



INDUSTRIAL AND COMMERCIAL BANK OF CHINA (ASIA) LIMITED

中國工商銀行（亞洲）有限公司

(Incorporated in Hong Kong with limited liability)

**INTERIM FINANCIAL DISCLOSURE STATEMENTS
FOR THE SIX MONTHS ENDED
30 JUNE 2018**

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INTERIM RESULTS AND FINANCIAL REVIEW

The Board of Directors (the “Board”) of Industrial and Commercial Bank of China (Asia) Limited (the “Bank” or “ICBC (Asia)”) is pleased to present the interim financial disclosure statements of the Bank and its subsidiaries (the “Group”) for the six months ended 30 June 2018. The consolidated income statement, consolidated statement of comprehensive income, condensed consolidated statement of cash flows and consolidated statement of changes in equity of the Group for the six months ended 30 June 2018, and the consolidated statement of financial position as at 30 June 2018 of the Group, all of which are unaudited but has been reviewed by KPMG, in accordance with Hong Kong Standards on Review Engagements 2410, Review of interim financial information performed by the independent auditor of the entity, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), along with selected explanatory notes are set out on pages 4 to 79 of these interim financial disclosure statements.

Interim Results

The Board of Directors is pleased to announce that the unaudited consolidated profit attributable to the equity holders of the Bank for the six months ended 30 June 2018 was HK\$4,095 million. This represents a 13.27% increase over the same period last year (first half of 2017: HK\$3,615 million). Basic earnings per share for the six months ended 30 June 2018 were HK\$1.59 (first half of 2017: HK\$1.40). Return on average assets and return on average equity were 0.89% and 9.68% respectively (first half of 2017: 0.94% and 9.36% respectively).

Interim Dividend

The Board has not recommended the payment of interim dividend for the six months ended 30 June 2018 (2017 interim dividend: Nil).

Financial Review

In the first half of 2018, the Group achieved satisfactory results. Consolidated profit attributable to equity holders was HK\$4,095 million, representing an increase of HK\$480 million or 13.27% over HK\$3,615 million achieved for the corresponding period in 2017.

As a result of strong growth in interest-bearing assets, ICBC (Asia)’s net interest income increased HK\$1,249 million or 27.63% to HK\$5,768 million. Net fee and commission income increased HK\$89 million or 7.78% to HK\$1,237 million.

Non-interest income increased HK\$376 million or 32.36% to HK\$1,537 million from HK\$1,161 million for the corresponding period in 2017. The ratio of non-interest income to total operating income was 21.04%, up 0.6 percentage points compared with 20.44% for the corresponding period in 2017.

Operating expenses increased by HK\$232 million or 16.34% to HK\$1,655 million, compared with HK\$1,423 million for the corresponding period in 2017. The cost to income ratio was 22.65%, down 2.39 percentage points compared with the corresponding period in 2017.

The net charges for expected credit losses on loans and advances for the period were HK\$695 million, out of which HK\$224 million was made as additional provision for non-credit impaired exposures and HK\$471 million was made as additional provision for credit-impaired exposures.

INTERIM RESULTS AND FINANCIAL REVIEW

Statement of Financial Position

The total assets of the Group amounted to HK\$975,203 million as at 30 June 2018, representing an increase of HK\$77,094 million or 8.58% over the financial position as at 31 December 2017.

Customer deposits amounted to HK\$523,344 million as at 30 June 2018 representing an increase of HK\$27,032 million or 5.45%, compared to HK\$496,312 million as at 31 December 2017. Loans and advances also increased by HK\$25,912 million or 5.64% to HK\$485,742 million as at 30 June 2018 compared to HK\$459,830 million as at 31 December 2017.

Total securities investment amounted to HK\$179,585 million as at 30 June 2018, which represents an increase of HK\$6,045 million or 3.48% compared to HK\$173,540 million as at 31 December 2017.

Total certificates of deposit issued decreased by HK\$18,749 million or 20.59% to HK\$72,291 million as at 30 June 2018, compared to HK\$91,041 million as at 31 December 2017.

Capital and Liquidity Management

The Group's capital adequacy ratio increased to 18.31% as at 30 June 2018 from 16.57% as at 31 December 2017. In the first half of 2018, the average liquidity coverage ratio amounted to 159% (first half of 2017: 134%).

Asset Quality

Under the Bank's prudent risk management policy, the asset quality remained continuously at a satisfactory level. Impaired loans and advances increased by HK\$1,454 million to HK\$4,518 million as at 30 June 2018, compared with HK\$3,064 million as at 31 December 2017. The impaired loan ratio was 0.92% as at 30 June 2018 (31 December 2017: 0.66%).

As at 30 June 2018, the cumulative loan impairment allowances amounted to HK\$5,029 million (31 December 2017: HK\$4,397 million), which included impairment allowance of HK\$2,767 million for non-credit impaired exposures and impairment allowance of HK\$2,262 million for credit-impaired exposures.

CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2018
(UNAUDITED)

	Notes	Six months ended	
		30 Jun 2018 HK\$'000	30 Jun 2017 HK\$'000
Interest income	(6)	13,327,607	9,699,112
Interest expense	(6)	(7,559,114)	(5,179,517)
Net interest income	(6)	5,768,493	4,519,595
Fee and commission income	(7)	1,413,842	1,280,366
Fee and commission expense	(7)	(176,985)	(132,768)
Net fee and commission income	(7)	1,236,857	1,147,598
Net trading income	(8)	7,855	27,669
Net gain/(loss) on financial assets and liabilities designated at fair value through profit or loss	(9)	282,110	(20,590)
Dividend income from financial investments	(10)	2,780	2,913
Other operating income	(11)	7,181	3,472
Operating income		7,305,276	5,680,657
Operating expenses	(12)	(1,654,964)	(1,422,527)
Operating profit before impairment losses		5,650,312	4,258,130
Net impairment losses on financial assets	(13)	(778,157)	(55,490)
Operating profit after impairment losses		4,872,155	4,202,640
Net loss on disposal of property, plant and equipment		(4,216)	(2,436)
Net gain on disposal of available-for-sale financial investments		–	207,004
Net gain on disposal financial assets designated at fair value through other comprehensive income		139,189	–
Net gain on disposal of held-to-maturity financial investments		–	19,793
Operating profit		5,007,128	4,427,001
Share of profit/(loss) of associates		26,020	(3,161)
Profit before tax		5,033,148	4,423,840
Income tax expense	(14)	(937,942)	(808,405)
Profit for the period and attributable to equity holders		4,095,206	3,615,435
Earnings per share – Basic and diluted	(16)	HK\$1.59	HK\$1.40

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2018
(UNAUDITED)**

	Six months ended	
	30 Jun 2018	30 Jun 2017
	HK\$'000	HK\$'000
Profit for the period	4,095,206	3,615,435
Items that will not be reclassified to income statement:		
Change in fair value reserve of equity investments designated at fair value through other comprehensive income	(192,925)	–
Income tax effect	31,833	–
	(161,092)	–
Revaluation surplus on bank premises	4,143	5,242
Income tax effect	(683)	(33,106)
	3,460	(27,864)
Items that may be reclassified subsequently to income statement:		
Change in fair value of hedging instruments under cash flow hedges	95,311	(38,084)
Income tax effect	(15,726)	6,284
	79,585	(31,800)
Change in fair value reserve of investment securities measured at fair value through other comprehensive income	(1,129,865)	–
Change in fair value reserve of available-for-sale financial investments	–	11,377
Income tax effect	279,633	(60,105)
	(850,232)	(48,728)
Exchange differences arising from translation of results of a foreign subsidiary	(99,417)	354,580
Other comprehensive income for the period, net of tax	(1,027,696)	246,188
Total comprehensive income for the period, net of tax	3,067,510	3,861,623
Attributable to:		
Equity holders of the Bank	3,067,510	3,861,623

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018
(UNAUDITED)

	Notes	Unaudited 30 Jun 2018 HK\$'000	Audited 31 Dec 2017 HK\$'000	Unaudited 30 Jun 2017 HK\$'000
Assets				
Cash and balances with banks and other financial institutions	(17)	201,114,579	160,925,901	192,568,331
Placements with banks and other financial institutions	(18)	81,937,409	78,670,984	33,453,572
Financial assets held for trading	(19)	2,034,410	–	1,346,231
Derivative financial instruments	(21)	13,638,805	15,394,138	9,434,763
Financial assets designated at fair value through profit or loss	(20)	2,489,529	731,157	–
Advances and other accounts	(22)	485,742,014	459,830,199	440,050,497
Investment securities:		175,061,137	172,808,568	161,027,718
– available-for-sale	(23)	–	77,623,934	87,736,471
– measured at fair value through other comprehensive income	(23)	107,786,160	–	–
– held-to-maturity	(23)	–	95,184,634	73,291,247
– measured at amortised cost	(23)	67,274,977	–	–
Interest in associates		431,805	405,722	380,090
Goodwill and other intangible assets		1,021,427	1,017,282	1,019,637
Investment properties	(24)	117,407	117,407	79,658
Property, plant and equipment	(25)	898,855	905,768	937,589
Current income tax assets		–	5,367	7,746
Deferred income tax assets	(29)	751,062	320,505	189,431
Other assets	(26)	9,964,349	6,976,029	8,645,255
Total assets		975,202,788	898,109,027	849,140,518
Liabilities				
Deposits from banks and other financial institutions	(27)	216,585,982	177,631,111	197,830,074
Derivative financial instruments	(21)	6,444,932	8,617,305	9,332,708
Deposits from customers	(28)	523,343,736	496,311,783	483,158,305
Certificates of deposit issued		72,291,099	91,040,542	48,305,005
Debt securities in issue		13,256,593	8,115,874	1,096,664
– Designated at fair value through profit or loss		5,990,903	6,585,182	95,351
– Measured at amortised cost		7,265,690	1,530,692	1,001,313
Current income tax liabilities		797,490	326,016	803,406
Deferred income tax liabilities	(29)	–	–	–
Subordinated debts measured at amortised cost	(30)	11,750,626	11,698,483	11,682,539
Other liabilities	(31)	16,299,868	12,681,873	9,202,415
Total liabilities		860,770,326	806,422,987	761,411,116
Equity				
Share capital	(32)	36,379,331	36,379,331	36,379,331
Retained earnings		47,756,335	44,301,642	40,352,208
Other reserves		2,661,089	3,266,735	3,259,531
Total equity attributable to shareholders of the Bank		86,796,755	83,947,708	79,991,070
Additional equity instruments	(33)	27,635,707	7,738,332	7,738,332
Total equity		114,432,462	91,686,040	87,729,402
Total equity and liabilities		975,202,788	898,109,027	849,140,518

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2018
(UNAUDITED)**

		Bank premises	Investment	Cash flow				Additional	
	Share	revaluation	revaluation	hedge	Exchange	General	Retained	equity	Total
	capital	reserve	reserve	reserve	reserve	reserve	earnings	instrument	
Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2018	36,379,331	592,489	(989,636)	108,473	104,397	3,451,012	44,301,642	7,738,332	91,686,040
Impact of adopting HKFRS 9	-	-	263,061	-	-	-	(317,345)	-	(54,284)
	36,379,331	592,489	(726,575)	108,473	104,397	3,451,012	43,984,297	7,738,332	91,631,756
Profit for the period	-	-	-	-	-	-	4,095,206	-	4,095,206
Other comprehensive income for the period:									
Change in fair value of investment securities measured at fair value through other comprehensive income	-	-	(1,373,672)	-	-	-	-	-	(1,373,672)
Reserve realised on disposal of investment securities measured at fair value through other comprehensive income	-	-	26,279	-	-	-	-	-	26,279
Changes in fair value of cash flow hedge	-	-	-	95,311	-	-	-	-	95,311
Change in HKFRS 9 – provision	-	-	24,603	-	-	-	-	-	24,603
Revaluation surplus on bank premises	-	4,143	-	-	-	-	-	-	4,143
Change in deferred tax (29)	-	(683)	311,466	(15,726)	-	-	-	-	295,057
Exchange differences	-	-	-	-	(99,417)	-	-	-	(99,417)
Total comprehensive income for the period	-	3,460	(1,011,324)	79,585	(99,417)	-	4,095,206	-	3,067,510
Issuance of additional equity instruments	-	-	-	-	-	-	-	19,897,375	19,897,375
Partial transfer of retained earnings to general reserve	-	-	-	-	-	158,989	(158,989)	-	-
Other adjustments	-	-	-	-	-	-	(164,179)	-	(164,179)
At 30 June 2018	36,379,331	595,949	(1,737,899)	188,058	4,980	3,610,001	47,756,335	27,635,707	114,432,462

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2017
(UNAUDITED)

		Bank premises	Investment	Cash flow				Additional	
	Share	revaluation	revaluation	hedge	Exchange	General	Retained	equity	Total
	capital	reserve	reserve	reserve	reserve	reserve	earnings	instrument	
Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2017	36,379,331	607,297	(464,382)	143,232	(687,267)	3,018,641	37,150,962	7,738,332	83,886,146
Profit for the period	-	-	-	-	-	-	3,615,435	-	3,615,435
Other comprehensive income for the period:									
Change in fair value of available-for-sale financial investments	-	-	(134,365)	-	-	-	-	-	(134,365)
Reserve realised on disposal of available-for-sale financial investments	-	-	145,742	-	-	-	-	-	145,742
Changes in fair value of cash flow hedge	-	-	-	(38,084)	-	-	-	-	(38,084)
Revaluation surplus on bank premises	-	5,242	-	-	-	-	-	-	5,242
Change in deferred tax (29)	-	(33,106)	(60,105)	6,284	-	-	-	-	(86,927)
Exchange differences	-	-	-	-	354,580	-	-	-	354,580
Total comprehensive income for the period	-	(27,864)	(48,728)	(31,800)	354,580	-	3,615,435	-	3,861,623
Partial transfer of retained earnings to general reserve	-	-	-	-	-	395,822	(395,822)	-	-
Other adjustments	-	-	-	-	-	-	(18,367)	-	(18,367)
At 30 June 2017	<u>36,379,331</u>	<u>579,433</u>	<u>(513,110)</u>	<u>111,432</u>	<u>(332,687)</u>	<u>3,414,463</u>	<u>40,352,208</u>	<u>7,738,332</u>	<u>87,729,402</u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2018
(UNAUDITED)**

	Six months ended	
	30 June 2018	30 Jun 2017
	HK\$'000	HK\$'000
Net cash flows (used in)/generated from operating activities	(21,390,810)	23,699,000
Net cash flows used in investing activities	(42,380)	(39,578)
Net cash flows generated from/(used in) financing activities	24,754,124	(440,612)
Net increase in cash and cash equivalents	3,320,934	23,218,810
Cash and cash equivalents at 1 January	173,241,652	173,356,946
Effects of foreign exchange differences	(191,492)	348,767
Cash and cash equivalents at 30 June	<u>176,371,094</u>	<u>196,924,523</u>

Components of cash and cash equivalents in the condensed consolidated statement of cash flows:

For the purposes of the condensed consolidated statement of cash flows, cash and cash equivalents comprise the following balances with original maturity of three months or less:

	30 Jun 2018	30 Jun 2017
	HK\$'000	HK\$'000
Cash and balances with banks and other financial institutions	27,683,374	66,728,295
Placements with banks and other financial institutions	148,687,720	130,196,228
	<u>176,371,094</u>	<u>196,924,523</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

1 Principal activities

The principal activities of the Bank are the provision of banking, financial and other financial related services.

2.1 Basis of preparation

The unaudited interim financial disclosure statements of the Group have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim Financial Reporting*, issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and fully comply with the requirements set out in the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority (the “HKMA”).

The accounting policies adopted in the preparation of the interim financial disclosure statements are consistent with those used in the preparation of the Group’s audited financial statements for the year ended 31 December 2017 except for the adoption of the HKFRSs and HKASs issued up to 30 June 2018 which are pertinent to the Group’s operations and relevant to these interim financial disclosure statements.

The unaudited interim financial disclosure statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2017.

The preparation of unaudited interim financial disclosure statements requires management to exercise its judgment and make estimates and assumptions in the process of applying the Group’s accounting policies and reporting amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. The significant judgments made by management were the same as those applied to the annual financial statements for the year ended 31 December 2017.

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

The Group has delivered the financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance. The Group’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

2.2 Basis of consolidation

The unaudited interim financial disclosure statements include the accounts of the Bank and all its subsidiaries, a controlled unit trust and attributable share of results and reserves of its associates. For regulatory reporting, the basis of consolidation is set out in Note 1 of the “Supplementary Financial Information” section.

List of subsidiaries and a unit trust, which are all 100% held by the Bank, included in the consolidation are:

- Chinese Mercantile Bank
- ICBC (Asia) Bullion Company Limited
- ICBC (Asia) Futures Company Limited
- ICBC Asset Management (Global) Company Limited
- ICBC (Asia) Nominee Limited
- ICBC (Asia) Securities Limited
- ICBC (Asia) Trustee Company Limited
- ICBC (Asia) Wa Pei Nominees Limited
- ICBCA (C.I.) Limited
- UB China Business Management Co. Ltd.
- SINO-CEEF Holding Company Limited
- The Greater China Fund

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

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

- HKFRS 9, *Financial instruments*
- HKFRS 15, *Revenue from contracts with customers*
- HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

HKFRS 9, *Financial instrument*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

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

HKFRS 9, *Financial instrument* (continued)

The following table summarises the impact of transition to HKFRS 9 on retained earnings and reserves and the related tax impact at 1 January 2018.

	Impact of adopting HKFRS 9 at 1 January 2018 HK\$'000
Investment revaluation reserve	
Closing balance under HKAS 39 (31 December 2017)	(989,636)
Remeasurement of investment securities reclassified from held-to-maturity to FVTOCI	339,293
Recognition of additional expected credit losses under HKFRS 9	57,892
Transferred from retained earnings relating to equity investment designated at FVTOCI under HKFRS 9	(78,141)
Related tax	(55,983)
Opening balance under HKFRS 9 (1 January 2018)	<u><u>(726,575)</u></u>
Retained earnings	
Closing balance under HKAS 39 (31 December 2017)	44,301,642
Recognition of additional expected credit losses under HKFRS 9	(500,336)
Transferred to investment revaluation reserve relating to equity investment designated at FVTOCI under HKFRS 9	78,141
Related tax	104,850
Opening balance under HKFRS 9 (1 January 2018)	<u><u>43,984,297</u></u>

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

(i) *Classification of financial assets and financial liabilities*

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVTOCI) and at fair value through profit or loss (FVTPL). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVTPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

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

(i) *Classification of financial assets and financial liabilities (continued)*

- FVTOCI (recycling), if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or
- FVTPL, if the investment does not meet the criteria for being measured at amortised cost or FVTOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVTOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer’s perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVTPL or FVTOCI (non-recycling), are recognised in profit or loss as other income.

Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

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

(i) *Classification of financial assets and financial liabilities (continued)*

The following table shows the original measurement categories in accordance with HKAS 39 and the new measurement categories under HKFRS 9 for the Group as at 1 January 2018

	Notes	Original classification under HKAS 39	New classification under HKFRS 9	Original carrying amount under HKAS 39 HK\$'000	New carrying amount under HKFRS 9 HK\$'000
Financial assets					
Cash and balances with banks and other financial institutions	(17)	Loans and receivables	Amortised cost	160,925,901	160,925,901
Placements with banks and other financial institutions	(18)	Loans and receivables	Amortised cost	78,670,984	78,670,984
Financial assets held for trading	(19)	FVTPL	FVTPL (mandatory)	–	–
Derivative financial instruments	(21)	FVTPL	FVTPL (mandatory)	15,394,138	15,394,138
Financial assets designated at fair value through profit or loss	(20)	FVTPL (designated)	FVTPL (designated)	731,157	731,157
Advances and other accounts	(22)	Loans and receivables	Amortised cost	459,830,199	459,830,199
Investment securities:				172,808,568	173,147,861
– debt	(23)	Available-for-sale	FVTOCI	77,373,570	77,373,570
– equity	(23)	Available-for-sale	FVTOCI	250,364	250,364
– debt	(23)	Held-to-maturity	Amortised cost	79,435,830	79,435,830
– debt	(23)	Held-to-maturity	FVTOCI	15,748,804	16,088,097
Other assets	(26)	Loans and receivables	Amortised cost	6,976,029	6,976,029
Financial liabilities					
Deposits from banks and other financial institutions	(27)	Amortised cost	Amortised cost	177,631,111	177,631,111
Derivative financial instruments	(21)	FVTPL	FVTPL	8,617,305	8,617,305
Deposits from customers	(28)	Amortised cost	Amortised cost	496,311,783	496,311,783
Certificates of deposit issued		Amortised cost	Amortised cost	91,040,542	91,040,542
Debt securities in issue				8,115,874	8,115,874
– Designated at fair value through profit or loss		FVTPL	FVTPL	6,585,182	6,585,182
– Measured at amortised cost		Amortised cost	Amortised cost	1,530,692	1,530,692
Subordinated debts measured at amortised cost	(30)	Amortised cost	Amortised cost	11,698,483	11,698,483

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

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

(i) *Classification of financial assets and financial liabilities (continued)*

Certain debt securities are held by the Group in separate portfolios to meet everyday liquidity needs. The Group considers that under HKFRS 9 these securities are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. The relevant remeasurement is a HK\$339,292,860 gain.

The following table shows the original measurement categories for each class of the Group’s financial assets under HKAS 39 and reconciles the carrying amounts of these financial assets determined in accordance with HKAS 39 to these determined in accordance with HKFRS 9.

	Notes	Original carrying amount under HKAS 39 HK\$'000	Reclassification HK\$'000	Remeasurement HK\$'000	New carrying amount under HKFRS 9 HK\$'000
Financial assets					
Cash and balances with banks and other financial institutions	(17)	160,925,901	–	(3,197)	160,922,704
Placements with banks and other financial institutions	(18)	78,670,984	–	(16,020)	78,654,964
Financial assets held for trading	(19)	–	–	–	–
Derivative financial instruments	(21)	15,394,138	–	–	15,394,138
Financial assets designated at fair value through profit or loss	(20)	731,157	–	–	731,157
Advances and other accounts	(22)	459,830,199	–	(264,831)	459,565,368
Investment securities:		172,808,568	–	301,914	173,110,482
– available-for-sale	(23)	77,623,934	(77,623,934)	–	–
– FVTOCI	(23)	–	93,372,738	339,293	93,712,031
– held-to-maturity	(23)	95,184,634	(95,184,634)	–	–
– amortised cost	(23)	–	79,435,830	(37,379)	79,398,451
Other assets	(26)	6,976,029	–	(17,604)	6,958,425

The carrying amounts for all financial liabilities (including financial guarantee contracts) at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVTPL at 1 January 2018.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**3.1 Impact of new/revised Hong Kong Financial Reporting Standards (“HKFRSs”) and Hong Kong Accounting Standards (“HKASs”) (continued)***(ii) Credit losses*

HKFRS 9 replaces the “incurred loss” model in HKAS 39 with the expected credit loss (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the “incurred loss” accounting model in HKAS 39.

The Group applies the new ECL model to the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, placements and other assets);
- debt securities measured at FVTOCI (recycling);
- lease receivables; and
- loan commitments issued, which are not measured at FVTPL.

Financial assets measured at fair value, including units in equity securities measured at FVTPL, equity securities designated at FVTOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

For undrawn loan commitments, expected cash shortfalls are measured as the difference between (i) the contractual cash flows that would be due to the Group if the holder of the loan commitment draws down on the loan and (ii) the cash flows that the Group expects to receive if the loan is drawn down.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

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

(ii) Credit losses (continued)

Measurement of ECLs (continued)

The expected cash shortfalls are discounted using the appropriate discount rates where the effect of discounting is material.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

The Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or (ii) the financial asset is 30 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**3.1 Impact of new/revised Hong Kong Financial Reporting Standards (“HKFRSs”) and Hong Kong Accounting Standards (“HKASs”) (continued)***(ii) Credit losses (continued)*

Significant increases in credit risk (continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument’s external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor’s ability to meet its obligation to the Group.

For loan commitments, the date of initial recognition for the purpose of assessing ECLs is considered to be the date that the Group becomes a party to the irrevocable commitment. In assessing whether there has been a significant increase in credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of default occurring on the loan to which the loan commitment relates.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument’s credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVTOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

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

(ii) Credit losses (continued)

Basis of calculation of interest income on credit-impaired financial assets

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Opening balance adjustment

As a result of this change in accounting policy, the Group has recognised additional ECLs amounting to \$500,336,000, which decreased retained earnings by \$395,486,000 and increased gross deferred tax assets by \$104,850,000 at 1 January 2018.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

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

(ii) Credit losses (continued)

The following table reconciles the closing loss allowance determined in accordance with HKAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2018.

	HK\$'000
Loss allowances at 31 December 2017 under HKAS 39	4,419,361
Additional expected credit loss recognised at 1 January 2018 on:	
– Cash and balances with banks and other financial institutions	3,197
– Placements with banks and other financial institutions	16,020
– Loans and advances	264,831
– Investment securities	108,861
– Other assets	17,604
– Loans and other credit-related guarantee	89,823
Loss allowances at 1 January 2018 under HKFRS 9	<u><u>4,919,697</u></u>

(iii) Hedge accounting

The Group has elected to adopt the new general hedge accounting model in HKFRS 9. Depending on the complexity of the hedge, this new accounting model allows a more qualitative approach to assessing hedge effectiveness compared to HKAS 39 to be applied, and the assessment is always forward-looking. The adoption of HKFRS 9 has not had a significant impact on the Group's financial statements in this regard.

(iv) Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):

- the determination of the business model within which a financial asset is held; and
- the designation of certain investments in equity instruments not held for trading to be classified as at FVTOCI (non-recycling).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

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

(iv) Transition (continued)

If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

All hedging relationships designated under HKAS 39 at 31 December 2017 met the criteria for hedge accounting under HKFRS 9 at 1 January 2018 and are therefore regarded as continuing hedging relationships. Changes to hedge accounting policies have been applied prospectively.

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specified the accounting for construction contracts.

This change in accounting policy had no material impact on opening balances as at 1 January 2018. The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue from contracts.

HK(IFRIC) 22, Foreign currency transactions and advance consideration

This interpretation provides guidance on determining “the date of the transaction” for the purpose of determining the exchange rate to be used on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that “the date of the transaction” is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way.

The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**3.2 Issued but not yet effective HKFRSs and HKASs**

A number of amendments and new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted. The Group has not early adopted any new or amended standards in preparing this interim financial report.

The Group has the following update to the information provided in the last annual financial statements in respect of HKFRS 16, *Leases*, which may have a significant impact on the Group's consolidated financial statements.

HKFRS 16, *Leases*

As discussed in the 2017 annual financial statements, currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. Upon the adoption of HKFRS 16, where the Group is the lessee under the lease the Group will be required to account for all leases in a similar way to current finance lease accounting, i.e. recognise and measure a lease liability at the present value of the minimum future lease payments and recognise a corresponding "right-of-use" asset at the commencement date of the lease, subject to practical expedients. HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for items of property, plant and equipment which are currently classified as operating leases.

As disclosed in Note 37.3, at 30 June 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to HK\$1,059,954,000 for land and buildings, the majority of which is payable between 1 and 5 years after the reporting date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management

4.1 Analysis of assets and liabilities by remaining maturity

The table below summarises the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date.

At 30 June 2018	Repayable on demand HK\$'000	Up to 1 month HK\$'000	1-3 months HK\$'000	3-12 months HK\$'000	1-5 years HK\$'000	Over 5 years HK\$'000	Indefinite HK\$'000	Total HK\$'000
Assets								
Cash and balances with banks and other financial institutions	33,449,347	167,665,232	-	-	-	-	-	201,114,579
Placements with banks and other financial institutions	-	-	45,367,036	36,570,373	-	-	-	81,937,409
Financial assets held for trading								
- other debt securities	-	-	-	2,034,410	-	-	-	2,034,410
Derivative financial instruments	156,962	958,462	1,059,254	5,412,604	4,828,529	1,222,994	-	13,638,805
Financial assets designated at fair value through profit or loss	-	38,345	-	1,829,200	-	621,984	-	2,489,529
Advances and other accounts	12,009,286	19,916,224	32,820,411	123,089,596	188,583,428	109,108,998	214,071	485,742,014
Financial investments measured at fair value through other comprehensive income								
- treasury bills	-	784,341	-	2,337,656	3,037,347	4,258,623	-	10,417,967
- equity securities	-	-	-	-	-	-	994,844	994,844
- certificates of deposit held	-	-	592,537	-	156,438	-	-	748,975
- other debt securities	-	879,245	988,995	6,166,190	53,727,669	33,862,275	-	95,624,374
Financial investments measured at amortised cost								
- treasury bills	-	9,559,279	7,677,565	-	6,853,956	731,066	-	24,821,866
- certificates of deposit held	-	-	4,118,204	3,456,620	-	-	-	7,574,824
- other debt securities	-	-	461,915	5,260,218	21,563,759	7,592,395	-	34,878,287
Interest in an associate	-	-	-	-	-	-	431,805	431,805
Goodwill and other intangible assets	-	-	-	-	-	-	1,021,427	1,021,427
Investment properties	-	-	-	-	-	-	117,407	117,407
Property, plant and equipment	-	-	-	-	-	-	898,855	898,855
Other assets, including current and deferred income tax assets	192,321	3,375,166	1,059,658	1,875,164	3,211,076	95,858	906,168	10,715,411
Total assets	45,807,916	203,176,294	94,145,575	188,032,031	281,962,202	157,494,193	4,584,577	975,202,788
Liabilities								
Deposits from banks and other financial institutions	36,109,274	55,831,372	50,066,206	38,902,293	35,676,837	-	-	216,585,982
Derivative financial instruments	47,705	895,994	789,300	2,411,885	1,734,694	565,354	-	6,444,932
Deposits from customers	168,519,068	130,675,584	100,478,664	105,923,434	17,720,435	26,551	-	523,343,736
Certificates of deposit issued	-	9,914,614	13,873,614	5,189,821	43,313,050	-	-	72,291,099
Debt securities in issue at fair value through profit or loss	-	-	-	3,031,163	2,959,740	-	-	5,990,903
Debt securities in issue at amortised cost	-	-	-	-	7,265,690	-	-	7,265,690
Subordinated debts measured at amortised cost	-	-	-	-	3,915,820	7,834,806	-	11,750,626
Other liabilities, including current and deferred income tax liabilities	2,833,391	7,694,410	1,172,345	3,571,467	963,554	279,851	582,340	17,097,358
Total liabilities	207,509,438	205,011,974	166,380,129	159,030,063	113,549,820	8,706,562	582,340	860,770,326
Net liquidity gap	(161,701,522)	(1,835,680)	(72,234,554)	29,001,968	168,412,382	148,787,631	4,002,237	114,432,462

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
4 Financial risk management (continued)
4.1 Analysis of assets and liabilities by remaining maturity (continued)

At 31 December 2017	Repayable on demand HK\$'000	Up to 1 month HK\$'000	1-3 months HK\$'000	3-12 months HK\$'000	1-5 years HK\$'000	Over 5 years HK\$'000	Indefinite HK\$'000	Total HK\$'000
Assets								
Cash and balances with banks and other financial institutions	55,749,319	105,176,582	–	–	–	–	–	160,925,901
Placements with banks and other financial institutions	–	–	32,910,195	45,760,789	–	–	–	78,670,984
Financial assets designated at fair value through profit or loss								
– other investment	–	–	–	–	–	731,157	–	731,157
Derivative financial instruments	295,446	907,134	3,337,108	5,642,566	4,620,232	591,652	–	15,394,138
Advances and other accounts	7,153,077	14,654,068	32,759,366	113,695,650	191,120,587	100,447,451	–	459,830,199
Available-for-sale financial investments								
– treasury bills	–	–	–	–	1,165,369	2,769,757	–	3,935,126
– equity securities	–	–	–	–	–	–	250,364	250,364
– certificates of deposit held	–	274,758	781,311	595,958	164,828	–	–	1,816,855
– other debt securities	–	3,444,902	782,962	5,297,633	36,813,254	25,282,838	–	71,621,589
Held-to-maturity financial investments								
– treasury bills	–	4,651,915	7,187,105	10,814,080	6,794,922	724,973	–	30,172,995
– certificates of deposit held	–	8,408,359	5,304,409	3,049,429	–	–	–	16,762,197
– other debt securities	–	883,383	2,048,718	8,133,154	24,709,712	12,474,475	–	48,249,442
Interest in associates	–	–	–	–	–	–	405,722	405,722
Goodwill and other intangible assets	–	–	–	–	–	–	1,017,282	1,017,282
Investment properties	–	–	–	–	–	–	117,407	117,407
Property, plant and equipment	–	–	–	–	–	–	905,768	905,768
Other assets, including current and deferred income tax assets	37,862	2,836,366	473,309	1,062,547	2,520,628	337,227	33,962	7,301,901
Total assets	63,235,704	141,237,467	85,584,483	194,051,806	267,909,532	143,359,530	2,730,505	898,109,027
Liabilities								
Deposits from banks and other financial institutions	30,627,215	50,142,808	36,463,220	31,982,329	28,415,539	–	–	177,631,111
Derivative financial instruments	35,587	1,114,198	3,239,786	2,535,910	1,439,437	252,387	–	8,617,305
Deposits from customers	168,633,527	115,764,838	80,457,465	112,861,210	18,573,772	20,971	–	496,311,783
Certificates of deposit issued	–	2,954,562	38,452,470	11,193,384	38,440,126	–	–	91,040,542
Debt securities in issue designated at fair value through profit or loss								
Debt securities in issue measured at amortised cost	–	–	–	3,320,760	3,264,422	–	–	6,585,182
	–	–	–	1,000	1,529,692	–	–	1,530,692
Subordinated debts measured at amortised cost	–	–	–	–	3,897,774	7,800,709	–	11,698,483
Other liabilities, including current and deferred income tax liabilities	3,647,954	4,647,423	943,724	2,882,052	692,763	187,647	6,326	13,007,889
Total liabilities	202,944,283	174,623,829	159,556,665	164,776,645	96,253,525	8,261,714	6,326	806,422,987
Net liquidity gap	(139,708,579)	(33,386,362)	(73,972,182)	29,275,161	171,656,007	135,097,816	2,724,179	91,686,040

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.2 Fair values of financial assets and liabilities

Financial instruments measured at fair value using a valuation technique

Fair values of standardized financial assets and financial liabilities that are traded in active market are based on quoted market prices. For all other financial instruments, the Group determines fair values using valuation techniques. In general, quoted prices in active market will be used if available. When quoted prices in active markets are not available, an appropriate valuation technique will be employed.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price of the financial instrument that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the reporting date.

The Group uses widely recognised valuation models for determining the fair value of the common financial instruments. The market data inputs are independent and observable in the market which avoids any manipulation of the fair values. The Group has also an established Valuation Committee to set up control framework with respect to the measurement of fair values. Valuation Committee is responsible for review of all market prices and rate sources used as well as curves, methodology and models for valuation of financial instruments.

A Credit Valuation Adjustment (CVA) is applied to the Group's over-the-counter derivative exposures to take into account the counterparty's risk of default when measuring the fair value of the derivatives. CVA is the mark-to-market adjustment to the fair value to reflect potential credit risk from counterparties in the Group's over-the-counter derivative portfolio. CVA is calculated by multiplying the expected loss rates and the exposure value of the instruments at deal level.

The Group estimates the expected loss rates by referencing the historical loss rates of the counterparties at similar internal credit grading level. A Debit Valuation Adjustment (DVA) is applied to incorporate the Group's own credit risk in the fair value of derivatives, using same methodology as for CVA.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.2 Fair values of financial assets and liabilities (continued)

Determination of fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations:	Fair value measured using only Level 1 inputs i.e. quoted prices in active markets for identical assets or liabilities at the measurement date.
Level 2 valuations:	Fair value measured using Level 2 inputs i.e inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 valuations:	Fair value measured using unobservable inputs. Unobservable inputs are used to measure fair value to the extent that relevant observable inputs are not available.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.2 Fair values of financial assets and liabilities (continued)

30 June 2018	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Recurring fair value measurements				
Financial assets				
Derivative financial instruments				
Forward foreign exchange contracts	–	4,060,509	–	4,060,509
Structured foreign exchange contracts	–	1,189	–	1,189
Currency swaps	–	1,012,513	–	1,012,513
FX options	–	227,974	–	227,974
Interest rate swaps	–	2,251,131	–	2,251,131
Interest rate futures	–	247	–	247
Commodity forward	–	–	–	–
Equity swap	–	6,084,144	–	6,084,144
Equity options	–	1,098	–	1,098
	–	13,638,805	–	13,638,805
Loans and advances to customers, banks and trade bills measured at fair value through other comprehensive income				
Trade bills	–	3,665,572	–	3,665,572
	–	3,665,572	–	3,665,572
Financial assets held for trading				
Debt securities	–	2,034,410	–	2,034,410
	–	2,034,410	–	2,034,410
Financial assets designated as at FVTPL				
Others	–	2,489,529	–	2,489,529
	–	2,489,529	–	2,489,529
Investment securities measured at FVTOCI				
Debt securities	95,228,869	11,562,447	–	106,791,316
Equity securities	–	863,151	131,693	994,844
	95,228,869	12,425,598	131,693	107,786,160
Total financial assets	95,228,869	34,253,914	131,693	129,614,476

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

30 June 2018	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial liabilities				
Derivative financial instruments				
Forward foreign exchange contracts	–	3,492,796	–	3,492,796
Structured foreign exchange contracts	–	1,189	–	1,189
Currency swaps	–	1,154,799	–	1,154,799
FX options	–	243,682	–	243,682
Interest rate swaps	–	1,241,887	–	1,241,887
Interest rate futures	–	497	–	497
Commodity forward	–	–	–	–
Equity swap	–	308,982	–	308,982
Equity options	–	1,100	–	1,100
	–	6,444,932	–	6,444,932
Financial liabilities designated at fair value through profit or loss				
Debt securities in issue	–	5,990,903	–	5,990,903
	–	5,990,903	–	5,990,903
Total financial liabilities	–	12,435,835	–	12,435,835

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.2 Fair values of financial assets and liabilities (continued)

31 December 2017	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Recurring fair value measurements				
Financial assets				
Derivative financial instruments				
Forward foreign exchange contracts	–	6,261,779	–	6,261,779
Structured foreign exchange contracts	–	1,277	–	1,277
Currency swaps	–	1,328,373	–	1,328,373
FX options	–	103,196	–	103,196
Interest rate swaps	–	1,097,815	–	1,097,815
Interest rate futures	–	4,128	–	4,128
Commodity forward	–	–	–	–
Equity swaps	–	6,597,564	–	6,597,564
Equity options	–	6	–	6
	–	15,394,138	–	15,394,138
Financial assets held for trading				
Debt securities	–	–	–	–
	–	–	–	–
Financial assets designated at fair value through profit or loss				
Others	–	731,157	–	731,157
	–	731,157	–	731,157
Available-for-sale financial investments				
Debt securities	65,575,454	11,798,116	–	77,373,570
Equities	–	–	250,364	250,364
	65,575,454	11,798,116	250,364	77,623,934
Total financial assets	65,575,454	27,923,411	250,364	93,749,229

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

31 December 2017	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial liabilities				
Derivative financial instruments				
Forward foreign exchange contracts	–	6,246,844	–	6,246,844
Structured foreign exchange contracts	–	1,278	–	1,278
Currency swaps	–	1,358,960	–	1,358,960
FX options	–	139,508	–	139,508
Interest rate swaps	–	583,374	–	583,374
Interest rate futures	–	82	–	82
Commodity forward	–	–	–	–
Equity swaps	–	287,253	–	287,253
Equity options	–	6	–	6
	–	8,617,305	–	8,617,305
Financial liabilities designated at fair value through profit or loss				
Debt securities in issue	–	6,585,182	–	6,585,182
	–	6,585,182	–	6,585,182
Total financial liabilities	–	15,202,487	–	15,202,487

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.2 Fair values of financial assets and liabilities (continued)

Movements in level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amounts of Level 3 financial assets and liabilities which are recorded at fair value:

	At 1 January 2018 HK\$'000	Addition/ (disposal) HK\$'000	Total gains/(losses) recorded in profit or loss HK\$'000	Total gains/(losses) recorded in equity HK\$'000	At 30 June 2018 HK\$'000
Financial assets					
Investment securities measured at FVTOCI					
Equities	250,364	(1,319)	–	(117,352)	131,693
Total Level 3 financial assets	<u>250,364</u>	<u>(1,319)</u>	<u>–</u>	<u>(117,352)</u>	<u>131,693</u>
	At 1 January 2017 HK\$'000	Addition/ (disposal) HK\$'000	Total gains/(losses) recorded in profit or loss HK\$'000	Total gains/(losses) recorded in equity HK\$'000	At 31 December 2017 HK\$'000
Financial assets					
Available-for-sale financial investments					
Equities	128,572	121,929	–	(137)	250,364
Total Level 3 financial assets	<u>128,572</u>	<u>121,929</u>	<u>–</u>	<u>(137)</u>	<u>250,364</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.2 Fair values of financial assets and liabilities (continued)

Significant transfers between Level 1 and 2

The following tables show significant transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets and liabilities which are recorded at fair value:

	Transfers from Level 1 to Level 2	
	30 Jun 2018	30 Jun 2017
	HK\$'000	HK\$'000
Investment securities measured at FVTOCI		
Debt securities	–	–
Available-for-sale financial investments		
Debt securities	–	57,513

The above financial assets were transferred from Level 1 to Level 2 as they ceased to be actively traded during the period and fair values were consequently obtained using valuation techniques using observable market inputs.

	Transfers from Level 2 to Level 1	
	30 Jun 2018	30 Jun 2017
	HK\$'000	HK\$'000
Investment securities measured at FVTOCI		
Debt securities	433,174	–
Available-for-sale financial investments		
Debt securities	–	982,713

The above financial assets were transferred from Level 2 to Level 1 as they have been actively traded during the period and fair values were no longer obtained using valuation techniques using observable market inputs.

Transfers between levels of the fair value hierarchy are deemed to occur at the end of the reporting period.

4.3 Fair values of non-financial assets and liabilities

Fair value hierarchy

The following table presents the fair value of the Group's bank premises and properties and investment properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.3 Fair values of non-financial assets and liabilities (continued)

Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

Level 3 valuations: Fair value measured using significant unobservable inputs.

Fair value at 30 June 2018

	HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Recurring fair value measurement				
Bank premises and properties	642,441	–	–	642,441
Investment properties	117,407	–	–	117,407

Fair value at 31 December 2017

	HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Recurring fair value measurement				
Bank premises and properties	645,804	–	–	645,804
Investment properties	117,407	–	–	117,407

During the half year ended 30 June 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All of the Group's investment properties and bank premises and properties were revalued as at 30 June 2018. The valuations on the Banks's investment properties and bank premises and properties were carried out by an independent professionally qualified valuer, A.G. Wilkinson & Associates. The valuation on investment properties and bank premises and properties of the Bank's subsidiary were carried out by an independent professionally qualified valuer in the Mainland China, Shenzhen GuoZhongLian Asset and Real Estate Appraisal Consulting Co., Ltd. The valuers are with recent experience in the location and category of property being valued. The Group's management has discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.3 Fair values of non-financial assets and liabilities (continued)

Information about Level 3 fair value measurements

	Valuation techniques	Unobservable input	Range
<i>Investment properties</i>			
– Hong Kong	Investment method	Market yield	2.63%
– Mainland China	Discounted cash flow	Risk adjusted discount rate	5.3%
		Expected market rental growth	2.5% – 4%
		Expected occupancy rate	97%
<i>Bank premises and properties</i>			
– Hong Kong	Direct comparison approach	Premium/(discount) on characteristic of the properties	11.24% – (32%)
– Mainland China method 1	Discounted cash flow	Risk adjusted discount rate	5%
		Expected market rental growth	4%
		Expected occupancy rate	97%
– Mainland China method 2	Direct comparison approach	Market value discount rate	5%

For investment properties classified under level 3, the fair values are valued by:

- (i) investment method of valuation and have assessed the contractual rental income and the expected future market rental income after allowing for outgoings and maintenance requirements at appropriate market yields as perceived in the actual market; and
- (ii) discounting a projected cash flow series associated with the properties using risk adjusted discount rates. The valuation takes into account expected market rental growth and occupancy rate of the respective properties. The discount rates used have been adjusted for the quality and location of the buildings and the tenant credit quality. The fair value measurement is positively correlated to the expected market rental growth and the occupancy rate, and negatively correlated to the risk-adjusted discount rates.

For bank premises and properties classified under level 3, the fair values are determined by:

- (i) discounting a projected cash flow series associated with the properties using risk adjusted discount rates. The valuation takes into account expected market rental growth and occupancy rate of the respective properties. The discount rates used have been adjusted for the quality and location of the buildings and the tenant credit quality. The fair value measurement is positively correlated to the expected market rental growth and the occupancy rate, and negatively correlated to the risk-adjusted discount rates; and

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.3 Fair values of non-financial assets and liabilities (continued)

Information about Level 3 fair value measurements (continued)

- (ii) using direct comparison approach to value properties in their respective existing states and uses on the market basis assuming sale with immediate vacant possession and by making reference to comparable sales evidence. The valuations take into account the characteristic of the properties which included the location, size, shape, view, floor level, year of completion and others factors collectively. Higher premium for properties with higher characteristic will result in a higher fair value measurement.

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

Bank premises and properties:	HK\$'000
At 1 January 2018	645,804
Addition for the period	–
Exchange rate and other adjustment	1,192
Depreciation charge for the period	(8,737)
Surplus on revaluation	4,182
At 30 June 2018	642,441
Investment properties:	HK\$'000
At 1 January 2018	117,407
Fair value adjustment	–
Exchange adjustment	–
At 30 June 2018	117,407
Bank premises and properties:	HK\$'000
At 1 January 2017	655,436
Addition for the year	–
Transferred to investment properties	(34,500)
Exchange rate and other adjustment	19,135
Depreciation charge for the year	(17,346)
Surplus on revaluation	23,079
At 31 December 2017	645,804
Investment properties:	HK\$'000
At 1 January 2017	79,658
Transferred from bank premises and properties	34,500
Fair value adjustment	500
Exchange adjustment	2,749
At 31 December 2017	117,407

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**5 Segment reporting****5.1 Class of business**

The Group comprises eight operating segments. Asia Pacific Business represents the banking business in Asia Pacific Region. Corporate and investment banking mainly comprises corporate banking, the provision of debt capital market and investment banking. Commercial banking represents commercial lending and trade financing. Retail banking represents retail banking, hire purchase and leasing, and credit card business. Global markets and trading represents foreign exchange, money market and capital market activities. Institutional banking represents financial institution business. Chinese Mercantile Bank represents the business of the Bank's subsidiary in Mainland China. Unallocated items mainly comprise the central management unit, bank premises, inter-segment elimination entries and any items which cannot be reasonably allocated to specific operating segments.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

5 Segment reporting (continued)

5.1 Class of business (continued)

30 June 2018	Asia-Pacific Business HK\$'000	Corporate and investment banking HK\$'000	Commercial banking HK\$'000	Retail banking HK\$'000	Global markets and trading HK\$'000	Institutional banking HK\$'000	Chinese Mercantile Bank HK\$'000	Unallocated HK\$'000	Total HK\$'000
Net interest income	172,517	558,651	1,394,953	874,618	560,758	510,935	1,189,203	506,858	5,768,493
Fee and commission income	45,932	269,494	345,931	448,669	1	149,913	86,673	67,229	1,413,842
Fee and commission expense	-	(2,766)	(4,026)	(168,691)	-	-	(1,502)	-	(176,985)
Net fee and commission income	45,932	266,728	341,905	279,978	1	149,913	85,171	67,229	1,236,857
Net trading income/(expense)	4,324	46,040	114,823	90,990	(176,769)	18,711	(47,521)	(42,743)	7,855
Net gain on financial assets and liabilities designated at fair value through profit or loss	-	-	-	-	270,123	-	11,987	-	282,110
Dividend income from financial investments	-	-	-	-	-	-	-	2,780	2,780
Other operating income	-	-	77	92	-	-	5,154	1,858	7,181
Operating income	222,773	871,419	1,851,758	1,245,678	654,113	679,559	1,243,994	535,982	7,305,276
Operating expenses	(47,038)	(105,583)	(308,956)	(678,081)	(172,788)	(114,556)	(203,040)	(24,922)	(1,654,964)
Operating profit before impairment losses	175,735	765,836	1,542,802	567,597	481,325	565,003	1,040,954	511,060	5,650,312
Net impairment losses on financial assets	(7,668)	(54,663)	(240,821)	(33,969)	(16,967)	(49,451)	(203,367)	(171,251)	(778,157)
Operating profit after impairment losses	168,067	711,173	1,301,981	533,628	464,358	515,552	837,587	339,809	4,872,155
Net loss on disposal of property, plant and equipment	-	-	(4)	(2,009)	-	-	(777)	(1,426)	(4,216)
Net gain on disposal financial assets designated at fair value through other comprehensive income	-	-	-	-	122,516	-	16,673	-	139,189
Operating profit	168,067	711,173	1,301,977	531,619	586,874	515,552	853,483	338,383	5,007,128
Share of profit of associates	-	-	-	-	-	-	-	26,020	26,020
Profit before tax	168,067	711,173	1,301,977	531,619	586,874	515,552	853,483	364,403	5,033,148
Segment assets	19,809,865	97,443,185	135,581,391	77,463,090	166,236,528	42,197,591	154,999,679	281,039,654	974,770,983
Interest in associates	-	-	-	-	-	-	-	431,805	431,805
Total assets	19,809,865	97,443,185	135,581,391	77,463,090	166,236,528	42,197,591	154,999,679	281,471,459	975,202,788
Total liabilities	15,654,609	78,508,719	118,690,136	190,151,826	8,747,602	102,723,858	141,749,762	204,543,814	860,770,326
Capital expenditure	20	63	313	19,723	418	73	5,313	22,141	48,064
Depreciation and amortization charge	39	51	448	20,850	1,420	84	8,744	20,253	51,889

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

5 Segment reporting (continued)

5.1 Class of business (continued)

30 June 2017	Asia-Pacific Business HK\$'000	Corporate and investment banking HK\$'000	Commercial banking HK\$'000	Retail banking HK\$'000	Global markets and trading HK\$'000	Institutional banking HK\$'000	Chinese Mercantile Bank HK\$'000	Unallocated HK\$'000	Total HK\$'000
Net interest income	83,209	416,321	1,087,622	653,006	598,493	383,628	1,027,109	270,207	4,519,595
Fee and commission income	60,437	179,379	424,384	346,824	–	108,240	123,442	37,660	1,280,366
Fee and commission expense	–	(6,135)	(5,888)	(118,442)	–	–	(2,303)	–	(132,768)
Net fee and commission income	60,437	173,244	418,496	228,382	–	108,240	121,139	37,660	1,147,598
Net trading income/(expense)	1,441	20,105	96,398	56,635	106,073	20,285	(118,729)	(154,539)	27,669
Net loss on financial assets and liabilities designated at fair value through profit or loss	–	–	–	–	(20,590)	–	–	–	(20,590)
Dividend income from financial investments	–	–	–	–	–	–	–	2,913	2,913
Other operating income	–	–	291	676	46	79	1,316	1,064	3,472
Operating income	145,087	609,670	1,602,807	938,699	684,022	512,232	1,030,835	157,305	5,680,657
Operating expenses	(33,264)	(89,068)	(275,222)	(599,683)	(154,004)	(90,655)	(172,122)	(8,509)	(1,422,527)
Operating profit before impairment losses	111,823	520,602	1,327,585	339,016	530,018	421,577	858,713	148,796	4,258,130
Net impairment losses on financial assets	(7,960)	(20,114)	6,375	(20,763)	4,964	(14,096)	(4,162)	266	(55,490)
Operating profit after impairment losses	103,863	500,488	1,333,960	318,253	534,982	407,481	854,551	149,062	4,202,640
Net loss on disposal of property, plant and equipment	–	–	–	(860)	–	–	–	(1,576)	(2,436)
Net gain on disposal of available-for-sale financial investments	–	–	–	–	199,483	–	7,521	–	207,004
Net gain on disposal of held-to-maturity financial investments	–	–	–	–	19,793	–	–	–	19,793
Operating profit	103,863	500,488	1,333,960	317,393	754,258	407,481	862,072	147,486	4,427,001
Share of loss of associates	–	–	–	–	–	–	–	(3,161)	(3,161)
Profit before tax	103,863	500,488	1,333,960	317,393	754,258	407,481	862,072	144,325	4,423,840
Segment assets	11,758,110	92,720,304	139,976,347	60,254,933	149,983,117	41,311,098	158,812,007	193,944,512	848,760,428
Interest in associates	–	–	–	–	–	–	–	380,090	380,090
Total assets	11,758,110	92,720,304	139,976,347	60,254,933	149,983,117	41,311,098	158,812,007	194,324,602	849,140,518
Segment liabilities	11,575,123	91,767,694	138,172,091	60,726,661	136,249,795	52,923,577	147,253,791	122,742,384	761,411,116
Total liabilities	11,575,123	91,767,694	138,172,091	60,726,661	136,249,795	52,923,577	147,253,791	122,742,384	761,411,116
Capital expenditure	176	–	102	19,084	601	24	3,400	20,218	43,605
Depreciation and amortization charge	37	66	512	25,648	2,592	694	8,586	23,474	61,609

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

5 Segment reporting (continued)

5.2 Geographical area

The Group operates predominantly in Hong Kong. The geographical analysis, which has been classified by the location of the principal operations, is as follows:

For the six months ended 30 June 2018

	Hong Kong HK\$'000	Asia Pacific (excluding Hong Kong) HK\$'000	Consolidated HK\$'000
Operating income	6,060,246	1,245,030	7,305,276
Profit before tax	4,176,666	856,482	5,033,148
Total assets	820,210,932	154,991,856	975,202,788
Total liabilities	719,020,732	141,749,594	860,770,326
Contingent liabilities and commitments	205,471,943	38,945,318	244,417,261
Capital expenditure during the period	42,751	5,313	48,064

For the six months ended 30 June 2017

	Hong Kong HK\$'000	Asia Pacific (excluding Hong Kong) HK\$'000	Consolidated HK\$'000
Operating income	4,640,661	1,039,996	5,680,657
Profit before tax	3,550,505	873,335	4,423,840
Total assets	690,331,226	158,809,292	849,140,518
Total liabilities	614,160,995	147,250,121	761,411,116
Contingent liabilities and commitments	231,049,135	26,513,290	257,562,425
Capital expenditure during the period	40,205	3,400	43,605

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
6 Net interest income

	30 Jun 2018	30 Jun 2017
	HK\$'000	HK\$'000
Interest income on:		
Cash and balances with banks and other financial institutions	768,729	542,101
Placements with banks and other financial institutions	1,310,659	243,983
Advances and other accounts	8,685,257	6,782,718
Available-for-sale financial investments	–	1,187,009
Investment securities measured at fair value through other comprehensive income	1,722,948	–
Held-to-maturity financial investments	–	943,301
Investment securities measured at amortised cost	840,014	–
	13,327,607	9,699,112
Interest expense on:		
Deposits from banks and other financial institutions	2,412,020	1,613,278
Deposits from customers	3,909,926	2,869,846
Certificates of deposit issued	914,367	341,966
Debt securities in issue	5,353	–
Subordinated debts measured at amortised cost	279,428	277,083
Others	38,020	77,344
	7,559,114	5,179,517
Net interest income	5,768,493	4,519,595

Included in the above is interest income accrued on impaired financial assets of HK\$10,154,015 (first half of 2017: HK\$22,828,000), including unwinding of discounts on loan impairment losses of HK\$8,876,000 (first half of 2017: HK\$12,886,000).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

7 Net fee and commission income

	30 Jun 2018 HK\$'000	30 Jun 2017 HK\$'000
Loans, overdrafts and guarantees	682,208	652,412
Securities and brokerage	185,415	115,240
Trade finance	72,623	74,616
Credit card	199,691	137,228
Remittance	45,976	41,187
Insurance	43,883	62,611
Other retail and commercial banking services	48,509	16,439
Securities arrangement fee	36,889	25,881
Others	98,648	154,752
Fee and commission income	1,413,842	1,280,366
Fee and commission expense	(176,985)	(132,768)
Net fee and commission income	<u>1,236,857</u>	<u>1,147,598</u>
Of which:		
Net fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at FVTPL	754,831	689,524
Net fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	15,441	50,171
Of which:		
Fee and commission income by product line constituting not less than 10% of the total amount of fee and commission income, as follows:		
– syndication loan	423,177	323,008
– credit card	199,691	137,228
– securities and brokerage	185,415	115,240
– term loan	141,700	232,720

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
8 Net trading income

	30 Jun 2018 HK\$'000	30 Jun 2017 HK\$'000
Equity investments	–	(411)
Debt securities – Financial assets held for trading	12,472	10,678
– Available-for-sale financial investments	–	6,293
– Investment securities designated at FVTOCI	6,663	–
Derivatives	(166,109)	170,985
Foreign exchange	149,069	(163,147)
	2,095	24,398
Gain/(loss) from hedging activities		
Fair value hedges		
– Net (loss)/gain on hedged items attributable to the hedged risk	(267,350)	27,397
– Net gain/(loss) on hedging instruments	273,110	(24,126)
	5,760	3,271
Total net trading income	7,855	27,669

There is no gain or loss on financial liabilities measured at amortised cost included in total net trading income for first half of 2018 (first half of 2017: Nil).

9 Net gain/(loss) on financial assets and liabilities designated as at FVTPL

	30 Jun 2018 HK\$'000	30 Jun 2017 HK\$'000
Financial assets designated as at FVTPL	(351,181)	–
Financial liabilities designated as at FVTPL	633,291	(20,590)
Total net gain/(loss) on financial assets and liabilities designated as at FVTPL	282,110	(20,590)

10 Dividend income from financial investments

	30 Jun 2018 HK\$'000	30 Jun 2017 HK\$'000
Dividend income from financial investments:		
– Listed financial investments	–	163
– Unlisted financial investments	2,780	2,750
Total dividend income from financial investments	2,780	2,913

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

11 Other operating income

	30 Jun 2018 HK\$'000	30 Jun 2017 HK\$'000
Rental income from investment properties	558	1,783
Less: Direct operating expenses arising from investment properties that generated rental income during the period	(44)	(39)
Others	6,667	1,728
	<u>7,181</u>	<u>3,472</u>
Total other operating income	<u>7,181</u>	<u>3,472</u>

12 Operating expenses

	30 Jun 2018 HK\$'000	30 Jun 2017 HK\$'000
Staff costs		
– Salaries and other costs	884,966	756,726
– Retirement benefit costs	46,430	37,895
	<u>931,396</u>	<u>794,621</u>
Premises and equipment expenses, excluding depreciation and amortisation		
– Rental of premises	244,638	208,475
– Others	93,760	83,032
	<u>338,398</u>	<u>291,507</u>
Depreciation and amortisation expenses	51,889	61,586
Auditors' remuneration	2,340	2,340
General administration expenses	55,296	43,888
Business promotion expenses	78,328	64,907
Communication expenses	49,056	46,393
Other operating expenses	148,261	117,285
	<u>1,654,964</u>	<u>1,422,527</u>
Total operating expenses	<u>1,654,964</u>	<u>1,422,527</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
13 Net impairment losses on financial assets

	30 Jun 2018	30 Jun 2017
	HK\$'000	HK\$'000
Charge for impairment losses on loans and advances		
– New allowances	1,173,686	122,118
– Allowances released	(477,187)	(63,321)
– Recoveries of amounts previously written off	(1,055)	(1,900)
Net charge for impairment losses on loans and advances	695,444	56,897
Charge for impairment losses on other financial assets	82,713	–
Charge for impairment losses on placement	–	1,239
Charge for impairment losses on held-to-maturity financial investments	–	2,318
Write back of impairment losses on available-for-sale financial investments	–	(4,964)
Net impairment losses on financial assets	<u>778,157</u>	<u>55,490</u>

14 Taxation

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable for overseas branches and subsidiaries have been calculated at the rates of tax prevailing in the countries in which the Group operates.

The amount of tax charged to the consolidated income statement represents:

	30 Jun 2018	30 Jun 2017
	HK\$'000	HK\$'000
Current tax – Provision for Hong Kong profits tax for the period	772,077	589,507
– Provision for overseas tax for the period	245,705	219,749
Under provision in respect of prior years	13,007	2,031
Deferred taxation	(92,847)	(2,882)
	<u>937,942</u>	<u>808,405</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

14 Taxation (continued)

The difference between the tax expense for the Group's profit before tax and the theoretical amount that would arise using the current tax rate is as follows:

	30 Jun 2018 HK\$'000	30 Jun 2017 HK\$'000
Profit before tax	5,033,149	4,423,840
Calculated at a tax rate of 16.5% (2017: 16.5%)	830,470	729,933
Effect of different tax rates in other countries	79,815	75,661
Income not subject to tax	(29,782)	(8,989)
Expenses not deductible for tax purposes	48,725	9,247
Adjustments in respect of current tax of previous periods	13,007	2,031
Share of tax of an associate	(4,293)	522
	<u>937,942</u>	<u>808,405</u>
Tax charge		

15 Interim dividend

At a meeting held on 22 August 2018, the Board does not recommend the payment of interim dividend for the six months ended 30 June 2018 (first half of 2017: Nil).

16 Earnings per share

Basic earnings per share amount is calculated by dividing the profit for the period attributable to shareholders of the Group by the weighted average number of ordinary shares in issue during the period.

	30 Jun 2018	30 Jun 2017
Profit attributable to shareholders (HK\$'000)	4,095,206	3,615,434
Weighted average number of ordinary shares in issue (thousands)	2,577,000	2,577,000
Basic earnings per share	HK\$1.59	HK\$1.40

Diluted earnings per share amount for the periods ended 30 June 2018 and 30 June 2017 were the same as basic earnings per share, as the Group had no potential dilutive ordinary shares in issue during those periods.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
17 Cash and balances with banks and other financial institutions

	30 Jun 2018	31 Dec 2017
	HK\$'000	HK\$'000
Cash on hand	519,511	555,221
Balances with central banks	13,663,614	23,068,844
Balances with other banks and financial institutions	19,267,247	32,125,254
Placements with banks and other financial institutions maturing within one month	167,665,304	105,176,582
Less: impairment allowances		
– 12-month ECL	(1,097)	–
	<u>201,114,579</u>	<u>160,925,901</u>

18 Placements with banks and other financial institutions

	30 Jun 2018	31 Dec 2017
	HK\$'000	HK\$'000
Placements with banks and other financial institutions maturing between one and twelve months	81,964,470	78,670,984
Less: impairment allowances		
– 12-month ECL	(27,061)	–
	<u>81,937,409</u>	<u>78,670,984</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

19 Financial assets held for trading

	30 Jun 2018	31 Dec 2017
	HK\$'000	HK\$'000
Debt securities, at fair value:		
Unlisted	<u>2,034,410</u>	<u>—</u>
	<u>2,034,410</u>	<u>—</u>
Financial assets held for trading	<u>2,034,410</u>	<u>—</u>
Financial assets held for trading are analysed by category of issuer as follows:		
Banks and other financial institutions	<u>2,034,410</u>	<u>—</u>
	<u>2,034,410</u>	<u>—</u>

20 Financial assets designated at FVTPL

	30 Jun 2018	31 Dec 2017
	HK\$'000	HK\$'000
Others	<u>2,489,529</u>	<u>731,157</u>
Total financial assets designated at FVTPL	<u>2,489,529</u>	<u>731,157</u>
Financial assets designated at FVTPL are analysed by category of issuer as follows:		
Corporate entities	<u>2,489,529</u>	<u>731,157</u>
	<u>2,489,529</u>	<u>731,157</u>

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

The Group enters into the following equity, foreign exchange and interest rate related derivative financial instruments for trading and risk management purposes:

Currency forwards represent commitments to purchase and sell foreign currencies on a future date.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an exchange of currencies, interest rates (for example, fixed rate for floating rate), or a combination of all these (i.e., cross-currency interest rate swaps). Except for certain currency swap contracts, no exchange of principal takes place.

Foreign currency, interest rate and equity options are contractual agreements under which the seller (writer) grants the purchaser (holder) the rights, but not an obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of the financial instrument at a predetermined price. In consideration for the assumption of foreign exchange and interest rate risk, the seller receives a premium from the purchaser. Options are negotiated OTC between the Group and its counterparty or traded through the stock exchange (for example, exchange-traded stock options).

The contractual/notional amounts and fair values of derivative financial instruments held by the Group are set out in the following tables. The contractual/notional amounts of these instruments indicate the volume of transactions outstanding at the end of the reporting periods and certain of them provide a basis for comparison with fair value instruments recognised on the consolidated statement of financial position. However, they do not necessarily indicate the amounts of future cash flows involved or the current fair values of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates and equity relative to their terms. The aggregate fair values of derivative financial instruments (assets and liabilities) can fluctuate significantly from time to time.

The Group trades derivative products (both exchange-traded or OTC) mainly for customer business. The Group strictly follows risk management policies in providing derivative products to the customers and in trading derivative products in the interbank market.

Derivatives are also used to manage the interest rate risk of the banking book. A derivative instrument must be included in the approved product list before any transactions for that instrument can be made. There are limits to control the notional amount of exposure arising from derivative transactions and the maximum tenor of the deal and management alert limit in profit or loss is set. Every derivative transaction must be input into the relevant system for settlement, mark to market revaluation, reporting and control.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

21 Derivative financial instruments (continued)

The following tables summarise the contractual/notional amounts of each significant type of derivative financial instrument as at 30 June 2018 and 31 December 2017:

As at 30 June 2018	Contractual/ notional amount HK\$'000	Fair value assets HK\$'000	Fair value liabilities HK\$'000
(1) Derivatives held for trading			
(a) Foreign exchange derivatives			
– Currency forwards	540,378,825	5,073,021	(4,647,595)
– OTC currency options purchased	39,247,864	227,974	–
– OTC currency options written	40,519,930	–	(243,682)
– Structured foreign exchange instruments	216,593	1,189	(1,189)
Total foreign exchange derivatives		5,302,184	(4,892,466)
(b) Interest rate derivatives			
– Interest rate swaps	188,093,960	1,591,512	(1,222,103)
– Interest rate futures	9,920,304	247	(497)
Total interest rate derivatives		1,591,759	(1,222,600)
(c) Equity derivatives			
– Equity options	41,895	1,098	(1,100)
– Equity swaps	9,007,624	6,084,144	(308,982)
Total equity derivatives		6,085,242	(310,082)
Total derivative assets/(liabilities) held for trading		12,979,185	(6,425,148)
(2) Derivatives held for hedging			
(a) Derivatives designated as fair value hedges			
– Interest rate swaps	11,476,024	430,438	(15,446)
(b) Derivatives designated as cash flow hedges			
– Interest rate swaps	12,744,288	229,182	(4,338)
Total derivative assets/(liabilities) held for hedging		659,620	(19,784)
Total recognised derivative assets/(liabilities)		13,638,805	(6,444,932)

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

As at 31 December 2017	Contractual/ notional amount HK\$'000	Fair value assets HK\$'000	Fair value liabilities HK\$'000
(1) Derivatives held for trading			
(a) Foreign exchange derivatives			
– Currency forwards	486,542,985	7,590,152	(7,605,804)
– OTC currency options purchased	30,178,371	103,092	(1,402)
– OTC currency options written	28,908,605	104	(138,106)
– Structured foreign exchange instruments	331,328	1,277	(1,278)
Total foreign exchange derivatives		7,694,625	(7,746,590)
(b) Interest rate derivatives			
– Interest rate swaps	132,640,241	669,032	(435,871)
– Interest rate futures	2,734,935	4,128	(82)
Total interest rate derivatives		673,160	(435,953)
(c) Equity derivatives			
– Equity options	2,098	6	(6)
– Equity swaps	9,010,672	6,597,564	(287,253)
Total equity derivatives		6,597,570	(287,259)
Total derivative assets/(liabilities) held for trading		<u>14,965,355</u>	<u>(8,469,802)</u>
(2) Derivatives held for hedging			
(a) Derivatives designated as fair value hedges			
– Interest rate swaps	16,247,287	286,329	(133,945)
(b) Derivatives designated as cash flow hedges			
– Interest rate swaps	12,471,304	142,454	(13,558)
Total derivative assets/(liabilities) held for hedging		<u>428,783</u>	<u>(147,503)</u>
Total recognised derivative assets/(liabilities)		<u>15,394,138</u>	<u>(8,617,305)</u>

The contractual or notional amounts of contingent liabilities and commitments and derivative financial instruments provide only an indication of the volume of business outstanding at the end of the reporting period and bear little relation to the underlying risks of the exposures.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

21 Derivative financial instruments (continued)

Among the above derivative financial instruments, certain of them were designated as hedging instruments.

Fair value hedges are used by the Group to protect it against changes in the fair value of financial assets due to movements in market interest rates. The financial instruments hedged for interest rate risk mainly include debt securities. The Bank uses interest rate swaps to hedge interest rate risk.

The effectiveness of the hedge based on changes in fair value of the derivatives and the hedged items attributable to the hedged risk recognised in the income statement during the period is presented as follows:

	30 Jun 2018 HK\$'000	30 Jun 2017 HK\$'000
Gain/(loss) arising from fair value hedge, net:		
– Hedging instruments	(267,350)	(24,126)
– Hedged items attributable to the hedged risk	273,110	27,397
	<u>5,760</u>	<u>3,271</u>

Cash flow hedge consists of interest rate swaps entered into that are used to protect the Group against exposures to variability of floating-rate assets and liabilities. Gains and losses on the effective portion of the swaps are initially recognised directly in equity, in the cash flow hedge reserve, and are transferred to the income statement when the forecast cash flows affect the income statement. The gains and losses on ineffective portions of such derivatives are recognised immediately in the income statement. During the period, there was no ineffectiveness recognised in the income statement that arose from cash flow hedges (first half of 2017: Nil).

Below is a schedule indicating as at 30 June 2018 and 31 December 2017, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss:

	Within 1 year HK\$ million	1-3 years HK\$ million	3-8 years HK\$ million	Over 8 years HK\$ million
30 June 2018				
Cash inflows (assets)	92	131	–	–
Cash outflows (liabilities)	(171)	(257)	(230)	–
Net cash flows	(79)	(126)	(230)	–
31 December 2017				
Cash inflows (assets)	59	112	–	–
Cash outflows (liabilities)	(88)	(138)	(125)	–
Net cash flows	(29)	(26)	(125)	–

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

21 Derivative financial instruments (continued)

During the period, realised gain amounting to HK\$14,230,000 previously recognised in equity under the cash flow hedge reserve was transferred to the income statement and included in the net interest income (first half of 2017: realised gain of HK\$16,738,000).

There were no transactions for which cash flow hedge accounting had to be ceased in the first half of 2018 as a result of the highly probable cash flows no longer being expected to occur.

The aggregate replacement costs and credit risk weighted amounts of the above contingent liabilities and commitments and derivative financial instruments are:

	30 Jun 2018		31 Dec 2017	
	Replacement cost	Credit risk weighted amount	Replacement cost	Credit risk weighted amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contingent liabilities and commitments	–	35,435,030	–	27,360,886
Exchange rate contracts				
– Forwards	2,027,515	1,082,106	3,241,603	1,442,662
– Swaps	1,168,273	1,467,020	1,058,943	1,732,202
– Options purchased	82,788	86,483	35,225	54,619
– Options written	21,984	151,197	16,433	144,494
– Structured FX	–	356,886	1,125	462,772
	<u>3,300,560</u>	<u>3,143,692</u>	<u>4,353,329</u>	<u>3,836,749</u>
Interest rate contracts				
– Swaps	694,955	748,360	539,370	653,657
– Forward forward deposit	–	3,924	–	–
– Eurodollar Futures Product	247	247	4,125	4,125
	<u>695,202</u>	<u>752,531</u>	<u>543,495</u>	<u>657,782</u>
Equity contracts				
– Options written	1,098	471	6	14
– Swaps	6,084,144	6,737,661	6,597,564	7,251,608
	<u>6,085,242</u>	<u>6,738,132</u>	<u>6,597,570</u>	<u>7,251,622</u>
Precious metal except Gold				
– Forward	–	–	96	943
	<u>–</u>	<u>–</u>	<u>96</u>	<u>943</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

21 Derivative financial instruments (continued)

	30 Jun 2018		31 Dec 2017	
	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000
Debt securities or other commodities				
– US Treasury Futures Product	–	26,837	2	3,909
	–	26,837	2	3,909
OTC with netting				
– Forwards	326,079	372,278	1,829,442	532,295
– Swaps	68,007	147,188	22,199	28,744
– Options purchased	42,170	30,316	12,264	11,073
– Options written	11,118	14,805	33,349	20,891
– Structured FX	1,098	26,073	–	104,487
	448,472	590,660	1,897,254	697,490
Total	<u>10,529,476</u>	<u>46,686,882</u>	<u>13,391,746</u>	<u>39,809,381</u>

The replacement costs and credit risk weighted amounts of the exposures do not take into account the effects of bilateral netting arrangements.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

22 Advances and other accounts

22.1 Loans and advances to customers, banks and trade bills

	30 Jun 2018 HK\$'000	31 Dec 2017 HK\$'000
Loans and advances to customers, banks and trade bills measured at amortised cost		
– Advances to customers	466,982,542	450,742,307
– Advances to banks	7,018,511	1,771,997
– Trade bills	<u>11,612,363</u>	<u>10,384,978</u>
Gross loans and advances to customers, banks and trade bills measured at amortised cost	485,613,416	462,899,282
Accrued interest	<u>1,491,962</u>	<u>1,328,277</u>
	487,105,378	464,227,559
Less: impairment allowances		
– 12-month ECL	(2,528,919)	–
– Lifetime ECL not credit impaired	(237,910)	–
– Lifetime ECL credit impaired	(2,262,107)	–
– Individually assessed	–	(2,107,891)
– Collectively assessed	<u>–</u>	<u>(2,289,469)</u>
	482,076,442	459,830,199
Loans and advances to customers, banks and trade bills measured at fair value through other comprehensive income		
– Trade bills	<u>3,665,572</u>	<u>–</u>
	<u>485,742,014</u>	<u>459,830,199</u>
	30 Jun 2018 HK\$'000	31 Dec 2017 HK\$'000
Gross impaired loans and advances	4,518,399	3,063,807
Impairment allowances made in respect of such loans	2,262,107	2,107,891
Gross impaired loans and advances as a percentage of total gross loans and advances	0.92%	0.66%
Market value of collateral	<u>3,137,508</u>	<u>639,550</u>

Impaired loans and advances are defined as those loans which are individually determined to have objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event has an impact on the estimated future cash flows of the loans that can be reliably estimated.

The impaired loan ratio of advances to customers was 0.97% as at 30 June 2018 (31 December 2017: 0.68%).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

22 Advances and other accounts (continued)

22.1 Loans and advances to customers, banks and trade bills (continued)

There were no impaired advances to banks and trade bills as at 30 June 2018 and 31 December 2017; nor were there any individual impairment allowances made for them on these two dates.

22.2 Loan impairment allowance against advances to customers and banks

30 June 2018

	12-month ECL HK\$'000	Lifetime ECL not credit impaired HK\$'000	Lifetime ECL credit impaired HK\$'000	Total HK\$'000
Movement in impairment allowances on loans and advances:				
Restated at 1 January 2018	2,447,088	107,646	2,107,457	4,662,191
Transfer to 12-month ECL	15,041	(15,041)	–	–
Transfer to Lifetime ECL not credit impaired	(8,427)	8,427	–	–
Transfer to Lifetime ECL credit impaired	(1,914)	(523)	2,437	–
Net remeasurement of loss allowance (including FX)	(9,791)	(12)	(22,544)	(32,347)
New financial assets originated or purchased	459,623	163,492	549,516	1,172,631
Financial assets that have been derecognised	(372,769)	(26,535)	(77,883)	(477,187)
Write-off	–	–	(297,407)	(297,407)
Recoveries of amount previously written off (Note 13)	–	–	1,055	1,055
Changes in models/risk parameters	68	456	(524)	–
At 30 June 2018	<u>2,528,919</u>	<u>237,910</u>	<u>2,262,107</u>	<u>5,028,936</u>
Deducted from:				
Advances to customers	2,490,392	237,910	2,262,107	4,990,409
Advances to banks	37,740	–	–	37,740
Trade bills	787	–	–	787
	<u>2,528,919</u>	<u>237,910</u>	<u>2,262,107</u>	<u>5,028,936</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
22 Advances and other accounts (continued)
22.2 Loan impairment allowance against advances to customers and banks (continued)

31 December 2017

	Individual assessment HK\$'000	Collective assessment HK\$'000	Total HK\$'000
Movement in impairment allowances on loans and advances:			
Balance at 1 January 2017	1,828,704	1,972,715	3,801,419
Impairment losses	312,250	246,758	559,008
Loans written off as uncollectibles	(37,759)	–	(37,759)
Unwinding of discounts of loan impairment allowances recognized as interest income	(26,498)	–	(26,498)
Recoveries of loans written off in previous years	2,387	–	2,387
Exchange and other adjustments	28,807	69,996	98,803
	<u>2,107,891</u>	<u>2,289,469</u>	<u>4,397,360</u>
At 31 December 2017	<u>2,107,891</u>	<u>2,289,469</u>	<u>4,397,360</u>
Deducted from:			
Advances to customers	2,107,891	2,257,832	4,365,723
Advances to banks	–	6,139	6,139
Trade bills	–	25,498	25,498
	<u>2,107,891</u>	<u>2,289,469</u>	<u>4,397,360</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

22 Advances and other accounts (continued)

22.3 Overdue advances to customers and banks (excluding trade bills and receivables)

The gross amount of the Group's advances to customers (excluding trade bills and receivables) which have been overdue is analysed as follows:

	Gross advances HK\$'000	% of advances to customers	Market value of collateral HK\$'000	Amount of secured balance HK\$'000	Amount of unsecured balance HK\$'000	Lifetime ECL credit-impaired impairment allowance HK\$'000
As at 30 Jun 2018						
Overdue for:						
Six months or less but over three months	107,810	0.0	376	376	107,434	202
One year or less but over six months	25,208	0.0	33,568	16,874	8,334	6,211
Over one year	2,181,549	0.5	181,358	64,790	2,116,759	1,643,807
	<u>2,314,567</u>	<u>0.5</u>	<u>215,302</u>	<u>82,040</u>	<u>2,232,527</u>	<u>1,650,220</u>
As at 31 Dec 2017						
Overdue for:						
Six months or less but over three months	30,990	0.0	69,668	23,698	7,292	5,227
One year or less but over six months	52,961	0.0	31,445	28,529	24,432	9,157
Over one year	2,640,816	0.6	390,169	215,735	2,425,081	1,936,040
	<u>2,724,767</u>	<u>0.6</u>	<u>491,282</u>	<u>267,962</u>	<u>2,456,805</u>	<u>1,950,424</u>

The criteria for eligible collateral are as follows:

- The market value of the collateral is readily determinable or can be reasonably established and verified;
- The collateral is marketable and there exists a readily available secondary market for disposing of the collateral;
- The Bank's rights to repossess the collateral is legally enforceable and without impediment; and
- If the collateral is a movable asset, it should be under the Bank's custody, or its whereabouts can be located by the Bank.

The eligible collaterals are mainly properties, deposits and shares.

There were no advances to banks (excluding trade bills and receivables) which were overdue for over 3 months as at 30 June 2018 and 31 December 2017.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

22 Advances and other accounts (continued)

22.4 Other overdue assets

	30 Jun 2018 Accrued interest HK\$'000	30 Jun 2018 Other assets HK\$'000	31 Dec 2017 Accrued interest HK\$'000	31 Dec 2017 Other assets HK\$'000
Six months or less but over three months	-	-	18	-
One year or less but over six months	-	-	-	-
Over one year	<u>29</u>	<u>-</u>	<u>78,093</u>	<u>-</u>
	<u>29</u>	<u>-</u>	<u>78,111</u>	<u>-</u>

Other assets refer to trade bills and receivables.

22.5 Rescheduled advances

	30 Jun 2018 HK\$'000	% of advances to customers	31 Dec 2017 HK\$'000	% of advances to customers
Rescheduled advances (excluding overdue loans over three months)	<u>269,361</u>	<u>0.06</u>	<u>554,251</u>	<u>0.12</u>

Rescheduled advances which have been overdue for more than three months under the revised repayment terms are included in the analysis of overdue advances in Note 22.3 above.

There were no advances to banks which were overdue; nor were there any rescheduled advances to banks as at 30 June 2018 and 31 December 2017.

22.6 Repossessed assets

There are three repossessed assets of the Group as at 30 June 2018 (31 December 2017: two). The three repossessed assets are held by the Bank with a total carrying market value of HK\$17,960,000 as at 30 Jun 2018. Repossessed assets only comprise properties which the Group has acquired access or control (e.g. through legal actions or voluntary actions by the borrowers concerned) for releasing in full or in part on the obligations of the borrowers.

22.7 Cash collateral on securities borrowed and reverse repurchase agreements

In respect of reverse repurchase transactions, there were no collateral held by the Group which were permitted to be sold or repledged as at 30 June 2018 (31 December 2017: Nil). No collateral has been actually sold or repledged by the Group as at 30 June 2018 and 31 December 2017. The transactions are conducted on terms that are usual and customary to standard lending activities.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

23 Investment securities

	30 Jun 2018		
	Measured at FVTOCI HK\$'000	Measured at amortised cost HK\$'000	Total HK\$'000
Investment securities			
Debt securities:			
– Listed in Hong Kong	47,632,809	10,120,627	57,753,436
– Listed outside Hong Kong	49,747,269	28,174,838	77,922,107
– Unlisted	9,411,238	28,979,512	38,390,750
	<u>106,791,316</u>	<u>67,274,977</u>	<u>174,066,293</u>
Equity securities			
– Listed outside Hong Kong	–	–	–
– Unlisted	994,844	–	994,844
	<u>994,844</u>	<u>–</u>	<u>994,844</u>
Total investment securities	<u>107,786,160</u>	<u>67,274,977</u>	<u>175,061,137</u>
Market value of listed securities	<u>97,380,078</u>	<u>38,165,226</u>	<u>135,545,304</u>
Debt securities are comprised of the following items			
– Treasury bills	10,417,967	24,821,867	35,239,834
– Certificates of deposit held	748,975	7,574,825	8,323,800
– Other debt securities	95,624,374	34,878,285	130,502,659
	<u>106,791,316</u>	<u>67,274,977</u>	<u>174,066,293</u>
Investment securities are analysed by category of issuer as follows			
– Central governments and central banks	15,923,034	34,375,538	50,298,572
– Public sector entities	602,023	2,308,614	2,910,637
– Banks and other financial institutions	46,056,069	23,415,280	69,471,349
– Corporate entities	45,205,034	7,175,545	52,380,579
	<u>107,786,160</u>	<u>67,274,977</u>	<u>175,061,137</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
23 Investment securities (continued)

	31 Dec 2017		
	Available- for-sale HK\$'000	Held- to-maturity HK\$'000	Total HK\$'000
Investment securities			
Debt securities:			
– Listed in Hong Kong	30,391,965	21,943,970	52,335,935
– Listed outside Hong Kong	36,860,612	26,619,754	63,480,366
– Unlisted	10,120,993	46,620,910	56,741,903
	<u>77,373,570</u>	<u>95,184,634</u>	<u>172,558,204</u>
Equity securities:			
– Listed outside Hong Kong	–	–	–
– Unlisted	250,364	–	250,364
	<u>250,364</u>	<u>–</u>	<u>250,364</u>
Total investment securities	<u>77,623,934</u>	<u>95,184,634</u>	<u>172,808,568</u>
Market value of listed securities	<u>67,252,577</u>	<u>48,219,671</u>	<u>115,472,248</u>
Debt securities are comprised of the following items:			
– Treasury bills	3,935,126	30,172,995	34,108,121
– Certificates of deposit held	1,816,855	16,762,197	18,579,052
– Other debt securities	71,621,589	48,249,442	119,871,031
	<u>77,373,570</u>	<u>95,184,634</u>	<u>172,558,204</u>
Investment securities are analysed by category of issuer as follows:			
– Central governments and central banks	8,643,787	39,071,532	47,715,319
– Public sector entities	628,925	1,082,295	1,711,220
– Banks and other financial institutions	41,174,775	36,139,838	77,314,613
– Corporate entities	27,176,447	18,890,969	46,067,416
	<u>77,623,934</u>	<u>95,184,634</u>	<u>172,808,568</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

23 Investment securities (continued)

Movement in provision for expected credit loss of investment securities:

	30 Jun 2018	
	Measured at FVTOCI	Measured at amortised Cost
Restated balance at 1 January 2018	57,891	50,969
Net charge for the period	24,763	13
	<u>82,654</u>	<u>50,982</u>

Movement in provision for impairment allowances on investment securities:

	31 Dec 2017	
	Available-for- sale	Held- to- maturity
At 1 January 2017	82,923	—
Net (write-back)/ charge for the year	(4,363)	2,229
At 31 December 2017	<u>78,560</u>	<u>2,229</u>

24 Investment properties

	30 Jun 2018 HK\$'000	31 Dec 2017 HK\$'000
Carrying amount at 1 January	117,407	79,658
Transferred from bank premises and properties	—	34,500
Net revaluation gain	—	500
Exchange difference	—	2,749
Carrying amount at 30 June/31 December	<u>117,407</u>	<u>117,407</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
25 Property, plant and equipment

	Bank premises and properties HK\$'000	Leasehold improvements HK\$'000	Furniture and equipment HK\$'000	Total HK\$'000
At 31 December 2017 and 1 January 2018:				
Cost or valuation	827,563	410,947	436,593	1,675,103
Accumulated depreciation and impairment	(181,759)	(261,455)	(326,121)	(769,335)
Net book value at 31 December 2017 and 1 January 2018	645,804	149,492	110,472	905,768
Additions	–	16,051	22,371	38,422
Disposals	–	(2,720)	(4,400)	(7,120)
Revaluation	4,182	–	–	4,182
Depreciation provided during the year	(8,737)	(15,949)	(21,717)	(46,403)
Exchange rate and other adjustments	1,192	–	2,814	4,006
Net book value at 30 June 2018	642,441	146,874	109,540	898,855
At 30 June 2018:				
Cost or valuation	827,606	418,429	442,601	1,688,636
Accumulated depreciation and impairment	(185,165)	(271,555)	(333,061)	(789,781)
Net book value at 30 June 2018	642,441	146,874	109,540	898,855
The analysis of cost or valuation of the above assets at 30 June 2018 is as follows:				
At cost	–	418,429	442,601	861,030
At valuation	642,441	–	–	642,441
	642,441	418,429	442,601	1,503,471

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

25 Property, plant and equipment (continued)

	Bank premises and properties HK\$'000	Leasehold improvements HK\$'000	Furniture and equipment HK\$'000	Total HK\$'000
At 31 December 2016 and 1 January 2017:				
Cost or valuation	830,379	389,851	426,737	1,646,967
Accumulated depreciation and impairment	(174,943)	(233,216)	(294,495)	(702,654)
Net book value at 31 December 2016 and 1 January 2017	655,436	156,635	132,242	944,313
Additions	–	27,481	27,653	55,134
Disposals	–	(2,592)	(15,467)	(18,059)
Transferred to investment properties	(34,500)	–	–	(34,500)
Revaluation	23,079	–	–	23,079
Depreciation provided during the year	(17,346)	(33,274)	(49,314)	(99,934)
Exchange rate and other adjustments	19,135	1,242	15,358	35,735
Net book value at 31 December 2017	645,804	149,492	110,472	905,768
At 31 December 2017:				
Cost or valuation	827,563	410,947	436,593	1,675,103
Accumulated depreciation and impairment	(181,759)	(261,455)	(326,121)	(769,335)
Net book value at 31 December 2017	645,804	149,492	110,472	905,768
The analysis of cost or valuation of the above assets is as follows:				
At 31 December 2017:				
At cost	–	410,947	436,593	847,540
At valuation	645,804	–	–	645,804
	645,804	410,947	436,593	1,493,344

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
26 Other assets

	30 Jun 2018	31 Dec 2017
	HK\$'000	HK\$'000
Interest receivable	3,507,011	2,529,062
Prepayments	217,337	196,241
Settlement accounts	2,622,294	2,287,325
Margin deposit paid	2,557,836	1,671,763
Factoring	59,321	61,632
Others	1,052,708	230,006
	10,016,507	6,976,029
Less: impairment allowances		
– 12-month ECL	(17,158)	–
– Lifetime ECL not credit impaired	(35,000)	–
	9,964,349	6,976,029

27 Deposits from banks and other financial institutions

	30 Jun 2018	31 Dec 2017
	HK\$'000	HK\$'000
Deposits from banks and other financial institutions	216,585,982	177,631,111

In respect of repurchase transactions, the fair value of collateral which were permitted to be sold or repledged from the Group was HK\$53,830,325,000 as at 30 June 2018 (2017: HK\$17,195,326,000). The transactions are conducted on terms that are usual and customary to standard lending activities.

28 Deposits from customers

	30 Jun 2018	31 Dec 2017
	HK\$'000	HK\$'000
Demand deposits and current accounts	50,841,428	48,434,764
Savings deposits	111,424,080	117,658,228
Time, call and notice deposits	361,078,228	330,218,791
	523,343,736	496,311,783

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

29 Deferred income tax

The movements in the deferred income tax asset/(liabilities) accounts are as follows:

	30 Jun 2018 HK\$'000	31 Dec 2017 HK\$'000
At 1 January	320,505	269,650
Opening adjustment in accordance with HKFRS 9	48,866	—
	369,371	269,650
Credited to income statement	92,847	37,646
Credited to equity	295,057	54,784
Exchange and other adjustments	(6,213)	(41,575)
At 30 June / 31 December	751,062	320,505

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated statement of financial position.

The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	30 Jun 2018 HK\$'000	31 Dec 2017 HK\$'000
Net deferred income tax assets recognised in the consolidated statement of financial position	751,062	320,505
Net deferred income tax liabilities recognised in the consolidated statement of financial position	—	—
At 30 June / 31 December	751,062	320,505

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

30 Subordinated debts measured at amortised cost

	30 Jun 2018		31 Dec 2017	
	HK\$'000	Interest rate %	HK\$'000	Interest rate %
Subordinated fixed rate notes				
– with a final maturity on 30 November 2020	3,912,395	5.125%	3,897,775	5.125%
– with a final maturity on 10 October 2023 (callable on 10 October 2018)	3,918,112	4.5%	3,893,658	4.5%
– with a final maturity on 30 December 2024 (callable on 30 December 2019)	3,920,119	4.5%	3,907,050	4.5%
	<u>11,750,626</u>		<u>11,698,483</u>	

Subordinated debts were issued by the Bank for the development and expansion of business. Fixed rate debts have been fully subscribed by the ultimate holding company. These notes have been qualified and included as the Bank's supplementary capital in accordance with the Capital Rules.

The Bank has not had any defaults of principal or interest or other breaches with respect to the subordinated debts during the period (2017: Nil).

31 Other liabilities

	30 Jun 2018 HK\$'000	31 Dec 2017 HK\$'000
Interest payable	6,035,362	5,345,577
Salaries and welfare payable	609,221	628,045
Settlement accounts	6,706,895	2,866,718
Margin deposit received	985,430	2,640,164
Factoring	60,747	61,633
Others	1,774,785	1,139,736
	<u>16,172,440</u>	<u>12,681,873</u>
Impairment allowances for loan commitment and financial guarantees		
– 12-month ECL	127,270	–
– Lifetime ECL not credit impaired	158	–
	<u>16,299,868</u>	<u>12,681,873</u>

The Group has not had any defaults of principal, interest or other breaches with respect to their liabilities during the period (2017: Nil).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

32 Share capital

	Number of shares (in thousands)	Ordinary shares HK\$'000
At 1 January 2017, 31 December 2017, 1 January 2018 & 30 June 2018	<u>2,577,000</u>	<u>36,379,331</u>

33 Additional Equity Instruments

	30 Jun 2018 HK\$'000	31 Dec 2017 HK\$'000
US\$1 billion undated non-cumulative subordinated additional tier 1 capital securities	7,738,332	7,738,332
US\$2.536 billion undated non-cumulative subordinated additional tier 1 capital securities	<u>19,897,375</u>	<u>–</u>
	<u>27,635,707</u>	<u>7,738,332</u>

On 21 July 2016, the Bank issued Basel III-compliant Non-Cumulative Subordinated Additional Tier 1 Capital Securities (the “Additional Tier 1 Capital Securities”) in the aggregate amount of US\$1 billion (equivalent to approximately HK\$7,738 million net of related issuance costs). The Additional Tier 1 Capital Securities bear a 4.250% distribution until the first call date on 21 July 2021. If the Additional Tier 1 Capital Securities are not called, the distribution will be reset based on the then-prevailing 5-year US Treasury yield plus a fixed initial spread (3.135% Per annum) every 5 years.

The distribution shall be payable semi-annually, with the first distribution payment date being 21 January 2018. The Bank has the right to cancel distribution payment (subject to the requirement as set out in the terms and conditions of the Additional Tier 1 Capital Securities) and the distribution cancelled shall not be cumulative. In addition, the Bank must cancel distribution payment (subject to the requirements set out in the terms and conditions of the Additional Tier 1 Capital Securities) if (a) the distribution scheduled to be paid together with other distributions scheduled to be paid on any parity obligations during the Bank’s then current fiscal year would cause the Bank to exceed its distributable reserves; or (b) the HKMA directs the Bank to cancel such distribution, or an applicable Hong Kong banking regulation or other requirement of the HKMA prevents the payment in full of dividends or other distributions when due on any other parity obligation.

The Bank has a call option to redeem all the outstanding capital securities from 21 July 2021 or any subsequent distribution payment date thereafter.

On 21 March 2018, the Bank issued Basel III-compliant Non-Cumulative Subordinated Additional Tier 1 Capital Securities (the “Additional Tier 1 Capital Securities”) in the aggregate amount of US\$2.536 billion (equivalent to approximately HK\$19,897 million net of related issuance costs). The Additional Tier 1 Capital Securities bear a 4.90% distribution until the first call date on 21 March 2023. If the Additional Tier 1 Capital Securities are not called, the distribution will be reset based on the then-prevailing 5-year US Treasury yield plus a fixed initial spread (2.25% per annum) every 5 years.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**33 Additional Equity Instruments (continued)**

The distribution shall be payable semi-annually, with the first distribution payment date being 21 September 2018. The Bank has the right to cancel distribution payment (subject to the requirements set out in the terms and conditions of the Additional Tier 1 Capital Securities) and the distribution cancelled shall not be cumulative. In addition, the Bank must cancel distribution payment (subject to the requirements set out in the terms and conditions of the Additional Tier 1 Capital Securities) if (a) the distribution scheduled to be paid together with other distributions scheduled to be paid on any parity obligations during the Bank's then current fiscal year would cause the Bank to exceed its distributable reserves; or (b) the HKMA directs the Bank to cancel such distribution, or an applicable Hong Kong banking regulation or other requirement of the HKMA prevents the payment in full of dividends or other distributions when due on any other parity obligation.

The Bank has a call option to redeem all the outstanding capital securities from 21 March 2023 or any subsequent distribution payment date thereafter.

The principal of the Additional Tier 1 Capital Securities will be written off up to the amount as directed by the HKMA if the HKMA notifies the Bank that in the opinion of the HKMA or a relevant government body, the Bank would become non-viable if there is no written off of the principal. The Additional Tier 1 Capital Securities also contain Hong Kong Bail-in Power. Each holder of the Additional Tier 1 Capital Securities shall be subject to the exercise by the Hong Kong Resolution Authority to any or a combination of the following:

- (a) reduction or cancellation of all or a part of the principal and/or distribution of the Additional Tier 1 Capital Securities;
- (b) the conversion of all or a part of the principal and/or distribution of the Additional Tier 1 Capital Securities into shares of the Bank or another person; and/or
- (c) the amendment of the maturity, distribution payment date and/or the distribution amount of the Additional Tier 1 Capital Securities.

34 Reserves

The general reserve of the Group for the period is comprised of:

- the transfer of retained earnings which is distributable to the shareholders of the Group; and
- a statutory surplus reserve of a subsidiary representing 10% of the profit after tax appropriation and 1% of the book value of risk assets as required by law and regulation in PRC. This reserve is used to offset accumulated losses or increase in capital.

As at 30 June 2018, the Group has earmarked a "Regulatory Reserve" of HK\$2,720,603,000 (31 December 2017: HK\$3,589,630,000) from retained earnings. The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purpose. Movements in the reserve are made directly through retained earnings and in consultation with the Hong Kong Monetary Authority.

The consolidated profit attributable to shareholders of the Group includes a profit of HK\$3,358,608,000 (31 December 2017: HK\$6,251,439,000) which has been dealt with in the accounts of the Bank.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

35 Related-party transactions

Listed out below is a summary of the balances and transactions entered into during the ordinary course of business with the ultimate holding company and fellow subsidiaries and associates, including the acceptance of placement of interbank deposits, corresponding banking transactions and off-balance sheet transactions. The activities were priced at the relevant market rates at the time of transactions.

35.1 Ultimate holding company

	Six months ended	
	30 Jun 2018	30 Jun 2017
	HK\$'000	HK\$'000
Interest income	1,364,698	452,281
Interest expense	1,236,181	870,662
Other operating income ^{1, 2}	121,563	(43,075)
Other operating expenses ^{3, 4}	577	431
	30 Jun 2018	31 Dec 2017
	HK\$'000	HK\$'000
Amounts due from	162,397,417	132,669,933
Amounts due to	195,891,848	173,944,147

1. In accordance with the collaboration agreement dated 3 July 2001 and the supplemental collaboration agreements dated 4 February 2005 and 13 February 2008, management fee income was received from the Hong Kong Branch of ICBC (the "Branch") for the provision of services such as accounting and budgeting, internal audit, marketing and back office settlement and clearing. In accordance with the collaboration agreement dated 21 December 2012, management fee income was received from the ultimate holding company for the provision of management, administrative and marketing services of its credit card business.
2. In accordance with the custodian and trustee services agreement dated 4 September 2007 and the supplemental custodian and trustee services agreements dated 16 May 2008 and 31 December 2009, services fees were paid by the ultimate holding company to the Bank for providing custodian, settlement and clearing services in relation to the investments outside the PRC in certain investment products by the customers of the ultimate holding company in connection with the Qualified Domestic Institutional Investor Scheme of the PRC.
3. In accordance with the service level agreement with the Bank dated 21 February 2002 (as amended and supplemented by supplemental agreements), and the service levels agreement with subsidiary of the Bank dated 19 March 2008, service fee expense was paid to the ultimate holding company for the provision of data processing services to the Bank and its subsidiaries.
4. In accordance with the tenancy agreement dated 23 May 2012, rental expense was paid to the ultimate holding company for the leasing of property located in Hong Kong.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

35 Related-party transactions (continued)

35.1 Ultimate holding company (continued)

The transactions with the ultimate holding company included the issuance of fixed rate certificates of deposit and subordinated fixed rate notes, which were both fully subscribed by the ultimate holding company and its branches. As at 30 June 2018, the Bank has issued certificates of deposit with a nominal value of US\$4,200,000,000, HK\$11,500,000,000 and RMB300,000,000 to the branch of the ultimate holding company (first half of 2017: certificates of deposit with a nominal value of HK\$17,900,000,000 and RMB300,000,000).

On 21 March 2018, the Bank issued Basel III-compliant Non-Cumulative Subordinated Additional Tier 1 Capital Securities (the “Additional Tier 1 Capital Securities”) in the aggregate amount of US\$2.536 billion (equivalent to approximately HK\$19,897 million net of related issuance costs) to the ultimate holding company.

As at 30 June 2018, the Bank has committed facilities to the ultimate holding company in the amount of RMB700,000,000 (2017: RMB700,000,000). The Bank also received conglomerate guarantee on loan from the ultimate holding company in the amount of HK\$16,705,915,000 (2017: HK\$16,901,337,000).

i. Undertaking from the ultimate holding company

To demonstrate its support to the Bank, a Letter of Comfort dated 3 July 2001 was executed by the ultimate holding company, pursuant to which it will provide the Bank with such funding as may be required by the Bank to ensure that it will maintain sufficient capital and liquidity levels.

Simultaneously on 3 July 2001, the ultimate holding company and the Bank entered into a guarantee agreement whereby the ultimate holding company agreed to guarantee to the extent of HK\$9,000,000,000, being the payment obligations of certain customers whose “large exposures” were transferred to the Bank pursuant to the business transfer agreement and to indemnify the Bank in respect of any losses incurred if any obligation of such customers becomes unenforceable. There are no on-balance sheet large exposures of the Bank covered by this guarantee as at 30 June 2018 (first half of 2017: HK\$ Nil).

ii. Sub-participation of loans

During the period, the Bank entered into various capital market transactions with the Branch, which include arranging participation/sub-participation in loans, acquiring and disposing of interests in syndicated or individual loans, subscribing to and/or issuing of debt securities and tax efficient financing. These transactions included sub-participation in loans of the Bank by the ultimate holding company and/or the Branch for a total of HK\$3,719,611,000 (first half of 2017: HK\$4,466,511,000). For both the first half of 2018 and 2017, there was no sub-participation in loans of the Branch by the Bank. The total fee attributable to the above transactions of approximately HK\$4,033,000 (first half of 2017: HK\$3,721,000) was paid by the Bank to the Branch. These transactions were priced based either on the terms of the underlying loan agreement, if applicable, or prevailing market rates if such comparable rates were available, or on terms that were no less favorable than those available to other independent loan members.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

35 Related-party transactions (continued)

35.2 Fellow subsidiaries

	Six months ended	
	30 Jun 2018	30 Jun 2017
	HK\$'000	HK\$'000
Interest income	46,833	76,603
Interest expense	8,794	5,646
Other operating income	(44,417)	3,643
	30 Jun 2018	31 Dec 2017
	HK\$'000	HK\$'000
Amounts due from	12,504,632	12,059,240
Amounts due to	384,163	2,102,117

35.3 Associates

	Six months ended	
	30 Jun 2018	30 Jun 2017
	HK\$'000	HK\$'000
Interest expense	321	1,229
	30 Jun 2018	31 Dec 2017
	HK\$'000	HK\$'000
Amounts due to	81,930	145,812

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

35 Related-party transactions (continued)

35.4 Transactions with other state-controlled entities and government authorities

Transactions with the following state-controlled entities and government authorities are considered as individually significant or collectively significant to the Group:

- The Ministry of Finance of the PRC
- Central Huijin Investment Limited (“Huijin”)
- Other banks and financial institutions under the direction of the PRC government in which Huijin has equity interests

	Six months ended	
	30 Jun 2018	30 Jun 2017
	HK\$'000	HK\$'000
Interest income	617,603	508,663
Interest expense	50,232	106,873
Operating income	(19,276)	(2,980)
	30 Jun 2018	31 Dec 2017
	HK\$'000	HK\$'000
Amounts due from	79,343,441	50,748,508
Amounts due to	7,589,071	4,125,141

In addition, the Group may also enter into transactions with other state-controlled entities and government authorities, including but not limited to lending, deposit taking and the provision of financial products or services. In the opinion of management, transactions with these state-controlled entities and government authorities were conducted in the ordinary course of business under normal terms and conditions and at market rates. As a result, none of these transactions are considered individually significant.

35.5 Key management personnel remuneration

Remuneration for key management personnel, including the Bank's directors' emoluments, is as follows:

	Six months ended	
	30 Jun 2018	30 Jun 2017
	HK\$'000	HK\$'000
Employee benefits	9,138	10,817

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

35 Related-party transactions (continued)

35.6 Material transactions with key management personnel

During the period, the Group entered into certain banking transactions consisting of loans and advances, deposits and other financial related transactions with related parties in the normal course of business. The related parties include key management personnel of the Bank, their close family members and companies controlled or significantly influenced by them.

	Six months ended	
	30 Jun 2018	30 Jun 2017
	HK\$'000	HK\$'000
Interest income	44	49
Interest expense	331	211
	30 Jun 2018	31 Dec 2017
	HK\$'000	HK\$'000
Loans and advances	2,602	5,173
Deposits	41,647	44,460

36 Transferred financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets.

Repurchase transactions and securities lending transactions

Transferred financial assets that do not qualify for derecognition mainly include debt securities held by counterparties as collateral under repurchase agreements and debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities sold under agreements to repurchase in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may in certain circumstances require or be required to pay additional cash collateral. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, it recognises a financial liability for cash received as collateral.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

36 Transferred financial assets (continued)

Repurchase transactions and securities lending transactions (continued)

The following table analyses the carrying amount of the abovementioned financial assets transferred to third parties that did not qualify for derecognition and their associated financial liabilities:

	30 Jun 2018		31 Dec 2017	
	Carrying amount of transferred assets HK\$'000	Carrying amount of associated liabilities HK\$'000	Carrying amount of transferred assets HK\$'000	Carrying amount of associated liabilities HK\$'000
Repurchase agreements	5,618,833	5,358,652	2,484,684	1,838,238
Securities lending agreements	55,124,646	50,707,508	17,273,414	15,670,365

Discounted bills transactions

The Group enters into discounted bills transactions in the normal course of business by which it transfers discounted bills to third parties in the PRC with recourse term which would give rise to the Group's continuing involvement in the transferred assets. As at 30 June 2018, the Group retained obligation on those PRC discounted bills transferred but not matured with a carrying amount of HK\$1,378,268 (31 December 2017: HK\$831,646).

37 Off-balance sheet exposures

37.1 Contingent liabilities and commitments

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

	30 Jun 2018	30 Jun 2018	31 Dec 2017	31 Dec 2017
	Contractual amount HK\$'000	Credit risk weighted amount HK\$'000	Contractual amount HK\$'000	Credit risk weighted amount HK\$'000
Direct credit substitutes	15,356,828	6,265,996	14,120,487	4,623,651
Transaction-related contingencies	86,051	39,754	82,307	33,920
Trade-related contingencies	11,093,332	2,136,556	10,218,602	1,988,043
Other commitments with an original maturity of:				
– Unconditionally cancellable	161,993,001	–	187,186,093	–
– With original maturity of less than one year	828,870	82,887	841,730	84,423
– With original maturity of over one year	55,059,179	26,909,837	45,699,339	20,630,849
	<u>244,417,261</u>	<u>35,435,030</u>	<u>258,148,558</u>	<u>27,360,886</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

37 Off-balance sheet exposures (continued)

37.2 Capital commitments

Capital commitments for property, plant and equipment outstanding as at 30 June 2018 and 31 December 2017 not provided for in the financial statements are as follows:

	30 Jun 2018 HK\$'000	31 Dec 2017 HK\$'000
Expenditure contracted, but not provided for	21,695	30,704
Expenditure authorized, but not contracted for	–	641
	<u>21,695</u>	<u>31,345</u>

37.3 Operating lease commitments

The Group had future aggregate minimum lease payments under non-cancellable operating leases as at 30 June 2018 and 31 December 2017 as follows:

	30 Jun 2018 HK\$'000	31 Dec 2017 HK\$'000
Land and buildings		
– Not later than one year	478,542	359,943
– Later than one year and not later than five years	567,167	528,770
– More than five years	14,245	18,590
	<u>1,059,954</u>	<u>907,303</u>

37.4 Operating lease arrangements

The Group leases its investment properties (see Note 24) under operating lease arrangements, with leases negotiated for terms ranging from two to eight years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the prevailing market conditions.

At 30 June 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 Jun 2018 HK\$'000	31 Dec 2017 HK\$'000
Within one year	2,524	1,971
In the second to fifth years, inclusive	837	1,642
	<u>3,361</u>	<u>3,613</u>

During the period, the Group had no unrecognised contingent rentals receivable (2017: Nil).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

38 Offsetting of financial assets and financial liabilities

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

	Gross amounts of recognized financial assets HK\$'000	Gross amounts offset in the balance sheet HK\$'000	Net amounts presented in the balance sheet HK\$'000	Amounts not set off in the balance sheet		
				Financial instruments HK\$'000	Cash collateral received HK\$'000	Net amount HK\$'000
At 30 June 2018						
Derivatives						
financial assets	5,831,023	–	5,831,023	(2,564,945)	(506,180)	2,759,898
Other assets	548,253	–	548,253	(442,879)	–	105,374
	<u>6,379,276</u>	<u>–</u>	<u>6,379,276</u>	<u>(3,007,824)</u>	<u>(506,180)</u>	<u>2,865,272</u>

	Gross amounts of recognized financial liabilities HK\$'000	Gross amounts offset in the balance sheet HK\$'000	Net amounts presented in the balance sheet HK\$'000	Amounts not set off in the balance sheet		
				Financial instruments HK\$'000	Cash collateral pledged HK\$'000	Net amount HK\$'000
At 30 June 2018						
Derivatives financial						
liabilities	4,075,082	–	4,075,082	(2,564,945)	(1,363,509)	146,628
Other liabilities	623,232	–	623,232	(442,879)	–	180,353
	<u>4,698,314</u>	<u>–</u>	<u>4,698,314</u>	<u>(3,007,824)</u>	<u>(1,363,509)</u>	<u>326,981</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

38 Offsetting of financial assets and financial liabilities (continued)

	Gross amounts of recognized financial assets HK\$'000	Gross amounts offset in the balance sheet HK\$'000	Net amounts presented in the balance sheet HK\$'000	Amounts not set off in the balance sheet		Net amount HK\$'000
				Financial instruments HK\$'000	Cash collateral received HK\$'000	
At 31 Dec 2017						
Derivatives financial assets	6,549,121	–	6,549,121	(3,191,332)	(1,777,715)	1,580,074
Other assets	814,815	–	814,815	(697,108)	–	117,707
	7,363,936	–	7,363,936	(3,888,440)	(1,777,715)	1,697,781

	Gross amounts of recognized financial liabilities HK\$'000	Gross amounts offset in the balance sheet HK\$'000	Net amounts presented in the balance sheet HK\$'000	Amounts not set off in the balance sheet		Net amount HK\$'000
				Financial instruments HK\$'000	Cash collateral pledged HK\$'000	
At 31 Dec 2017						
Derivatives financial liabilities	6,595,068	–	6,595,068	(3,191,332)	(740,721)	2,663,015
Other liabilities	1,069,467	–	1,069,467	(697,108)	–	372,359
	7,664,535	–	7,664,535	(3,888,440)	(740,721)	3,035,374

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Derivatives and reverse repurchase/repurchase agreements included in amounts not set off in the balance sheet relate to transactions where:

- the counterparty has an offsetting exposure with the Group and a master netting or similar arrangement is in place with a right of set off only in the event of default, insolvency or bankruptcy, or the offset criteria are otherwise not satisfied; and
- cash collateral received/pledged in respect of the transactions described above.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

39 Involvement with unconsolidated structured entities

The Group holds an interest in some structured entities sponsored by third party institutions through investments in the notes issued by these structured entities. Such structured entities include investment funds and segregated asset management plans and the Group does not consolidate these structured entities. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors and are financed through the issue of notes to investors.

The following table sets out an analysis of the carrying amounts of interests held by the Group in the structured entities sponsored by third party institutions:

	30 June 2018	
	Carrying amount HK\$'000	Maximum exposure HK\$'000
Investment funds	5,881,164	5,881,164
Segregated asset management plans	2,489,529	2,489,529
	<u>8,370,693</u>	<u>8,370,693</u>
	31 December 2017	
	Carrying amount HK\$'000	Maximum exposure HK\$'000
Investment funds	6,437,777	6,437,777
Segregated asset management plans	731,157	731,157
	<u>7,168,934</u>	<u>7,168,934</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

39 Involvement with unconsolidated structured entities (continued)

The following table sets out an analysis of the line items in the statement of financial position as in which assets were recognised relating to the Group's interests in structured entities sponsored by third parties:

		30 June 2018	
		Financial assets designated at FVTPL HK\$'000	Derivative financial assets HK\$'000
Investment funds		–	5,881,164
Segregated asset management plans		2,489,529	–
		<u>2,489,529</u>	<u>5,881,164</u>
		31 December 2017	
		Financial assets designated at FVTPL HK\$'000	Derivative financial assets HK\$'000
Investment funds		–	6,437,777
Segregated asset management plans		731,157	–
		<u>731,157</u>	<u>6,437,777</u>

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

The following information is disclosed as part of the accompanying information to the interim financial disclosure statements and does not form part of the interim financial disclosure statements.

1 Capital adequacy and capital base

Capital adequacy ratios were compiled in accordance with the Banking (Capital) Rules (the “Capital Rules”) issued by the HKMA. The ratios were compiled in accordance with the amended Capital Rules effective from 1st January, 2013 for the implementation of the “Basel III” capital accord. In view of the Capital Rules, the Bank has adopted the “standardized (credit risk) approach” for the calculation of the risk-weighted assets for credit risk, “basic indicator approach” for the calculation of the operational risk and the “standardized (market risk) approach” for the calculation of market risk.

The basis of consolidation for financial accounting purposes is in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), as described in Note 2 to the interim financial disclosure statements. Subsidiaries included in the consolidation for regulatory purposes are specified in a notice from the HKMA in accordance with section 3C (1) of the Capital Rules.

Under the Capital Rules, the basis of consolidation in calculating the capital ratios follows that of the financial reporting with the exclusion of subsidiaries which are “regulated financial entities” (e.g., insurance and securities companies) as defined by the Capital Rules. Accordingly, the investment costs of these unconsolidated subsidiaries are deducted from the capital base. There is no capital shortfall of these unconsolidated subsidiaries.

A list of these unconsolidated subsidiaries is shown below:

	Principal activities	At 30 June 2018	
		Total assets HK\$'000	Total equity HK\$'000
ICBC (Asia) Bullion Company Limited	Inactive	7,436	7,423
ICBC (Asia) Futures Company Limited	Provision of futures business	102,596	102,537
ICBC Asset Management (Global) Company Limited*	Provision of asset management services	133,121	117,066
ICBC (Asia) Securities Limited	Provision of securities brokerage services	1,397,032	955,672
ICBC (Asia) Trustee Company Limited	Provision of trustee services	47,927	46,749
ICBC (Asia) Wa Pei Nominees Limited	Inactive	—	—
UB China Business Management Co. Ltd.	Inactive	—	—
Greater China Fund	Trust fund	1,267,183	1,265,665

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

As at 30 June, 2018, there are no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation but the method of consolidation differs. There are also no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation.

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

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

	30 Jun 2018 HK\$'000	31 Dec 2017 HK\$'000
Common Equity Tier 1 ("CET1") Capital		
CET1 capital instruments	36,379,331	36,379,331
Share premium arising from CET1 capital instruments	–	–
Retained earnings	46,413,493	42,988,708
of which: unaudited profit or loss of the current financial year and profit or loss of the immediately preceding financial year pending audit completion	4,006,947	7,628,616
Disclosed reserves	2,590,015	3,253,484
of which: fair value through other comprehensive income – financial assets/available-for-sale investment reserve	(1,738,774)	(1,038,568)
CET1 Capital before deductions	85,382,839	82,621,523
Deduct:		
Cumulative cash flow hedge reserves that relate to the hedging of financial instruments that are not fair valued on the balance sheet	(188,058)	(108,473)
Cumulative fair value gain or losses on liabilities of the institution that are fair-valued and result from changes in the own credit risk	–	–
Cumulative fair value gains arising from the revaluation of land and buildings	(560,831)	(605,736)
Regulatory reserve for general banking risk	(2,694,795)	(3,550,720)
Goodwill (net of related deferred tax liability)	(980,154)	(980,154)
Other intangible assets (net of related deferred tax liability)	(19,814)	(15,676)
Deferred tax assets in excess of deferred tax liabilities	(751,062)	(320,505)
Cumulative losses below depreciated cost arising from the Institution's holdings of land and building	(263)	(302)
Debit valuation adjustments in respect of derivative contracts	(3,212)	(53,016)
CET1 Capital after deductions	80,184,650	76,986,941
Add:		
Additional Tier 1 Capital after deductions	27,734,986	7,802,379
Tier 1 Capital after deductions	107,919,636	84,789,320
Common Equity Tier 2 ("CET 2") Capital		
Tier 2 capital instruments issued and share premium	9,390,931	9,740,139
of which: amount that is subject to phase out	1,561,369	1,943,503
Reserve attributable to fair value gains on revaluation of holdings of land and buildings	252,374	272,581
Regulatory reserve for general banking risks and collective provisions included in Tier 2 Capital (limited to 1.25% of risk-weighted amount)	5,719,459	5,840,190
Tier 2 Capital before deductions	15,362,764	15,852,910
Deductions	–	–
Tier 2 Capital after deductions	15,362,764	15,852,910
Total capital base after deductions	123,282,400	100,642,230

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

	30 Jun 2018	31 Dec 2017
	HK\$'000	HK\$'000
Risk-weighted assets		
Credit risk	624,108,172	567,577,535
Market risk	25,215,650	17,068,200
Operational risk	24,310,125	22,998,675
Deduct: Portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 capital	—	—
Portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 capital	(308,457)	(333,155)
Total risk-weighted assets	<u>673,325,490</u>	<u>607,311,255</u>
	30 Jun 2018	31 Dec 2017
CET1 capital ratio	11.91%	12.68%
Tier 1 capital ratio	16.03%	13.96%
Total capital ratio	18.31%	16.57%
Capital conservation buffer ratio	1.88%	1.25%

To comply with the Banking (Disclosure) Rules, the Group established a section “Regulatory Capital Disclosure” on its website to house all the information relating to the disclosure of regulatory capital instruments and the reconciliation to the Group’s published interim financial disclosure statements.

The disclosure will be published on its website (www.icbcasia.com) according to the Banking (Disclosure) Rules and will include the following information:

- A description of the main features and the full terms and conditions of the Group’s CET1 capital, Additional Tier 1 capital and Tier 2 capital.
- A detailed breakdown of the Group’s CET1 capital, Additional Tier 1 capital, Tier 2 capital and regulatory deductions, using the standard template as specified by the HKMA.
- A full reconciliation between the Group’s accounting and regulatory balance sheets, using the standard template as specified by the HKMA.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

2 Liquidity Coverage Ratio

The Group complies with the minimum requirement of 90% of Liquidity Coverage Ratio (“LCR”) on a daily basis with effective from 1 January 2018 onwards, in accordance with the Banking (Liquidity) Rules issued by the HKMA.

	2018	2017
Average liquidity coverage ratio		
– First quarter	167.17%	131.86%
– Second quarter	150.74%	136.31%
– Third quarter	Not applicable	126.56%
– Fourth quarter	Not applicable	144.58%

Liquidity disclosures as required by section 103 and 103A of the Banking (Disclosure) Rules are available in the section of Regulatory Disclosures of our website www.icbcasia.com.

3 Segmental information

3.1 Advances to customers by geographical areas

The Group’s gross advances to customers by country or geographical area after taking into account any risk transfers are as follows:

30 June 2018	Gross advances to customers HK\$’000	Overdue advances for over three months HK\$’000	Impaired loans and advances HK\$’000	Lifetime ECL credit impaired HK\$’000	12-month ECL & Lifetime ECL not credit impaired HK\$’000
Hong Kong	242,639,219	601,347	613,479	416,579	908,925
Mainland China	205,918,343	1,713,220	3,904,920	1,845,528	1,787,713
Macau	4,356,719	–	–	–	10,584
Asia Pacific Region (excluding Hong Kong, Mainland China and Macau)	6,498,440	–	–	–	20,651
Others	7,569,821	–	–	–	38,956
	<u>466,982,542</u>	<u>2,314,567</u>	<u>4,518,399</u>	<u>2,262,107</u>	<u>2,766,829</u>

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

31 December 2017	Gross advances to customers HK\$'000	Overdue advances for over three months HK\$'000	Impaired loans and advances HK\$'000	Individual impairment allowances HK\$'000	Collective impairment allowances HK\$'000
Hong Kong	235,017,701	582,164	921,205	544,134	950,196
Mainland China	198,495,738	2,142,603	2,142,602	1,563,757	1,247,058
Macau	3,746,589	—	—	—	12,952
Asia Pacific Region (excluding Hong Kong, Mainland China and Macau)	6,361,297	—	—	—	22,555
Others	7,120,982	—	—	—	56,708
	<u>450,742,307</u>	<u>2,724,767</u>	<u>3,063,807</u>	<u>2,107,891</u>	<u>2,289,469</u>

Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

3.2 International claims

The information on international claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any recognised risk transfer. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country. Only regions constituting 10% or more of the aggregate international claims after taking into account any recognised risk transfer are disclosed.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

3 Segmental information (continued)

3.2 International claims (continued)

Analysis of the Bank's international claims by location and by type of counterparty is as follows:

			Non-bank private sector		
			Non-bank financial institution	Non-financial private sector	
30 June 2018	Banks HK\$ million	Official sector HK\$ million	HK\$ million	HK\$ million	Total HK\$ million
Developed countries	60,681	24,338	4,650	8,663	98,332
Offshore centres	31,810	19,157	11,490	297,112	359,569
Developing Europe	1	–	–	–	1
Developing Latin America and Caribbean	–	–	–	20	20
Developing Africa and Middle East	512	–	–	1	513
Developing Asia-Pacific	205,435	21,199	66,281	169,718	462,633
of which: China	204,622	21,199	66,281	166,563	458,665
Others	813	–	–	3,155	3,968
International organisations	–	4,370	–	–	4,370
	<u>298,439</u>	<u>69,064</u>	<u>82,421</u>	<u>475,514</u>	<u>925,438</u>
			Non-bank private sector		
			Non-bank financial institution	Non-financial private sector	
31 December 2017	Banks HK\$ million	Official sector HK\$ million	HK\$ million	HK\$ million	Total HK\$ million
Developed countries	41,724	17,348	4,994	5,280	69,346
Offshore centres	24,279	29,328	11,880	266,003	331,490
Developing Europe	1	–	–	–	1
Developing Latin America and Caribbean	1	–	–	31	32
Developing Africa and Middle East	909	2	–	1	912
Developing Asia-Pacific	198,734	24,845	63,720	172,986	460,285
of which: China	197,448	24,845	63,719	169,748	455,760
Others	1,286	–	1	3,238	4,525
International organisations	–	3,405	–	–	3,405
	<u>265,648</u>	<u>74,928</u>	<u>80,594</u>	<u>444,301</u>	<u>865,471</u>

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)
3 Segmental information (continued)
3.3 Mainland activities

The analysis of non-bank Mainland China exposures is based on the categories of non-bank counterparties and the types of direct exposures defined by the HKMA under the Banking (Disclosure) Rules with reference to the Part 3 of the “Return of Mainland China exposures – MA(BS) 20”, which includes the Mainland China exposures extended by the Bank and its overseas subsidiary and branch

	On-balance sheet exposure HK\$'000	Contingent liabilities HK\$'000	FX and derivatives contract HK\$'000	Total exposures HK\$'000
30 June 2018				
Type of counterparties				
(a) Central government central government owned entities and their subsidiaries and JVs	116,174,966	1,501,842	90,164	117,766,972
(b) Local government, local government owned entities and their subsidiaries and JVs	28,905,622	5,376,879	28,069	34,310,570
(c) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	134,334,135	14,918,841	148,080	149,401,056
(c) (i) Of which, PRC nationals residing in Mainland China or entities beneficially owned by Mainland interest	98,207,626	10,238,790	2,339	108,448,755
(d) Other entities of central government not reported in item (a) above	10,869,328	–	–	10,869,328
(e) Other entities of local government not reported in item (b) above	4,167,996	483,651	–	4,651,647
(f) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	24,493,160	–	34,784	24,527,944
(g) Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	28,572,693	2,598,876	60,229	31,231,798
	<u>347,517,900</u>	<u>24,880,089</u>	<u>361,326</u>	<u>372,759,315</u>

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

3 Segmental information (continued)

3.3 Mainland activities

	On-balance sheet exposure HK\$'000	Contingent liabilities HK\$'000	FX and derivatives contract HK\$'000	Total exposures HK\$'000
31 December 2017				
Type of counterparties				
(a) Central government central government owned entities and their subsidiaries and JVs	111,667,918	1,497,674	155,048	113,320,640
(b) Local government, local government owned entities and their subsidiaries and JVs	28,484,889	3,967,118	11,152	32,463,159
(c) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	126,611,245	15,258,900	426,845	142,296,990
(c) (i) Of which, PRC nationals residing in Mainland China or entities beneficially owned by Mainland interest	96,619,006	9,329,924	1,078	105,950,008
(d) Other entities of central government not reported in item (a) above	9,356,172	–	–	9,356,172
(e) Other entities of local government not reported in item (b) above	2,867,786	521,512	25,564	3,414,862
(f) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	30,727,784	185,937	87,994	31,001,715
(g) Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	24,140,650	2,336,751	41,155	26,518,556
	<u>333,856,444</u>	<u>23,767,892</u>	<u>747,758</u>	<u>358,372,094</u>

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

	30 Jun 2018	30 Jun 2018	31 Dec 2017	31 Dec 2017
	Gross loans	% of secured	Gross loans	% of secured
	and advances	advances	and advances	advances
	HK\$'000		HK\$'000	
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	34,627,472	36.94%	30,298,217	35.43%
– Property investment	22,304,504	77.52%	28,907,829	61.91%
– Financial concerns	38,587,586	0.03%	37,560,084	0.03%
– Stockbrokers	4,496,443	–	3,739,229	0.37%
– Wholesale and retail trade	16,805,569	48.30%	16,603,636	44.22%
– Civil engineering works	1,426,697	32.15%	1,129,729	39.83%
– Manufacturing	8,952,542	15.91%	8,735,533	16.76%
– Transport and transport equipment	24,687,533	49.49%	25,105,832	48.46%
– Electricity and gas	3,905,767	–	3,513,313	–
– Information technology	5,124,424	2.23%	4,752,439	2.42%
– Hotels, boarding houses and catering	966,673	53.92%	1,345,980	60.48%
– Recreational activities	60,076	98.31%	44,629	97.60%
– Others	29,906,081	29.57%	32,851,066	23.00%
Individuals				
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	358,084	96.81%	365,815	97.75%
– Loans for the purchase of other residential properties	38,391,243	98.52%	32,683,582	98.54%
– Credit card advances	415,094	–	405,927	–
– Others	11,771,573	86.76%	9,211,738	87.62%
Trade finance	18,119,168	18.53%	14,117,654	20.22%
Loans for use outside Hong Kong	206,076,013	31.75%	199,370,075	31.21%
	<u>466,982,542</u>	38.34%	<u>450,742,307</u>	36.45%

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

4 Advances to customers by industry sector (continued)

Individually impaired loans, overdue loans and advances over three months, impairment allowances and impaired loans and advances written off in respect of industry sectors that constitute 10% or more of the total advances to customers are as follows:

	30 Jun 2018 HK\$'000	31 Dec 2017 HK\$'000
(a) Loans for use outside Hong Kong		
Individually impaired loans	2,824,986	2,690,653
Overdue loans and advances over three months	2,478,491	2,386,148
12-month ECL and lifetime ECL not credit impaired impairment allowances	1,846,154	–
Lifetime ECL credit impaired impairment allowances	1,397,416	–
Individual impairment allowance	–	1,928,445
Collective impairment allowance	–	1,276,506
New impairment allowances charged to income statement	547,872	755,085
Impaired loans and advances written off during the period/year	–	–

5 Currency concentration

Currency concentrations – the table below summarises the net foreign currency positions of the Group. The net positions in foreign currency is disclosed when the currency constitutes 10% or more of the total net position of all foreign currencies. A sensitivity analysis calculates the effect of a reasonably possible movement in a currency rate against the Hong Kong dollar, with all other variables in the income statement and equity held constant.

Group	US\$ HK\$'000	RMB HK\$'000	Other foreign currencies HK\$'000	Total HK\$'000
30 June 2018				
Non-structural position				
Spot assets	421,124,762	201,870,131	42,624,445	665,619,338
Spot liabilities	(408,068,620)	(181,886,914)	(39,083,611)	(629,039,145)
Forward purchases	195,748,188	103,524,136	36,053,186	335,325,510
Forward sales	(246,380,242)	(116,902,859)	(38,969,874)	(402,252,975)
Net option position	(796,348)	(167,110)	14,442	(949,016)
Net long/(short) position	<u>(38,372,260)</u>	<u>6,437,384</u>	<u>638,588</u>	<u>(31,296,288)</u>
Net structural position	215,302	10,408,115	–	10,623,417

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

Group	US\$	RMB	Other foreign	Total
31 December 2017	HK\$'000	HK\$'000	currencies HK\$'000	HK\$'000
Non-structural position				
Spot assets	392,203,040	189,091,340	37,589,083	618,883,463
Spot liabilities	(358,925,107)	(182,331,514)	(45,075,800)	(586,332,421)
Forward purchases	175,885,921	91,750,561	60,046,251	327,682,733
Forward sales	(200,604,875)	(95,114,200)	(52,709,883)	(348,428,958)
Net option position	(371,214)	(1,083,456)	256,616	(1,198,054)
Net long/(short) position	<u>8,187,765</u>	<u>2,312,731</u>	<u>106,267</u>	<u>10,606,763</u>
Net structural position	214,396	9,914,580	–	10,128,976

Foreign currency exposures include those arising from the trading position. The net option position is calculated on the basis of the delta-weighted position of option contracts. The net structural position of the Group is the structural positions of the Bank's capital investment in overseas subsidiary Chinese Mercantile Bank.

6 Leverage Ratio

The leverage ratio was compiled in accordance with the Leverage Ratio Framework issued by the HKMA.

	30 Jun 2018	31 Dec 2017
Leverage Ratio	<u>10.36%</u>	<u>8.45%</u>

Leverage ratio disclosures as required by section 16FH of the Banking (Disclosure) Rule are available in the section of Regulatory Disclosures of our website www.icbcasia.com.

7 Countercyclical Capital Buffer Ratio

	30 Jun 2018	31 Dec 2017
Countercyclical Capital Buffer Ratio	<u>1.08%</u>	<u>0.75%</u>

The relevant disclosures pursuant to section 16FG of the Banking (Disclosure) Rules are available in the section of Regulatory Disclosures of our website www.icbcasia.com.

8 Net Stable Funding Ratio

	30 Jun 2018	31 Dec 2017
Net Stable Funding Ratio	<u>122.81%</u>	<u>–</u>

The relevant disclosures pursuant to section 103AB of the Banking (Disclosure) Rules are available in the section of Regulatory Disclosures of our website www.icbcasia.com.