHEDULED ASSETS

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

	June 30, 2020		December 31, 2019	
		% on total advances to customers		% on total advances to customers
Six months or less but over three months	59,120	0.02	83,244	0.03
One year or less but over six months	40,162	0.01	10,539	0.00
Over one year	<u>82,297</u>	<u>0.03</u>	<u>150,210</u>	<u>0.05</u>
Total gross amount of advances overdue for more than three months	<u>181,579</u>	<u>0.06</u>	<u>243,993</u>	<u>0.08</u>
Expected credit losses allowances made in respect of the above overdue advances	<u>105,817</u>		<u>203,325</u>	
Net realisable value of collateral held against the overdue advances	<u>149,822</u>		<u>48,703</u>	
Covered portion of overdue advances	149,822		48,703	
Uncovered portion of overdue advances	<u>31,757</u>		<u>195,290</u>	
	<u>181,579</u>		<u>243,993</u>	

As at June 30, 2020, collaterals held with respect of overdue advances to customers was mainly residential properties (December 31, 2019: residential properties).

As at June 30, 2020 and December 31, 2019, there were no trade bills overdue for more than three months.

As at June 30, 2020 and December 31, 2019, there were no overdue advances to banks.

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SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(1) OVERDUE AND RESCHEDULED ASSETS (CONTINUED)

(b) Rescheduled advances to customers

	June 30, 2020		December 31, 2019	
		% on total advances to customers		% on total advances to customers
Rescheduled advances to customers	62,854	0.02	58,537	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, 2020 and December 31, 2019, there were no rescheduled advances to banks and trade bills.

(c) Other overdue and rescheduled assets

As at June 30, 2020 and December 31, 2019, there were no other overdue and rescheduled assets.

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

SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(2) GROSS ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS

	June 30, 2020		December 31, 2019	
	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	17,176,329	92.32	16,553,186	87.43
Property investment	28,681,775	85.21	28,821,097	89.95
Financial concerns	38,764,844	28.40	34,450,580	35.67
Stockbrokers	1,305,932	0.00	855,085	0.00
Wholesale and retail trade	5,119,821	85.97	5,451,472	88.59
Manufacturing	8,506,270	78.17	8,026,832	71.00
Transport and transport equipment	8,490,788	32.55	9,989,160	68.30
Recreational activities	20,761	28.19	29,178	100.00
Information technology	5,146,507	55.77	6,022,776	48.74
Others	24,576,226	68.87	22,076,968	68.58
	<u>137,789,253</u>		<u>132,276,334</u>	
Individuals				
Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	2,650	99.96	2,997	100.00
Loans for the purchase of other residential properties	21,924,947	100.00	18,622,754	99.96
Credit card advances	3,753,030	0.00	4,342,059	0.00
Others	15,395,553	2.39	15,586,331	15.83
	<u>41,076,180</u>		<u>38,554,141</u>	
Trade finance	4,036,477	80.51	4,344,271	83.34
Advances for use outside Hong Kong	131,423,743	53.03	117,139,236	56.33
Accrued interest	520,946		642,758	
Gross advances to customers	<u>314,846,599</u>		<u>292,956,740</u>	

Hong Kong, September 28, 2020