

**OCBC Wing Hang Bank Limited**  
**2019 Interim Report**



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# Unaudited Consolidated Statement of Profit or Loss

(Expressed in millions of Hong Kong dollars unless otherwise stated)

	Notes	Six months ended 30th June, 2019	Six months ended 30th June, 2018
Interest income calculated using the effective interest method	4(a)	<b>4,483</b>	4,313
Other interest income	4(a)	<b>340</b>	195
Interest expense	4(b)	<b>(2,353)</b>	(1,937)
Net interest income		<b>2,470</b>	2,571
Fees and commissions (net)	4(c)	<b>466</b>	467
Dividends	4(d)	<b>10</b>	8
Rental income	4(e)	<b>3</b>	6
Other income	4(f)	<b>170</b>	29
Other operating income		<b>649</b>	510
Operating income		<b>3,119</b>	3,081
Operating expenses	4(g)	<b>(1,609)</b>	(1,518)
Operating profit before expected credit loss		<b>1,510</b>	1,563
Change in expected credit loss and other credit impairment charges		<b>(121)</b>	2
Operating profit after expected credit loss		<b>1,389</b>	1,565
Share of net gains of associated companies		<b>32</b>	48
Profit before taxation		<b>1,421</b>	1,613
Taxation	5	<b>(218)</b>	(279)
Profit for the period attributable to equity shareholder of the Bank		<b>1,203</b>	1,334

The notes on pages 8 to 34 form part of the unaudited interim financial report.

# Unaudited Consolidated Statement of Comprehensive Income

(Expressed in millions of Hong Kong dollars unless otherwise stated)

	Notes	Six months ended 30th June, 2019	Six months ended 30th June, 2018
Profit for the period		<b>1,203</b>	1,334
Other comprehensive income for the period (after tax and reclassification adjustments)			
Items that will not be reclassified to profit or loss			
– Surplus on revaluation of bank premises	10	<b>52</b>	276
– Deferred taxes		<b>(8)</b>	(6)
– Share of surplus on revaluation of bank premises of associated companies		<b>7</b>	7
		<b>51</b>	277
– Equity securities measured at fair value through other comprehensive income			
– Fair value changes		<b>548</b>	655
– Deferred taxes		<b>(35)</b>	(93)
		<b>513</b>	562
		<b>564</b>	839
Items that are or may be reclassified subsequently to profit or loss			
– Exchange adjustments on translation of financial statements of subsidiaries		<b>(43)</b>	(98)
		<b>(43)</b>	(98)
– Debt securities measured at fair value through other comprehensive income			
– Fair value changes		<b>199</b>	84
– Transfer to consolidated statement of profit or loss			
– gains on disposal		<b>(3)</b>	(15)
– expected credit loss recognised		<b>14</b>	2
– Deferred taxes		<b>(32)</b>	(20)
– Exchange adjustments		<b>–</b>	–
– Share of fair value changes of financial assets of associated companies		<b>23</b>	(20)
		<b>201</b>	31

# Unaudited Consolidated Statement of Comprehensive Income

(Expressed in millions of Hong Kong dollars unless otherwise stated)

	Notes	<b>Six months ended 30th June, 2019</b>	Six months ended 30th June, 2018
– Cash flow hedging reserve			
– Fair value changes taken to equity		<b>(23)</b>	2
– Deferred taxes		<b>3</b>	–
		<b>(20)</b>	2
– Unappropriated profits			
– Bank premises			
– Deferred taxes		<b>7</b>	7
		<b>145</b>	(58)
Other comprehensive income for the period, net of tax		<b>709</b>	781
Total comprehensive income for the period attributable to equity shareholder of the Bank		<b>1,912</b>	2,115

The notes on pages 8 to 34 form part of the unaudited interim financial report.

# Unaudited Consolidated Statement of Financial Position

(Expressed in millions of Hong Kong dollars unless otherwise stated)

	Notes	30th June, 2019	31st December, 2018
<b>ASSETS</b>			
Cash and balances with banks, central banks and other financial institutions	6	7,698	10,357
Placements with banks, central banks and other financial institutions	7	2,532	3,836
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates		22,537	18,562
Trading assets		6,894	6,069
Advances to customers and other accounts	8(a)	194,732	200,207
Financial assets measured at fair value through other comprehensive income		71,497	71,648
Investments in associated companies		610	550
Tangible fixed assets	10		
– Investment properties		275	268
– Other properties, plants and equipment		5,923	5,691
Goodwill		1,306	1,306
Current tax recoverable		143	89
Deferred tax assets		8	38
Total assets		<b>314,155</b>	318,621
<b>EQUITY AND LIABILITIES</b>			
Deposits and balances of banks, central banks and other financial institutions	11	10,746	4,215
Amounts due to ultimate holding company and fellow subsidiaries		27,155	37,673
Deposits from customers	12	219,698	221,854
Certificates of deposit and fixed rate note issued	13	7,294	7,320
Trading liabilities		2,614	3,400
Lease liabilities		259	–
Current tax payable		286	384
Deferred tax liabilities		262	170
Other accounts and provisions	14	3,952	3,588
Total liabilities		<b>272,266</b>	278,604
Share capital		7,308	7,308
Reserves	15	33,081	31,209
Perpetual capital securities issued		1,500	1,500
Total equity		<b>41,889</b>	40,017
Total equity and liabilities		<b>314,155</b>	318,621

Approved and authorised for issue by the Board of Directors on 18th September, 2019.

**FUNG Yuk Bun Patrick**  
**NA Wu Beng**

*Chairman*  
*Executive Director and Chief Executive*

The notes on pages 8 to 34 form part of the unaudited interim financial report.

# Unaudited Consolidated Statement of Changes in Equity

(Expressed in millions of Hong Kong dollars unless otherwise stated)

## Six months ended 30th June, 2019

	At 1st January, 2019	Transfer (from)/to reserve	Dividend on perpetual capital securities	Profit for the period	Other comprehensive income for the period	At 30th June, 2019
Share capital	7,308	-	-	-	-	7,308
Capital reserve	379	-	-	-	-	379
Statutory reserve	430	-	-	-	-	430
General reserve	1,750	-	-	-	(43)	1,707
Bank premises revaluation reserve	3,908	(27)	-	-	51	3,932
Investment revaluation reserve (recycling)	(65)	-	-	-	201	136
Investment revaluation reserve (non-recycling)	1,001	-	-	-	513	1,514
Cash flow hedging reserve	5	-	-	-	(20)	(15)
Unappropriated profits	23,801	27	(40)	1,203	7	24,998
Perpetual capital securities	1,500	-	-	-	-	1,500
<b>Total equity</b>	<b>40,017</b>	<b>-</b>	<b>(40)</b>	<b>1,203</b>	<b>709</b>	<b>41,889</b>

## Six months ended 31st December, 2018

	At 30th June, 2018	Issuance of perpetual capital securities	Transfer to/(from) reserve	Dividends paid for the period	Profit for the period	Other comprehensive income for the period	At 31st December, 2018
Share capital	7,308	-	-	-	-	-	7,308
Capital reserve	349	-	30	-	-	-	379
Statutory reserve	430	-	-	-	-	-	430
General reserve	2,056	-	-	-	-	(306)	1,750
Bank premises revaluation reserve	3,702	-	(25)	-	-	231	3,908
Investment revaluation reserve (recycling)	(83)	-	-	-	-	18	(65)
Investment revaluation reserve (non-recycling)	967	-	-	-	-	34	1,001
Cash flow hedging reserve	2	-	-	-	-	3	5
Unappropriated profits	23,872	(1)	(5)	(1,500)	1,428	7	23,801
Perpetual capital securities	-	1,500	-	-	-	-	1,500
<b>Total equity</b>	<b>38,603</b>	<b>1,499</b>	<b>-</b>	<b>(1,500)</b>	<b>1,428</b>	<b>(13)</b>	<b>40,017</b>

## Six months ended 30th June, 2018

	Opening balance	At 1st January, 2018 after adjustment arising from	At 31st December, 2017	change in accounting policies	opening balance adjustment	Transfer (from)/to reserve	Capital distribution	Profit for the period	Other comprehensive income for the period	At 30th June, 2018
Share capital	7,308	7,308	7,308	-	7,308	-	-	-	-	7,308
Capital reserve	349	349	349	-	349	-	-	-	-	349
Statutory reserve	430	430	430	-	430	-	-	-	-	430
General reserve	2,154	2,154	2,154	-	2,154	-	-	-	(98)	2,056
Bank premises revaluation reserve	3,448	3,448	3,448	-	3,448	(23)	-	-	277	3,702
Investment revaluation reserve (recycling)	284	(133)	284	(417)	(133)	-	-	-	50	(83)
Investment revaluation reserve (non-recycling)	-	425	-	425	425	-	-	-	542	967
Cash flow hedging reserve	-	-	-	-	-	-	-	-	2	2
Unappropriated profits	22,581	22,546	22,581	(35)	22,546	23	(38)	1,334	7	23,872
Perpetual capital securities	-	-	-	-	-	-	-	-	-	-
<b>Total equity</b>	<b>36,554</b>	<b>36,527</b>	<b>36,554</b>	<b>(27)</b>	<b>36,527</b>	<b>-</b>	<b>(38)</b>	<b>1,334</b>	<b>780</b>	<b>38,603</b>

The notes on pages 8 to 34 form part of the unaudited interim financial report.



# Notes to Unaudited Interim Financial Report

(Expressed in millions of Hong Kong dollars unless otherwise stated)

## 1. GENERAL INFORMATION

OCBC Wing Hang Bank Limited (“the Bank”) is a licensed bank in Hong Kong. The Bank together with its subsidiaries (collectively “the Group”) provide banking, financial and other related services.

The unaudited consolidated profit for the period attributable to equity shareholders of the Group for the six months ended 30th June, 2019 was HK\$1,203 million. The results of the Group for the period ended 30th June, 2019 and the state of affairs of the Group and the Bank as at 30th June, 2019 are set out in the interim financial report on pages 2 to 34.

## 2. BASIS OF PREPARATION

The accounting policies and methods of computation used in the preparation of the 2019 interim consolidated financial report is consistent with those used and described in the Group’s annual audited financial report for the year ended 31st December, 2018, except for the changes in accounting policies as described in note 3.

In preparing the interim consolidated financial report for 2019, the Bank has fully complied with the disclosure standards set out in the “Banking (Disclosure) Rules” and the “Guideline on the Application of the Banking (Disclosure) Rules” issued by the Hong Kong Monetary Authority (“HKMA”).

Disclosures on capital and leverage required by the Banking (Disclosure) Rules will be disclosed before 30th September, 2019 under “Regulatory Disclosure” on the website of the Bank ([www.ocbcwhhk.com](http://www.ocbcwhhk.com)).

The interim consolidated financial report was approved by the Board of Directors for issue on 18th September, 2019.

These interim consolidated financial report has not been audited.

## 3. CHANGES IN ACCOUNTING POLICIES

The Hong Kong Institute of Certified Public Accountants has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

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

### HKFRS 16, *Leases*

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

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

### 3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

#### *HKFRS 16, Leases (Continued)*

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

#### **(a) Changes in the accounting policies**

##### *(i) New definition of a lease*

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

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1st January, 2019. For contracts entered into before 1st January, 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

##### *(ii) Lessee accounting*

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

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

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

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method.

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

# Notes to Unaudited Interim Financial Report

## 3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

### *HKFRS 16, Leases (Continued)*

#### **(a) Changes in the accounting policies *(Continued)***

##### *(ii) Lessee accounting (Continued)*

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

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

##### *(iii) Leasehold investment property*

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

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

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

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

In making this judgement, the Group has taken into account that, as the registered owner of a leasehold property, the Group is able to benefit fully from any changes in the valuation of these properties whether as holding gains or by selling the property interest to others, as well as being able to use the properties in its operation free of paying market rents. In contrast, the shorter term tenancy agreements are typically for periods of no more than 10 years and are subject to other restrictions, in particular on transferability of the Group's tenancy rights to others. These shorter term tenancy agreements are executed in order to retain operational flexibility and to reduce the Group's exposure to the property market fluctuation.

### 3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

#### **HKFRS 16, Leases** *(Continued)*

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

##### *(ii) Determining the lease term*

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

#### **(c) Transitional impact**

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

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

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

## Notes to Unaudited Interim Financial Report

### 3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

#### *HKFRS 16, Leases (Continued)*

##### **(c) Transitional impact** *(Continued)*

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

	1st January, 2019
Operating lease commitments at 31st December, 2018	341
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31st December, 2019	(12)
– leases of low-value assets	(5)
Add: lease payments for the additional periods where the Group considers it reasonably certain that it will exercise the extension options	–
	<hr/> 324
Less: total future interest expenses	(15)
	<hr/> 309
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1st January, 2019	309
Add: finance lease liabilities recognised as at 31st December, 2018	–
	<hr/> –
Total lease liabilities recognised at 1st January, 2019	<hr/> <b>309</b>

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

The Group presents right-of-use assets that do not meet the definition of investment property in “other property, plant and equipment” and presents lease liabilities separately in the statement of financial position.

### 3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

#### **HKFRS 16, Leases** *(Continued)*

##### **(c) Transitional impact** *(Continued)*

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

	Carrying amount at 31st December, 2018	Capitalisation of operating lease contracts	Carrying amount at 1st January, 2019
<b>ASSETS</b>			
Cash and balances with banks, central banks and other financial institutions	10,357	–	10,357
Placement with banks, central banks and other financial institutions	3,836	–	3,836
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	18,562	–	18,562
Trading assets	6,069	–	6,069
Advances to customers and other accounts	200,207	–	200,207
Financial assets measured at fair value through other comprehensive income	71,648	–	71,648
Investments in associated companies	550	–	550
Tangible fixed assets			
– Investment properties	268	–	268
– Other properties, plants and equipment	5,691	310	6,001
Goodwill	1,306	–	1,306
Current tax recoverable	89	–	89
Deferred tax assets	38	–	38
<b>Total assets</b>	<b>318,621</b>	<b>310</b>	<b>318,931</b>
<b>EQUITY AND LIABILITIES</b>			
Deposits and balances of banks, central banks and other financial institutions	4,215	–	4,215
Amounts due to ultimate holding company and fellow subsidiaries	37,673	–	37,673
Deposits from customers	221,854	–	221,854
Certificates of deposit and fixed rate note issued	7,320	–	7,320
Trading liabilities	3,400	–	3,400
Lease liabilities	–	309	309
Current tax payable	384	–	384
Deferred tax liabilities	170	–	170
Other accounts and provisions	3,588	1	3,589
<b>Total liabilities</b>	<b>278,604</b>	<b>310</b>	<b>278,914</b>
Share capital	7,308	–	7,308
Reserves	31,209	–	31,209
Perpetual capital securities issued	1,500	–	1,500
<b>Total equity</b>	<b>40,017</b>	<b>–</b>	<b>40,017</b>
<b>Total equity and liabilities</b>	<b>318,621</b>	<b>310</b>	<b>318,931</b>

# Notes to Unaudited Interim Financial Report

## 3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

### *HKFRS 16, Leases (Continued)*

#### (c) **Transitional impact** *(Continued)*

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

	<b>30th June, 2019</b>	1st January, 2019
Included in "Other property, plant and equipment":		
Ownership interests in leasehold land and buildings held for own use, carried at fair value	<b>258</b>	308
Plant, machinery and equipment, carried at depreciated cost	<b>1</b>	2
	<b>259</b>	310

## 4. OPERATING PROFIT

### (a) **Interest income**

	<b>Six months ended 30th June, 2019</b>	Six months ended 30th June, 2018
Interest income calculated using the effective interest method:		
– financial assets not measured at fair value through profit or loss	<b>4,483</b>	4,313
Other interest income:		
– trading assets	<b>340</b>	195
of which: interest income from impaired financial assets	<b>17</b>	14

### (b) **Interest expense**

	<b>Six months ended 30th June, 2019</b>	Six months ended 30th June, 2018
Interest expense including the following:		
– Financial liabilities not measured at fair value through profit or loss	<b>2,056</b>	1,801

#### 4. OPERATING PROFIT *(Continued)*

##### *(c) Fee and commission (net)*

	<b>Six months ended 30th June, 2019</b>	Six months ended 30th June, 2018
Fees and commission		
Credit commission and fees	<b>99</b>	107
Credit card related fees	<b>106</b>	118
Trade related fees	<b>37</b>	38
Insurance commission	<b>97</b>	80
Stockbroking fees	<b>46</b>	78
Wealth management fees	<b>27</b>	33
Other fees and commission income	<b>123</b>	83
Less: Fees and commission expenses	<b>(69)</b>	(70)
	<b>466</b>	467

of which:

Net fees and commission, other than amounts included in determining the effective interest rate, arising from financial instruments that are not measured at fair value through profit or loss

– fees and commission income	<b>146</b>	158
– fees and commission expenses	<b>–</b>	–
	<b>146</b>	158

##### *(d) Dividends*

	<b>Six months ended 30th June, 2019</b>	Six months ended 30th June, 2018
Dividend income from financial assets measured at fair value through other comprehensive income		
– Unlisted financial assets	<b>10</b>	8
Dividend income from listed trading investments	<b>–</b>	–
	<b>10</b>	8



## Notes to Unaudited Interim Financial Report

### 4. OPERATING PROFIT *(Continued)*

#### *(e) Rental income*

	<b>Six months ended 30th June, 2019</b>	Six months ended 30th June, 2018
Rental income from investment properties less direct expenses of HK\$0.2 million (30th June, 2018: HK\$0.1 million)	<b>3</b>	6
	<b>3</b>	6

#### *(f) Other income*

	<b>Six months ended 30th June, 2019</b>	Six months ended 30th June, 2018
Foreign exchange*	<b>39</b>	(91)
Hedging activities		
– Fair value hedges		
– hedged items	<b>288</b>	(64)
– hedging instruments	<b>(294)</b>	67
Interest rate and other derivatives	<b>(2)</b>	81
Trading securities	<b>34</b>	34
Others	<b>1</b>	–
Net trading income	<b>66</b>	27
Gains transferred from investment revaluation reserve upon disposal	<b>3</b>	16
Disposal of financial assets measured at fair value through other comprehensive income	<b>84</b>	(34)
Total gains/(losses) on disposal of financial assets measured at fair value through other comprehensive income	<b>87</b>	(18)
Revaluation of investment properties (note 10)	<b>7</b>	4
Disposal of tangible fixed assets	<b>(1)</b>	(1)
Others	<b>11</b>	17
	<b>170</b>	29

\* Included the net interest expenses element of HK\$96 million (30th June, 2018: net interest expense for HK\$185 million) on the cross currency funding swap classified as "Other income".

#### 4. OPERATING PROFIT *(Continued)*

##### *(g) Operating expenses*

	Six months ended 30th June, 2019	Six months ended 30th June, 2018
Staff costs		
Salaries and other staff costs	1,023	896
Retirement benefit costs	47	89
Share based expenses	17	14
	<b>1,087</b>	999
Premises and equipment expenses, excluding depreciation	187	239
Depreciation (note 10)	165	116
Others	170	164
	<b>1,609</b>	1,518

Note: The Group has initially applied HKFRS 16 at 1st January, 2019 using the modified retrospective approach. Under this approach, comparative information is not restated.

#### 5. TAXATION

Taxation in the consolidated statement of profit or loss represents:

	Six months ended 30th June, 2019	Six months ended 30th June, 2018
Current tax – Provision for Hong Kong profits tax	181	160
Current tax – Provision for tax outside Hong Kong	(21)	91
Deferred taxation	58	28
	<b>218</b>	279

#### 6. CASH AND BALANCES WITH BANKS, CENTRAL BANKS AND OTHER FINANCIAL INSTITUTIONS

	30th June, 2019	31st December, 2018
Cash balances	810	996
Balances with central banks	5,155	7,735
Balances with banks	1,734	1,627
Expected credit loss (Stage 1) (note 9)	(1)	(1)
	<b>7,698</b>	10,357

## Notes to Unaudited Interim Financial Report

### 7. PLACEMENTS WITH BANKS, CENTRAL BANKS AND OTHER FINANCIAL INSTITUTIONS

	30th June, 2019	31st December, 2018
Remaining maturity		
– Within 1 month	1,252	3,727
– Over 1 month but within 1 year	1,280	109
Expected credit loss (Stage 1) (note 9)	–	–
	<b>2,532</b>	<b>3,836</b>

### 8. ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS

#### (a) Advances to customers and other accounts

	30th June, 2019	31st December, 2018
Gross advances to customers	190,401	193,403
Expected credit loss (Stage 1 and 2) for loans and advances (note 9)	(352)	(371)
Expected credit loss (Stage 3) for impaired loans and advances (note 9)	(99)	(248)
Net advances to customers	189,950	192,784
Gross trade bills	1,382	1,652
Expected credit loss (Stage 1) for trade bills (note 9)	(2)	(4)
Expected credit loss (Stage 3) for impaired trade bills (note 9)	(4)	(1)
Net trade bills	1,376	1,647
Advances to banks	163	2,368
Expected credit loss (Stage 1) for advances to banks (note 9)	–	(1)
Net advances to banks	163	2,367
Customer liability under acceptances	951	981
Interest receivables	941	1,092
Positive fair values of derivative financial instruments held for hedging	4	61
Other accounts	1,347	1,275
	<b>194,732</b>	<b>200,207</b>

## 8. ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS *(Continued)*

### *(b) Advances to customers analysed by industry sectors*

The information concerning advances to customers by industry sectors is prepared by classifying the advances according to the usage of the advances and is stated gross of any expected credit loss.

	30th June, 2019		31st December, 2018	
	Gross advances to customers	% of gross advances covered by collateral	Gross advances to customers	% of gross advances covered by collateral
<b>Advances for use in Hong Kong</b>				
Industrial, commercial and financial				
– Property development	5,195	55.6	5,053	47.5
– Property investment	28,614	95.6	27,728	95.4
– Financial concerns	9,432	14.0	6,210	12.4
– Stockbrokers	2,837	23.3	2,590	30.2
– Wholesale and retail trade	8,750	37.3	11,132	41.6
– Manufacturing	2,613	72.5	2,810	68.7
– Transport and transport equipment	7,214	90.5	7,208	97.9
– Information technology	64	60.9	57	79.6
– Share financing	230	94.3	285	94.2
– Recreational activities	9	–	3	80.0
– Others	5,379	63.7	5,350	56.3
Individuals				
– Advances for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes	1,234	100.0	1,355	100.0
– Advances for the purchase of other residential properties	41,345	100.0	44,304	100.0
– Credit card advances	226	0.5	242	0.7
– Others	12,322	68.5	13,166	70.1
	<b>125,464</b>	<b>78.6</b>	127,493	80.2
<b>Trade finance</b>	<b>5,084</b>	<b>53.8</b>	4,784	52.7
<b>Advances for use outside Hong Kong</b>				
– Mainland China	33,490	53.6	33,339	54.2
– Macau	20,831	91.7	21,906	91.6
– Others	5,532	99.8	5,881	99.9
	<b>59,853</b>	<b>71.2</b>	61,126	72.0
	<b>190,401</b>	<b>75.6</b>	193,403	76.9

## Notes to Unaudited Interim Financial Report

### 8. ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS *(Continued)*

#### *(c) Impaired advances to customers*

The gross impaired advances to customers, market value of collateral held with respect to such advances and expected credit loss (Stage 3) are as follows:

	<b>30th June, 2019</b>	31st December, 2018
Gross impaired advances to customers	<b>826</b>	1,127
Gross impaired advances to customers as a percentage of total advances to customers	<b>0.43%</b>	0.58%
Market value of collateral held with respect to impaired advances to customers	<b>635</b>	618
Expected credit loss (Stage 3)	<b>99</b>	248

Impaired advances to customers are individually assessed loans with objective evidence of impairment on an individual basis. Individually assessed expected credit loss (Stage 3) were made after taking into account the net present value of future recoverable amounts in respect of such loans and advances, and the collateral held mainly comprised properties and vehicles.

There were no impaired advances to banks nor expected credit loss (Stage 3) made on advances to banks as at 30th June, 2019 and 31st December, 2018.

#### *(d) Repossessed assets*

At 30th June, 2019, repossessed assets obtained as securities for impaired advances to customers totaled HK\$112 million (31st December, 2018: HK\$148 million).

## 9. EXPECTED CREDIT LOSS

### (a) Reconciliation of expected credit loss

	Six months ended 30th June, 2019				
	Stage 1	Stage 2	Stages 1 and 2	Stage 3	Total
At 1st January, 2019	<b>486</b>	<b>76</b>	<b>562</b>	<b>249</b>	<b>811</b>
Transfers of financial instruments					
– transfers from Stage 1 to Stage 2	<b>(13)</b>	<b>13</b>	–	–	–
– transfers from Stage 2 to Stage 1	<b>52</b>	<b>(52)</b>	–	–	–
– transfers to Stage 3	–	<b>(7)</b>	<b>(7)</b>	<b>7</b>	–
– transfers from Stage 3	<b>3</b>	<b>2</b>	<b>5</b>	<b>(5)</b>	–
Net re-measurement of expected credit loss	<b>(171)</b>	<b>65</b>	<b>(106)</b>	<b>(99)</b>	<b>(205)</b>
New financial assets originated or purchased assets derecognised, repayments and further lending	<b>46</b>	<b>(15)</b>	<b>31</b>	<b>295</b>	<b>326</b>
Amounts written off	–	–	–	<b>(358)</b>	<b>(358)</b>
Recoveries of advances written off in prior years	–	–	–	<b>29</b>	<b>29</b>
Unwind of discount of expected credit losses	–	–	–	<b>(5)</b>	<b>(5)</b>
Exchange adjustments	–	–	–	<b>(10)</b>	<b>(10)</b>
At 30th June, 2019	<b>403</b>	<b>82</b>	<b>485</b>	<b>103</b>	<b>588</b>
Representing expected credit loss for:					
Balances and placement with central banks	–	–	–	–	–
Balances and placement with banks	<b>1</b>	–	<b>1</b>	–	<b>1</b>
Advances to customers (note 8(a))	<b>283</b>	<b>69</b>	<b>352</b>	<b>99</b>	<b>451</b>
Trade bills (note 8(a))	<b>2</b>	–	<b>2</b>	<b>4</b>	<b>6</b>
Advances to banks (note 8(a))	–	–	–	–	–
Contingent liabilities and commitments to extend credit (note 14)	<b>105</b>	<b>10</b>	<b>115</b>	–	<b>115</b>
Financial assets measured at fair value through other comprehensive income	<b>12</b>	<b>3</b>	<b>15</b>	–	<b>15</b>
	<b>403</b>	<b>82</b>	<b>485</b>	<b>103</b>	<b>588</b>

## Notes to Unaudited Interim Financial Report

### 9. EXPECTED CREDIT LOSS *(Continued)*

#### *(a) Reconciliation of expected credit loss (Continued)*

	Year ended 31st December, 2018				
	Stage 1	Stage 2	Stages 1 and 2	Stage 3	Total
At 31st December, 2017	–	–	476	173	649
Opening balance adjustment arising from change in accounting policy	–	–	24	–	24
At 1st January, 2018, after opening balance adjustment	438	62	500	173	673
Transfers of financial instruments					
– transfers from Stage 1 to Stage 2	(48)	48	–	–	–
– transfers from Stage 2 to Stage 1	83	(83)	–	–	–
– transfers to Stage 3	(2)	(24)	(26)	26	–
– transfers from Stage 3	4	4	8	(8)	–
Net re-measurement of expected credit loss	(127)	127	–	205	205
New financial assets originated or purchased assets derecognised, repayments and further lending	146	(58)	88	(10)	78
Amounts written off	–	–	–	(127)	(127)
Unwind of discount of expected credit losses	–	–	–	(11)	(11)
Exchange adjustments	(8)	–	(8)	1	(7)
At 31st December, 2018	486	76	562	249	811
Representing expected credit loss for:					
Balances and placement with central banks	–	–	–	–	–
Balances and placement with banks	1	–	1	–	1
Advances to customers (note 8(a))	319	52	371	248	619
Trade bills (note 8(a))	4	–	4	1	5
Advances to banks (note 8(a))	1	–	1	–	1
Contingent liabilities and commitments to extend credit (note 14)	143	14	157	–	157
Financial assets measured at fair value through other comprehensive income	18	10	28	–	28
	486	76	562	249	811

## 9. EXPECTED CREDIT LOSS *(Continued)*

### *(b) Impairment allowances on financial assets*

The following tables set out information on the credit quality of financial assets and other liabilities.

	<b>Six months ended 30th June, 2019</b>			
	Stage 1	Stage 2	Stage 3	Total
Cash and balances with banks, central banks and other financial institutions				
Pass	<b>7,699</b>	–	–	<b>7,699</b>
Less: Impairment allowances	<b>(1)</b>	–	–	<b>(1)</b>
Carrying amount	<b>7,698</b>	–	–	<b>7,698</b>
Placements with banks, central banks and other financial institutions				
Pass	<b>2,532</b>	–	–	<b>2,532</b>
Less: Impairment allowances	–	–	–	–
Carrying amount	<b>2,532</b>	–	–	<b>2,532</b>
Advances to customers				
Pass	<b>175,598</b>	<b>13,093</b>	–	<b>188,691</b>
Special mention	–	<b>884</b>	–	<b>884</b>
Substandard	–	–	<b>328</b>	<b>328</b>
Doubtful	–	–	<b>394</b>	<b>394</b>
Loss	–	–	<b>104</b>	<b>104</b>
Less: Impairment allowances	<b>(283)</b>	<b>(69)</b>	<b>(99)</b>	<b>(451)</b>
Carrying amount	<b>175,315</b>	<b>13,908</b>	<b>727</b>	<b>189,950</b>
Trade bills				
Pass	<b>1,346</b>	–	–	<b>1,346</b>
Special mention	–	–	–	–
Substandard	–	–	–	–
Doubtful	–	–	<b>36</b>	<b>36</b>
Loss	–	–	–	–
Less: Impairment allowances	<b>(2)</b>	–	<b>(4)</b>	<b>(6)</b>
Carrying amount	<b>1,344</b>	–	<b>32</b>	<b>1,376</b>
Advances to banks				
Pass	<b>163</b>	–	–	<b>163</b>
Less: Impairment allowances	–	–	–	–
Carrying amount	<b>163</b>	–	–	<b>163</b>
Financial assets measured at fair value through other comprehensive income				
Pass	<b>69,290</b>	<b>516</b>	–	<b>69,806</b>
Impairment allowances	<b>(12)</b>	<b>(3)</b>	–	<b>(15)</b>
For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed:				
Contingent liabilities and commitments to extend credit				
Pass	<b>43,385</b>	<b>1,059</b>	–	<b>44,444</b>
Special mention	–	<b>17</b>	–	<b>17</b>
Impairment allowances	<b>(105)</b>	<b>(10)</b>	–	<b>(115)</b>



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### 9. EXPECTED CREDIT LOSS (Continued)

#### (b) Impairment allowances on financial assets (Continued)

	Year ended 31st December, 2018			
	Stage 1	Stage 2	Stage 3	Total
Cash and balances with banks, central banks and other financial institutions				
Pass	10,358	–	–	10,358
Less: Impairment allowances	(1)	–	–	(1)
Carrying amount	10,357	–	–	10,357
Placements with banks, central banks and other financial institutions				
Pass	3,836	–	–	3,836
Less: Impairment allowances	–	–	–	–
Carrying amount	3,836	–	–	3,836
Advances to customers				
Pass	178,272	13,404	–	191,676
Special mention	–	600	–	600
Substandard	–	–	604	604
Doubtful	–	–	403	403
Loss	–	–	120	120
Less: Impairment allowances	(319)	(52)	(248)	(619)
Carrying amount	177,953	13,952	879	192,784
Trade bills				
Pass	1,608	1	–	1,609
Special mention	–	5	–	5
Substandard	–	–	38	38
Doubtful	–	–	–	–
Loss	–	–	–	–
Less: Impairment allowances	(4)	–	(1)	(5)
Carrying amount	1,604	6	37	1,647
Advances to banks				
Pass	2,056	312	–	2,368
Less: Impairment allowances	(1)	–	–	(1)
Carrying amount	2,055	312	–	2,367
Financial assets measured at fair value through other comprehensive income				
Pass	66,803	3,702	–	70,505
Impairment allowances	(18)	(10)	–	(28)
For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed:				
Contingent liabilities and commitments to extend credit				
Pass	41,826	1,634	–	43,460
Impairment allowances	(143)	(14)	–	(157)

## 10. TANGIBLE FIXED ASSETS

	Six months ended 30th June, 2019						
	Investment properties	Bank premises	Right of use Bank premises	Total Bank premises	Equipment	Bank premises and equipment	Total
Cost or valuation							
At 31st December, 2018	<b>289</b>	<b>5,777</b>	–	<b>5,777</b>	<b>1,506</b>	<b>7,283</b>	<b>7,572</b>
Opening balance adjustment arising from change in accounting policy (note 3)	–	–	<b>310</b>	<b>310</b>	–	<b>310</b>	<b>310</b>
At 1st January, 2019 after opening balance adjustment	<b>289</b>	<b>5,777</b>	<b>310</b>	<b>6,087</b>	<b>1,506</b>	<b>7,593</b>	<b>7,882</b>
Additions	–	<b>1</b>	<b>4</b>	<b>5</b>	<b>33</b>	<b>38</b>	<b>38</b>
Disposals	–	–	–	–	<b>(21)</b>	<b>(21)</b>	<b>(21)</b>
Distribution	–	–	–	–	–	–	–
Surplus on revaluation							
– credited to bank premises revaluation reserve	–	<b>52</b>	–	<b>52</b>	–	<b>52</b>	<b>52</b>
– credited to consolidated statement of profit or loss (note 4(f))	<b>7</b>	–	–	–	–	–	<b>7</b>
Elimination of accumulated depreciation on revalued bank premises	–	<b>(43)</b>	–	<b>(43)</b>	–	<b>(43)</b>	<b>(43)</b>
Exchange adjustment	–	–	–	–	–	–	–
At 30th June, 2019	<b>296</b>	<b>5,787</b>	<b>314</b>	<b>6,101</b>	<b>1,518</b>	<b>7,619</b>	<b>7,915</b>
The analysis of cost or valuation of the above assets is as follows:							
At cost	–	<b>1,360</b>	<b>314</b>	<b>1,674</b>	<b>1,518</b>	<b>3,192</b>	<b>3,192</b>
At valuation 2019	<b>296</b>	<b>4,427</b>	–	<b>4,427</b>	–	<b>4,427</b>	<b>4,723</b>
	<b>296</b>	<b>5,787</b>	<b>314</b>	<b>6,101</b>	<b>1,518</b>	<b>7,619</b>	<b>7,915</b>
Accumulated depreciation							
At 1st January, 2019	<b>21</b>	<b>385</b>	–	<b>385</b>	<b>1,207</b>	<b>1,592</b>	<b>1,613</b>
Charge for the period (note 4 (g))	–	<b>60</b>	<b>55</b>	<b>115</b>	<b>50</b>	<b>165</b>	<b>165</b>
Written back on disposals	–	–	–	–	<b>(17)</b>	<b>(17)</b>	<b>(17)</b>
Written back on distribution	–	–	–	–	–	–	–
Elimination of accumulated depreciation on revalued bank premises	–	<b>(44)</b>	–	<b>(44)</b>	–	<b>(44)</b>	<b>(44)</b>
Exchange adjustment	–	–	–	–	–	–	–
At 30th June, 2019	<b>21</b>	<b>401</b>	<b>55</b>	<b>456</b>	<b>1,240</b>	<b>1,696</b>	<b>1,717</b>
Net book value							
At 30th June, 2019	<b>275</b>	<b>5,386</b>	<b>259</b>	<b>5,645</b>	<b>278</b>	<b>5,923</b>	<b>6,198</b>

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## 10. TANGIBLE FIXED ASSETS *(Continued)*

Year ended 31st December, 2018

	Investment properties	Bank premises	Equipment	Bank premises and equipment	Total
Cost or valuation					
At 1st January	388	5,359	1,508	6,867	7,255
Additions	–	15	112	127	127
Disposals	–	(4)	(112)	(116)	(116)
Distribution	(106)	–	–	–	(106)
Surplus on revaluation					
– credited to bank premises revaluation reserve	–	488	–	488	488
– credited to consolidated statement of profit or loss	8	–	–	–	8
Elimination of accumulated depreciation on revalued bank premises	–	(73)	–	(73)	(73)
Exchange adjustment	(1)	(8)	(2)	(10)	(11)
At 31st December	289	5,777	1,506	7,283	7,572
The analysis of cost or valuation of the above assets is as follows:					
At cost	–	1,358	1,506	2,864	2,864
At valuation 2018	289	4,419	–	4,419	4,708
	289	5,777	1,506	7,283	7,572
Accumulated depreciation					
At 1st January	28	354	1,208	1,562	1,590
Charge for the year	–	116	109	225	225
Written back on disposals	–	(9)	(107)	(116)	(116)
Written back on distribution	(6)	–	–	–	(6)
Elimination of accumulated depreciation on revalued bank premises	–	(73)	–	(73)	(73)
Exchange adjustment	(1)	(3)	(3)	(6)	(7)
At 31st December	21	385	1,207	1,592	1,613
Net book value At 31st December	268	5,392	299	5,691	5,959

## 11. DEPOSITS AND BALANCES OF BANKS, CENTRAL BANKS AND OTHER FINANCIAL INSTITUTIONS

	30th June, 2019	31st December, 2018
Deposits from central banks	349	29
Deposits from banks	10,397	4,186
	<b>10,746</b>	<b>4,215</b>

## 12. DEPOSITS FROM CUSTOMERS

	30th June, 2019	31st December, 2018
Demand deposits and current accounts	62,067	55,305
Savings deposits	28,537	29,030
Time, call and notice deposits	129,094	137,519
	<b>219,698</b>	<b>221,854</b>

## 13. CERTIFICATES OF DEPOSIT AND FIXED RATE NOTE ISSUED

	30th June, 2019	31st December, 2018
Certificates of deposit issued at amortised cost	5,023	5,038
Fixed rate note issued at amortised cost	2,271	2,282
	<b>7,294</b>	<b>7,320</b>

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## 14. OTHER ACCOUNTS AND PROVISIONS

	30th June, 2019	31st December, 2018
Acceptances outstanding	951	981
Interest payable	591	575
Negative fair value of derivative financial instruments held for hedging	395	136
Other payables	1,900	1,739
Expected credit loss (Stage 1 and 2) on contingent liabilities and commitments to extend credit (note 9)	115	157
	<b>3,952</b>	<b>3,588</b>

## 15. RESERVES

The Group's unappropriated profits as at 30th June, 2019 included a regulatory reserve of HK\$1,837 million (31st December, 2018: HK\$1,950 million). The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of losses which the Group will or may incur on advances to customers in addition to expected credit loss recognised. Movements in the reserve are earmarked directly through unappropriated profits and in consultation with the HKMA.

## 16. CONTINGENT LIABILITIES AND COMMITMENTS TO EXTEND CREDIT

Contingent liabilities and commitments arises from forward asset purchases, amounts owing on partly paid-up shares and securities, forward deposits placed, asset sales or other transactions with recourse, as well as credit-related instruments which include letters of credit, guarantees and commitments to extend credit. The risk involved in these credit-related instruments is essentially the same as the credit risk involved in extending loan facilities to customers. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. Since a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the contractual amounts is not representative of future cash flows.

The risk weights used in the computation of credit risk weighted amounts range from 0% to 100%.

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

	30th June, 2019	31st December, 2018
Direct credit substitutes	4,100	3,654
Transaction-related contingencies	1,027	1,095
Trade-related contingencies	1,460	1,266
Forward deposits	–	78
Other commitments:		
With an original maturity of not more than one year	175	112
With an original maturity over one year	6,187	5,042
Which are unconditionally cancellable	31,512	32,213
Total	<b>44,461</b>	<b>43,460</b>
Credit risk weighted amounts	<b>7,553</b>	<b>6,490</b>

## 17. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices.

Derivative financial instruments arise from forward, swap and option transactions undertaken by the Group and the Bank in the foreign exchange, interest rate and equity markets.

Derivative financial instruments are also used to manage the Group's own exposures to market risk as part of its asset and liability management process. The principal derivatives instruments used by the Group are interest and foreign exchange rate related contracts, which are primarily over-the-counter ("OTC") derivatives. The Group also participates in exchange traded derivatives. Most of the Group's derivatives positions have been entered into to meet customer demand and to hedge these and other trading positions. For accounting purposes, derivatives are classified as held for trading or held for hedging.

The notional amounts of these instruments indicate the volume of transactions outstanding at the reporting date and do not represent amounts at risk.

The following table is a summary of the notional amounts of each significant type of derivatives.

	<b>30th June, 2019</b>		
	Qualifying for hedge accounting	Others, including held for trading	Total
Exchange rate contracts			
Forwards	–	<b>268,564</b>	<b>268,564</b>
Options purchased	–	<b>12,874</b>	<b>12,874</b>
Options written	–	<b>12,883</b>	<b>12,883</b>
Interest rate contracts			
Swaps	<b>29,428</b>	<b>355,286</b>	<b>384,714</b>
Equity contracts			
Options purchased	–	<b>540</b>	<b>540</b>
Options written	–	<b>540</b>	<b>540</b>
Credit derivative contracts			
Credit defaults swaps purchased	–	<b>2,494</b>	<b>2,494</b>
Credit defaults swaps written	–	<b>2,494</b>	<b>2,494</b>
	<b>29,428</b>	<b>655,675</b>	<b>685,103</b>

## Notes to Unaudited Interim Financial Report

### 17. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

	31st December, 2018		
	Qualifying for hedge accounting	Others, including held for trading	Total
Exchange rate contracts			
Forwards	–	231,847	231,847
Options purchased	–	8,399	8,399
Options written	–	8,416	8,416
Interest rate contracts			
Swaps	26,375	240,767	267,142
Equity contracts			
Options purchased	–	916	916
Options written	–	916	916
Credit derivative contracts			
Credit defaults swaps purchased	–	3,046	3,046
Credit defaults swaps written	–	3,046	3,046
	26,375	497,353	523,728

The trading transactions include the Group's positions arising from the execution of trade orders from customers or transactions undertaken to hedge these positions.

The fair values of derivative financial instruments held for trading purposes are as follows:

	30th June, 2019		31st December, 2018	
	Assets	Liabilities	Assets	Liabilities
Exchange rate contracts	<b>1,641</b>	<b>1,490</b>	2,052	2,235
Interest rate contracts	<b>1,143</b>	<b>1,065</b>	1,206	1,102
Equity contracts	<b>58</b>	<b>58</b>	61	61
Credit derivative contracts	<b>2</b>	<b>2</b>	2	2
	<b>2,844</b>	<b>2,615</b>	3,321	3,400

The fair values of derivative financial instruments held for hedging purposes are as follows:

	30th June, 2019		31st December, 2018	
	Assets	Liabilities	Assets	Liabilities
Interest rate contracts	<b>4</b>	<b>395</b>	61	136
	<b>4</b>	<b>395</b>	61	136

## 17. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

The credit risk weighted amounts are as follows:

	30th June, 2019	31st December, 2018
Exchange rate contracts	2,745	2,707
Interest rate contracts	148	138
Equity contracts	9	15
Credit derivative contracts	–	–
	<b>2,902</b>	<b>2,860</b>

The risk weights used in the computation of credit risk weighted average amounts range from 0% to 100%. These amounts do not take into account the effects of bilateral netting arrangements.

### *Fair value hedges*

The fair value hedges principally consist of interest rate swaps. The interest rate swaps are used to protect against changes in the fair value of certain fixed rate assets and floating rate assets due to movements in market interest rates. At 30th June, 2019, the net negative fair value of derivatives held as fair value hedges was HK\$378 million (31st December, 2018: net negative value of HK\$80 million).

The losses on the hedging instruments for the period were HK\$294 million (31st December, 2018: losses of HK\$57 million). The gains on the hedged item attributable to the hedged risk for the period were HK\$288 million (31st December, 2018: gains of HK\$60 million).

### *Cash flow hedges*

The cash flow hedges principally consist of interest rate contracts that are used to hedge against the variability in cash flows of certain floating rate assets and fixed rate liabilities. At 30th June, 2019, the net negative fair value of derivatives held as cash flow hedges was HK\$13 million (31st December, 2018: net positive fair value of HK\$5 million). During the period, there was no ineffectiveness recognised in the statement of profit or loss that arose from cash flow hedges (31st December, 2018: nil).

The time periods in which the hedged cash flows are expected to occur and affect the consolidated statement of profit or loss are as follows:

	30th June, 2019		
	Less than 1 year	1 to 5 years	Total
Forecast receivable cash flows	296	51	347
Forecast payable cash flows	(210)	(36)	(246)
Forecast net receivable cash flows	<b>86</b>	<b>15</b>	<b>101</b>



# Notes to Unaudited Interim Financial Report

## 17. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

### *Cash flow hedges (Continued)*

	31st December, 2018		
	Less than 1 year	1 to 5 years	Total
Forecast receivable cash flows	134	445	579
Forecast payable cash flows	(108)	(358)	(466)
Forecast net receivable cash flows	26	87	113

## 18. LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk of inability to fund an increase in assets or meet obligations as they fall due. An institution's obligations, and the funding sources used to meet them, depend significantly on its business mix, statement of financial position structure, and the cash flow profiles of its on- and off-balance sheet obligation. The Group's primary objective of liquidity risk management is to manage the liquidity risk exposures under both normal and stressed conditions. The Group has established liquidity management policies for ensuring adequate liquidity is maintained at all times. The Group maintained an average liquidity maintenance ratio and core funding ratio of 38.2% and 130.7% respectively for the six months ended 30th June, 2019 (30th June, 2018: 39.2% and 133.0% respectively), which is well above the statutory requirement of 25% and 50% respectively. The liquidity maintenance ratio and core funding ratio as of 30th June, 2019 and 30th June, 2018 are compiled in accordance with the Banking (Liquidity) Rules effective from 1st January, 2015 and 1st January, 2018 respectively.

Roles and responsibilities in the Group's liquidity risk management structure are mainly distributed across different committees and hierarchical levels: Board of Directors, Risk Management Committee ("RMC"), Asset and Liability Management Committee ("ALCO"), Investment Strategy Committee, Treasury Division, Financial Management Division, Risk Management Division, Corporate Banking Division and Retail Banking Division.

Liquidity is managed on a day-to-day basis by the Treasurer under the direction of ALCO. ALCO, which comprises personnel from senior management, treasury function, risk management, financial management and business areas that could affect liquidity risk, is responsible for overseeing liquidity risk management, in particular implementation of appropriate liquidity policies and procedures, identifying, measuring and monitoring liquidity risk, and control over the liquidity risk management process. The Board of Directors approves the liquidity risk strategy and policies, and is responsible for maintaining continued awareness of the overall liquidity risk profile, and ensuring liquidity risk is adequately managed and controlled by senior management within the established risk management framework.

Customer deposits form an important part of funding source of the Group. The Retail Banking Division and Corporate Banking Division are responsible for maintaining customer deposits as well as advising their funding needs to the Treasury Division. The head of Retail Banking Division provides the latest information to the ALCO on material customer deposits balance movements and strategy to tap deposits.

To cater for funding requirements in the ordinary course of business, sufficient liquid assets are held and access to the interbank market is maintained. In addition, adequate standby facilities are maintained in order to meet any unexpected and material cash outflows. The Group also performs regular stress tests which include an institution-specific crisis scenario, a general market wide crisis scenario and a combined scenario on its liquidity positions to ensure adequate liquidity is maintained at all times.

## 18. LIQUIDITY RISK MANAGEMENT *(Continued)*

The Treasury Division acts in accordance with the Liquidity Portfolio Framework and Debt Securities Investment Framework to address the issue of liquidity cushions. The objective of the Liquidity Portfolio Framework is to ensure that the Group can meet its obligations when they fall due in normal circumstances, and an adequate stock of high quality liquid assets in the portfolio could provide a safety cushion in the event of a funding crisis.

Due to the close proximity of the three operating regions in Hong Kong, China and Macau, the Group adopts a centralised approach to manage liquidity and funding for both domestic and overseas subsidiaries. At the next granular level, such as branches and sub-branches, the overseas subsidiaries take responsibility for managing their funding arrangements in relation to the use and application of funds. The Financial Management Division provides a consolidated picture to the Group's senior management.

The identification of liquidity risk depends first and foremost on its ability to accurately measure net funding requirements along different time horizons of its cash-flow projections. Setting up liquidity risk tolerance, including the quality and mixture of liquid asset holdings, maturity or currency mismatches and concentration of funding as well as stress testing are performed to facilitate liquidity risk control within the liquidity management framework.

Commensurate with the Group's business size, structure and complexity, the Group sets targets for the critical liquidity risk indicators for monitoring and controlling liquidity risk exposures.

The Group adopts a range of liquidity metrics to manage its liquidity position, namely liquidity maintenance ratios, core funding ratios, loan to deposit ratios, etc. Those liquidity indicators are subject to ALCO's review on a regular basis against the targets.

The maintenance of liquidity maintenance ratio serves the purpose of addressing short-term liquidity stability. The core funding ratios give a clear picture of the Group's medium-term liquidity profile. A core funding ratio is a percentage of the amount of the Group's "available core funding" to the amount of its "required core funding" as defined by the Banking (Liquidity) Rules.

Based on the projection of future cash flows under normal and stressed conditions over different time horizons the Group identifies potential funding mismatches by comparing against the liquidity metrics. Moreover, the risk is further analysed by currencies and entities for senior management's review.

Stress tests for liquidity risk management are designed to assess the Group's ability to generate sufficient liquidity from assets and liabilities aspects in meeting funding needs under adverse conditions. The scenarios cover crisis under institution specific, general market wide and combined basis. Assumptions are subject to regular review by the ALCO to ensure the effectiveness of the stress testing process. Stress tests are performed regularly at the individual major entity level. The impact is further analysed on the consolidated group-wide level.

The Group has formulated a contingency plan setting out strategies for dealing with a liquidity crisis and the procedures for making up cash-flow deficits in emergency situations. The plan is updated and reviewed at least annually by the ALCO to ensure that it remains robust over time. Any revision will be approved by the Board of Directors. Apart from the liquidity limits and ratios agreed with the HKMA, the Group will promptly inform the HKMA of any indicators of serious liquidity problems, which may trigger the contingency funding plan.

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## 19. CURRENCY RISK

The Group's foreign exchange positions, which arise from foreign exchange dealing, commercial banking operations and structural foreign currency exposures arising from capital investment in subsidiaries outside Hong Kong, mainly in US dollar, Macau Patacas and Renminbi, are managed by ALCO. All foreign exchange positions are managed by the ALCO within limits approved by the Board.

30th June, 2019										
	US\$	Chinese Renminbi	Pound Sterling	Euro	Canadian \$	Australian \$	Singapore \$	New Zealand \$	Macau Patacas	Total
Spot assets	87,818	50,250	908	947	176	6,779	310	226	12,948	161,297
Spot liabilities	(72,446)	(51,909)	(1,295)	(1,415)	(1,922)	(9,479)	(324)	(2,849)	(12,987)	(155,867)
Forward purchases	125,122	114,692	897	2,094	1,752	4,810	5	3,527	-	254,173
Forward sales	(139,573)	(113,984)	(501)	(1,584)	(2)	(2,084)	(5)	(889)	-	(259,577)
Net option positions	(1,448)	1,448	-	-	-	-	-	-	-	-
Net long/(short) positions	(527)	497	9	42	4	26	(14)	15	(39)	26

  

31st December, 2018										
	US\$	Chinese Renminbi	Pound Sterling	Euro	Canadian \$	Australian \$	Singapore \$	New Zealand \$	Macau Patacas	Total
Spot assets	81,653	57,619	817	513	77	4,940	289	217	13,375	161,265
Spot liabilities	(75,901)	(46,296)	(1,360)	(1,212)	(2,046)	(10,246)	(309)	(2,900)	(13,066)	(154,488)
Forward purchases	112,167	91,322	813	1,662	1,976	5,444	124	2,680	-	216,748
Forward sales	(117,805)	(103,114)	(264)	(950)	(26)	(130)	(115)	(2)	-	(223,584)
Net option positions	(769)	769	-	-	-	-	-	-	-	-
Net long/(short) positions	(655)	300	6	13	(19)	8	(11)	(5)	309	(59)

The net positions or net structural positions in foreign currencies are disclosed above where each currency constitutes 10% or more of the respective total net position or total net structural position in all foreign currencies.

The net option position is calculated on the basis of delta-weighted positions of all foreign exchange options contracts. The net structural position includes the Bank's overseas branch, banking subsidiaries and other subsidiaries substantially involved in foreign exchange trading and include structural assets or liabilities as follow:

	30th June, 2019				31st December, 2018			
	Macau Patacas	Chinese Renminbi	US\$	Total	Macau Patacas	Chinese Renminbi	US\$	Total
Net structural positions	1,601	7,202	3,301	12,104	3,195	7,207	1,606	12,008

## 20. RESTATEMENT OF PRIOR PERIODS

The Group has initially applied HKFRS 16 at 1st January, 2019. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 3.

## Unaudited Supplementary Financial Information

(Expressed in millions of Hong Kong dollars unless otherwise stated)

### (A) CAPITAL, LIQUIDITY MAINTENANCE AND CORE FUNDING RATIOS

#### (i) Capital ratio

	30th June, 2019	31st December, 2018
Common Equity Tier 1 capital ratio	<b>15.5%</b>	14.2%
Tier 1 capital ratio	<b>16.2%</b>	14.9%
Total capital ratio	<b>18.2%</b>	16.9%
Capital conservation buffer ratio	<b>2.500%</b>	1.875%
Countercyclical capital buffet ratio	<b>1.510%</b>	1.142%
Common Equity Tier 1 capital	<b>32,453</b>	30,539
Tier 1 capital	<b>33,953</b>	32,039
Total capital	<b>38,049</b>	36,206
Risk weighted assets	<b>209,488</b>	214,419

The calculation of the regulatory capital and capital charges are in accordance with the Banking (Capital) Rules ("the Capital Rules"). The capital ratios are computed on a consolidated basis including the Bank and certain of its subsidiaries as specified by the Hong Kong Monetary Authority ("HKMA") for its regulatory purposes, and are in accordance with the Capital Rules.

In view of the Capital Rules, the Group has adopted the "basic indicator approach" for the calculation of the operational risk and the "standardised (market risk) approach" for the calculation of market risk. For the calculation of the risk-weighted assets for credit risk, the Group has adopted the "standardised (credit risk) approach" as of 30th June, 2019 and 31st December, 2018.

In calculating the capital ratio of the Group at 30th June, 2019 and 31st December, 2018, the following subsidiaries are excluded from the regulatory scope of consolidation. These are mainly securities and insurance companies that are authorised and supervised by a regulator and are subject to supervisory arrangements regarding the maintenance of adequate capital to support business activities comparable to those prescribed for authorised institutions under the Capital Rules and the Banking Ordinance.

## Unaudited Supplementary Financial Information

### (A) CAPITAL, LIQUIDITY MAINTENANCE AND CORE FUNDING RATIOS *(Continued)*

#### (i) Capital ratio *(Continued)*

		30th June, 2019		31st December, 2018	
Subsidiaries	Principal activities	Total assets	Total equity	Total assets	Total equity
CF Limited	Dormant/undergoing voluntary liquidation*	–	–	–	–
C.F. Finance Company Limited	Undergoing voluntary liquidation*	–	–	–	–
Chekiang First Bank (Nominees) Limited	Nominee Services	–	–	–	–
Chekiang First Bank (Trustees) Limited	Inactive	4	4	4	4
Chekiang First Limited	Dormant	–	–	–	–
Chekiang First Securities Company Limited	Undergoing voluntary liquidation*	6	6	6	6
Cyber Wing Hang Limited	Dormant/undergoing voluntary liquidation*	–	–	–	–
Data Processing Services Limited	Dormant/undergoing voluntary liquidation*	1	1	1	1
Honfirst Investment Limited	Futures Trading	17	17	17	17
Honfirst Property Agency Limited	Dormant/undergoing voluntary liquidation*	–	–	–	–
OCBC Wing Hang (Nominees) Limited	Nominee Services	–	–	–	–
OCBC Wing Hang (Trustee) Limited	Inactive	4	4	4	4
OCBC Wing Hang Insurance Agency Limited	Insurance Agency	121	96	101	88
OCBC Wing Hang Insurance Brokers Limited	Insurance Broker	129	89	70	53
OCBC Wing Hang Shares Brokerage Co. Limited	Securities Dealing	504	324	464	322

As at 30th June, 2019, there are no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation with different method of consolidation.

There are also no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation.

There are no relevant capital shortfalls in any of the Group's subsidiaries as at 30th June, 2019 (31st December, 2018: nil) which are not included in the Group's consolidation for regulatory purposes.

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

Note: \* These subsidiaries completed voluntary liquidation in July 2019.

## (A) CAPITAL, LIQUIDITY MAINTENANCE AND CORE FUNDING RATIOS *(Continued)*

### (ii) Average liquidity maintenance and core funding ratios

	Six months ended 30th June, 2019	Six months ended 30th June, 2018
Average liquidity maintenance ratio	<b>38.2%</b>	39.2%
Average core funding ratio	<b>130.7%</b>	133.0%

The average liquidity maintenance ratio and core funding ratio for the six months includes the liquidity positions of the Bank and certain of its financial subsidiaries. The basis of computation has been agreed with the HKMA. Liquidity maintenance ratio and core funding ratio are compiled in accordance with the Banking (Liquidity) Rules effective from 1st January, 2015 and 1st January, 2018 respectively.

## (B) ADVANCES TO CUSTOMERS ANALYSED BY GEOGRAPHICAL AREA

The geographical information is classified by the geographical location of the counterparties after taking into account any risk transfer. In general, such transfer of risk takes place if the claims are guaranteed by a party in a geographical location which is different from that of the borrower or if the claims are on an overseas branch of a bank whose head office is located in another geographical location.

	30th June, 2019				
	Gross advances to customers	Impaired advances to customers	Overdue advances to customers for over three months	Expected credit loss (Stage 3) on advances to customers	Expected credit loss (Stages 1 and 2) on advances to customers
Hong Kong	<b>135,224</b>	<b>232</b>	<b>132</b>	<b>79</b>	<b>233</b>
Macau	<b>21,258</b>	<b>21</b>	<b>14</b>	<b>6</b>	<b>21</b>
Mainland China	<b>31,376</b>	<b>571</b>	<b>549</b>	<b>13</b>	<b>91</b>
Others	<b>2,543</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>7</b>
	<b>190,401</b>	<b>826</b>	<b>696</b>	<b>99</b>	<b>352</b>

	31st December, 2018				
	Gross advances to customers	Impaired advances to customers	Overdue advances to customers for over three months	Expected credit loss (Stage 3) on advances to customers	Expected credit loss (Stages 1 and 2) on advances to customers
Hong Kong	136,627	176	141	76	240
Macau	22,092	26	18	7	23
Mainland China	32,394	925	467	165	102
Others	2,290	–	5	–	6
	193,403	1,127	631	248	371

## Unaudited Supplementary Financial Information

### (C) FURTHER ANALYSIS OF ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS

The following information concerning further analysis of advances to customers by industry sectors is prepared by classifying the advances according to the usage of the advances in respect of industry sectors which constitute not less than 10% of gross advances to customers.

30th June, 2019					
	Gross advances to customers	Impaired advances to customers	Overdue advances to customers for over three months	Expected credit loss (Stage 3) on advances to customers	Expected credit loss (Stages 1 and 2) on advances to customers
Property investment	<b>28,614</b>	<b>21</b>	–	–	<b>51</b>
Advances for the purchase of other residential properties	<b>41,345</b>	<b>34</b>	<b>17</b>	–	<b>7</b>
Advances for use outside Hong Kong					
– Mainland China	<b>33,490</b>	<b>570</b>	<b>546</b>	<b>24</b>	<b>101</b>
– Macau	<b>20,831</b>	<b>20</b>	<b>14</b>	<b>6</b>	<b>21</b>
31st December, 2018					
	Gross advances to customers	Impaired advances to customers	Overdue advances to customers for over three months	Expected credit loss (Stage 3) on advances to customers	Expected credit loss (Stages 1 and 2) on advances to customers
Property investment	27,728	–	–	–	47
Advances for the purchase of other residential properties	44,304	37	27	–	7
Advances for use outside Hong Kong					
– Mainland China	33,339	892	446	114	105
– Macau	21,906	21	18	6	21

## (D) OVERDUE AND RESCHEDULED ASSETS

### (i) Overdue and rescheduled advances to customers

	30th June, 2019		31st December, 2018	
	Amount	% of total advances to customers	Amount	% of total advances to customers
Gross advances to customers which have been overdue with respect to either principal or interest for periods of:				
– 6 months or less but over 3 months	23	0.01	110	0.06
– 1 year or less but over 6 months	205	0.11	28	0.02
– Over 1 year	468	0.25	493	0.25
	<b>696</b>	<b>0.37</b>	631	0.33
Covered portion of overdue advances	549		553	
Uncovered portion of overdue advances	147		78	
	<b>696</b>		631	
Current market values of collateral held against covered portion of overdue advances	1,380		1,616	
Expected credit loss (Stage 3) made on overdue advances	77		80	

Collateral held with respect to overdue advances to customers is mainly properties and vehicles.

	30th June, 2019		31st December, 2018	
	Amount	% of total advances to customers	Amount	% of total advances to customers
Rescheduled advances to customers	11	0.01	4	–

All rescheduled advances to customers are impaired as at 30th June, 2019 and 31st December, 2018 respectively.

There are no advances to banks which are overdue nor rescheduled as at 30th June, 2019 and 31st December, 2018 respectively.



## Unaudited Supplementary Financial Information

### (D) OVERDUE AND RESCHEDULED ASSETS *(Continued)*

#### *(ii) Other overdue assets*

	30th June, 2019	31st December, 2018
Trade bills which have been overdue with respect to either principal or interest for periods of:		
– 6 months or less but over 3 months	–	38
– 1 year or less but over 6 months	<b>36</b>	–
– Over 1 year	–	–
	<b>36</b>	38

There were no overdue debt securities included in “Financial assets measured at fair value through other comprehensive income” as at 30th June, 2019 and 31st December, 2018.

Under “Other assets” as at 30th June, 2019 and 31st December, 2018, there were no receivables which are overdue.

### (E) DISCLOSURE REQUIREMENTS UNDER THE BANKING (DISCLOSURE) RULES

The detailed disclosures required by the Banking (Disclosure) Rules will be disclosed before 30th September, 2019 under “Regulatory Disclosure” on the website of the Bank ([www.ocbcwhhk.com](http://www.ocbcwhhk.com)).



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