

**創興銀行有限公司**  
**Chong Hing Bank Limited**

Stock Code : 1111



**2019 INTERIM REPORT**

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## BOARD OF DIRECTORS

### EXECUTIVE DIRECTORS

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

Mr LAU Wai Man (*Deputy Chief Executive*)

### NON-EXECUTIVE DIRECTORS

Mr ZHANG Zhaoxing (*Chairman*)

Mr LI Feng

Mr CHOW Cheuk Yu Alfred BBS, JP

Ms CHEN Jing

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr CHENG Yuk Wo

Mr MA Chiu Cheung Andrew

Mr LEE Ka Lun

Mr YU Lup Fat Joseph

## BOARD COMMITTEES

### AUDIT COMMITTEE

Mr CHENG Yuk Wo (*Chairman*)

Mr CHOW Cheuk Yu Alfred BBS, JP

Ms CHEN Jing

Mr LEE Ka Lun

Mr YU Lup Fat Joseph

### CONNECTED PARTY TRANSACTIONS COMMITTEE

Mr MA Chiu Cheung Andrew (*Chairman*)

Mr CHOW Cheuk Yu Alfred BBS, JP

Mr CHENG Yuk Wo

Mr FUNG Siu Ming

(*Deputy Chief Executive and Chief Risk Officer*)

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

### NOMINATION COMMITTEE

Mr YU Lup Fat Joseph (*Chairman*)

Mr ZHANG Zhaoxing

Mr CHENG Yuk Wo

Mr MA Chiu Cheung Andrew

### REMUNERATION COMMITTEE

Mr YU Lup Fat Joseph (*Chairman*)

Mr ZHANG Zhaoxing

Mr CHOW Cheuk Yu Alfred BBS, JP

Mr MA Chiu Cheung Andrew

Mr LEE Ka Lun

### RISK COMMITTEE

Mr LEE Ka Lun (*Chairman*)

Mr LI Feng

Mr CHENG Yuk Wo

Mr YU Lup Fat Joseph

## SENIOR MANAGEMENT

Mr FUNG Siu Ming

(*Deputy Chief Executive and Chief Risk Officer*)

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

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

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

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

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

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

Ms LAM Pik Ha, Eliza (*Head of Financial Institutions Division*)

Mr YIP Kui Yin Frederick (*Chief Credit Officer*)

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

Ms LAI Wing Nga (*Company Secretary*)

## CORPORATE INFORMATION

as of 22 August 2019

### REGISTERED OFFICE

Address : Ground Floor, Chong Hing Bank Centre  
24 Des Voeux Road Central, Hong Kong

Telephone : (852) 3768 1111

Facsimile : (852) 3768 1888

SWIFT BIC : LCHB HK HH

Website : [www.chbank.com](http://www.chbank.com)

E-mail : [info@chbank.com](mailto:info@chbank.com)



Chong Hing Bank's website access code

### PRINCIPAL LEGAL ADVISERS

Deacons  
Kwan & Chow  
Mayer Brown JSM  
Robertsons

### AUDITOR

PricewaterhouseCoopers

### SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

### STOCK CODES AND SHORT NAMES

The Stock Exchange of Hong Kong Limited's Stock Codes and Short Names in respect of the Bank's (1) shares, (2) subordinated notes due 2020, (3) US\$300,000,000 undated non-cumulative subordinated additional tier 1 capital securities, (4) tier 2 subordinated notes due 2027 and (5) US\$400,000,000 5.70 per cent. undated non-cumulative subordinated additional tier 1 capital securities are (1) 01111 (CHONG HING BANK), (2) 04327 (CH BANK N2011), (3) 05804 (CH BANK UCS), (4) 05249 (CH BANK N2707) and (5) 04419 (CH BANK NCSCS) respectively.

In the first half of 2019, facing complex and critical external economic changes, Chong Hing Bank Limited (the "Bank" or "Chong Hing Bank") continued to make persistent efforts to meet challenges. The Bank steadily promoted its core businesses and managed to achieve a satisfactory performance by steadfastly implementing its five-year strategic plan, strengthening risk prevention and controls, and deepening its reform and innovation.

I am pleased to announce that, in the first half of 2019, Chong Hing Bank achieved stable growth in its core businesses, maintained sound asset quality, and increased profitability. Operating profit after impairment allowances amounted to HK\$1,069 million. Profit attributable to equity owners amounted to HK\$905 million, an improvement of 5.9% from the same period of last year, and earnings per share were HK\$0.85. To properly balance the sharing of success with preserving capital for future growth, the board of directors of the Bank (the "Board") has declared the payment of an interim cash dividend of HK\$0.17 per share for the six months ended 30 June 2019. The dividend payout for the period as a percentage of the profit attributable to equity owners, less distribution paid on the additional equity instruments, will be 20.01% (2018 (restated): 21.44%).

The major financial ratios for the first half of 2019 are as follows:

- Return on shareholders' equity: 7.96% (annualised)
- Average liquidity maintenance ratio: 46.00%
- Total capital ratio: 17.76% as of 30 June 2019
- Tier 1 capital ratio: 14.31% as of 30 June 2019
- Loan to deposit ratio: 71.17% as of 30 June 2019

Downward pressure on the global economy strengthened as a result of the increasingly unstable and uncertain international circumstances, the continuous Sino-US trade dispute and the presence of unilateralism and protectionism. China's economy has operated steadily within a reasonable range this year. Meanwhile, China has also shown a clear commitment to its active integration in the world through firmly promoting reform and opening up and accelerating the pace of opening up the financial industry. As the most open and freest economy in the world, Hong Kong has played an active role as an international financial centre, becoming a bridgehead in the two-way opening for national finance. It is believed that Hong Kong will further extend its international experience of finance to the Mainland while grasping the opportunities for development there.

China's official announcement of the "Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area" marks the construction of the Guangdong-Hong Kong-Macao Greater Bay Area entering crucial and comprehensive phase, and as a result the financial cooperation between Guangdong, Hong Kong and Macau will become even closer. As a core member of the financial sector of the Yuexiu Group, Chong Hing Bank will seize the opportunities offered for cross-border financial business brought about by the national policy, fully capitalising on Hong Kong's function as an international financial hub and taking advantage of the resources of the Guangzhou-based Yuexiu Group. The Bank will proactively strengthen the regional synergies between Guangdong and Hong Kong, deepening and expanding the business in the Greater Bay Area. The Bank will create distinctive and differentiated cross-border financial services and products and take firm steps towards realising its corporate vision of becoming "an integrated commercial bank with cross-border expertise".



## CHAIRMAN'S STATEMENT

For the journey to development of the Greater Bay Area, technological innovation is one of the most important engines. With the combination of financial and technological advances, the market demand for Fintech will become even greater. Therefore, Chong Hing Bank started its planning early and focused on strengthening its "Finance + Technology" project and setting up its digital banking transformation teams in Hong Kong and Shenzhen. By capitalising on its experience with in state-of-the-art technology and abundant resources of technological talents, these initiatives will provide strong support for Chong Hing Bank to develop Fintech. During the period, the Bank continued to improve its online and mobile banking services as well as provide other new functions to enhance the customer experience and gain a new edge for the Bank in the era of digital competition.

In the second half of 2019, many challenges affected the global economy and the Hong Kong banking industry faced increasing pressure on its business environment. But challenges also brought about opportunities. Chong Hing Bank will further enhance its risk management, adhere to its positioning as a provider of "cross-border expertise" and launch innovative financial products and services to meet the challenges of the rapidly changing market. Meanwhile, the Bank will continue to drive the expansion of its network in the Mainland, advance the preparatory work for its Shanghai Branch and other sub-branches, reinforcing its presence in the Mainland market and thereby creating favourable conditions for establishing a Mainland-incorporated bank.

Finally, I would like to express my heartfelt gratitude to all the Directors for their valuable guidance, to the management team and the entire Bank staff for their dedication amid the challenging environment, and to our shareholders, customers and business partners for their long-term support. Guided by the core values of "Exceed Excel", Chong Hing Bank will forge ahead with a firm commitment to completing with success its various tasks in the second half of 2019, creating greater value for its shareholders.

**Zhang Zhaoxing**  
*Chairman*

Hong Kong, 22 August 2019

## ECONOMIC ENVIRONMENT

The global economy started 2019 with a challenging prospect. Major economies slowed down overall in the first half of the year. The US second-quarter Gross Domestic Product (GDP) increased by 2.3% year-on-year. The US Federal Reserve announced a rate cut of 0.25% after the meeting of the Federal Open Market Committee on 31 July, the first rate cut since 2008. This was in line with market expectations. Uncertainties about the prospects of the Sino-US trade negotiations continued to impact the global economy and the financial markets. Major economies in the Eurozone all faced downward pressure, with a year-on-year increase of 1.1% in the second-quarter GDP.

Under these complicated and critical domestic and foreign economic circumstances, the economy in Mainland China maintained an overall stable and positive growth trend with GDP growth of 6.3% year-on-year for the first half as a result of a series of fiscal and monetary policies. The Mainland will continue to maintain a stable monetary policy to keep reasonable and adequate liquidity while promoting the opening-up of the finance sector to preserve the basic stability of the RMB exchange rate at a balance level. The economy of the cities where Chong Hing Bank operates its main businesses continued to be on the ascending trend. Guangzhou kept accumulating new driving forces, with GDP growth of 7.1% year-on-year for the first half of the year, while Shenzhen, driven by investments and consumption growth, recorded a GDP increase of 7.4% year-on-year for the first half of the year. The exchange rate of RMB fell after rising due to developments in the Sino-US trade negotiations, with the onshore price (CNY) of RMB increasing by 0.14% and the offshore price (CNH) of RMB slightly decreasing by 0.06% in the first half of the year.

Hong Kong's economic growth slowed down due to the weak global economy and unfavourable external factors, with the GDP of the first half of this year growing by 0.5% year-on-year. As for foreign trade, the total exports of goods and of services came under pressure, in the second quarter decreasing by 5.6% and slightly decreasing by 0.2% year-on-year respectively. Private consumption expenditure and overall investment expenditure were weak, in the second quarter slightly increasing by 1.1% and significantly decreasing by 11.6% year-on-year respectively. Only employment and income conditions remained favourable, with the unemployment rate recording 2.8% in the second quarter. In the property market, the private residential price index regained its upward trend in 2019. It rose more than 10% over the first five months and began to fall back in June. Hong Kong stocks repeatedly fluctuated in the first half of the year, with the Hang Seng Index rebounding from the low level at the beginning of the year. It returned to 30,000 points in April, but adjusted significantly as a result of the renewed Sino-US trade negotiations in May, finally closing at 28,542 points on the last trading day of the first half of the year, with an accumulated increase of 10.4% for the first half.



## RESULTS ANNOUNCEMENT AND PROFIT ANALYSIS

The results for the six months ended 30 June 2019 of the Bank, on an unaudited and consolidated basis, are summarised below:

### KEY FINANCIAL DATA

	Six months ended 30 June		Variance
	2019	2018	
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	
1. Operating profit after impairment allowances	1,069,323	1,005,331	+6.37 %
2. Profit attributable to equity owners	904,595	854,154	+5.91 %
3. Net interest income	1,544,675	1,360,384	+13.55 %
4. Net fee and commission income	173,077	226,230	-23.50 %
5. Net income from trading and investments	122,211	108,400	+12.74 %
6. Other operating income	82,458	75,660	+8.98 %
7. Operating expenses	756,518	725,389	+4.29 %
8. Net impairment losses on financial assets	96,580	39,954	+141.73 %

  

	As of	As of	Variance
	30 June 2019	31 December 2018	
	HK\$'000 (Unaudited)	HK\$'000	
9. Loans and advances to customers	109,367,885	101,825,227	+7.41 %
10. Deposits from customers	147,378,064	143,690,294	+2.57 %
11. Investment in securities	53,467,366	46,986,126	+13.79 %
12. Total assets	202,926,879	190,575,638	+6.48 %

  

	Six months ended 30 June		Variance (Note (3))
	2019	2018	
	(Unaudited)	(Unaudited)	
13. Return on shareholders' equity (Note (1))	7.96% (annualised)	10.10% (annualised)	-2.14 p.p
14. Earnings per share (Note (2))	HK\$0.85	HK\$1.19	-28.57 %
15. Net interest margin	1.59%	1.72%	-0.13 p.p
16. Cost to income ratio	39.35%	40.97%	-1.62 p.p
17. Average liquidity maintenance ratio	46.00%	43.58%	+2.42 p.p

  

	As of	As of	Variance
	30 June 2019	31 December 2018	
	(Unaudited)		
18. Non-performing loan ratio	0.47%	0.35%	+0.12 p.p
19. Loan to deposit ratio	71.17%	67.95%	+3.22 p.p
20. Net assets value per share (excluding additional equity instruments and before the interim dividend)	HK\$21.47	HK\$20.80	+3.22 %
21. Total capital ratio	17.76%	19.01%	-1.25 p.p
22. Tier 1 capital ratio	14.31%	15.19%	-0.88 p.p
23. Common Equity Tier 1 capital ratio	12.70%	13.44%	-0.74 p.p

Notes:

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

## ANALYSIS OF KEY FINANCIAL DATA

For the first half of 2019, on an unaudited and consolidated basis, the profit attributable to equity owners of the Bank amounted to HK\$905 million, representing an increase of 5.9% over the corresponding period in 2018, while the operating profit after impairment allowances amounted to HK\$1,069 million, representing an improvement of 6.4% as compared to the corresponding period in 2018. The increase in consolidated profit for the period was mainly attributable to an increased net interest income and net income from trading and investments as well as effective control over costs.

Net interest income at HK\$1,545 million was 13.6% higher than in the same period last year, which was achieved mainly through the growth of loans and advances. Net interest margin at 1.59% was 13 basis points less than the corresponding period in the previous year.

Net fee and commission income decreased by 23.5% to HK\$173 million, which was mainly attributable to fewer securities dealings and income from agency services.

Foreign exchange and other treasury customer activities reported considerable growth. Net income from trading and investments recorded a gain of HK\$122 million, which was mainly due to trading income and foreign currency transactions with customers.

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

As of 30 June 2019, total loans and advances to customers had increased by 7.4% to HK\$109.4 billion when compared to the position as of 31 December 2018, with noticeable growth in term loans and installment loans. With excellent performance of the business units and careful management of the exposure to credit risk, the asset quality of loans and advances remained sound.

As for the deposit, total customer deposits as of 30 June 2019 had increased by 2.6% to HK\$147.4 billion when compared to the position as of 31 December 2018. The Bank continued to maintain a stable deposit base, allowing the Bank to balance loan growth as well as wealth management and cross-border financial business needs.

Total assets for the period increased by 6.5% to HK\$202.9 billion. As of 30 June 2019, 82.3% of the Bank's assets were based in Hong Kong.

As a result of proactive management of assets and liabilities, the Bank raised the level of loan to deposit ratio from 67.95% in December 2018 to 71.17% in June 2019, while keeping a prudent level of liquidity maintenance ratio with an average of 46.00% in the first half of 2019.

Total capital ratio decreased from 19.01% in December 2018 to 17.76% in June 2019; the Tier 1 capital ratio was at 14.31% and the Common Equity Tier 1 capital ratio was at 12.70%.

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

### INTERIM DIVIDEND

To properly balance the sharing of success and preserving capital for future growth, the Board has declared the payment of an interim cash dividend for 2019 of HK\$0.17 per share, payable on Friday, 11 October 2019 to the shareholders whose names appear on the register of members of the Bank on Thursday, 3 October 2019 (2018 interim cash dividend: HK\$0.17 per share paid on 9 October 2018).

### SUCCESSFUL ISSUANCE OF US\$400 MILLION ADDITIONAL TIER 1 CAPITAL SECURITIES

Chong Hing Bank successfully issued US\$400 million 5.7% Undated Non-Cumulative Subordinated Additional Tier 1 Capital Securities (the "Securities") on 15 July 2019, which was completed under the US\$2 billion Medium Term Note and Perpetual Capital Securities Programme of the Bank. The Securities are qualified as Basel III-compliant additional tier 1 capital. The proceeds from the offering will enable the Bank to strengthen its capital base and will be used for its corporate operating and business growth to support the implementation of its strategic plans for the Bank.

The aggregate principal amount of the Securities is US\$400 million, which includes the subscription by Yuexiu Group, the Bank's major shareholder, for up to US\$20 million of the Securities. It demonstrates the confidence of the Bank's major shareholder in the future development and growth of the Bank. The offering received very positive feedback and drew a total orderbook of US\$2.9 billion, representing an oversubscription of 7.5 times. Once again, the Bank achieved success on its securities offering in the international capital market, after its issuance of additional tier 1 capital securities in 2014, indicating the capital market's high recognition of the Yuexiu Group and Chong Hing Bank's growth prospects.

### BUSINESS REVIEW

#### CORPORATE BANKING

The Bank provides a full range of banking products and professional services for its corporate customers in Hong Kong and the Mainland. The Bank also leverages on its competitive edge in network interaction between Hong Kong and the Mainland, providing a variety of cross-border financial products and services to accommodate customers' funding requirements in the Greater Bay Area. It also effectively manages their interest rate and exchange risks through its treasury product portfolio.

The Bank pays constant attention to the needs of customers. In close collaboration with units across its business operation, the Bank supports corporate customers with value-added services such as employee banking, MPF and wealth management, aiming to provide a one-stop banking services platform. In addition to its participation in the "SME Loan Guarantee Scheme" of the HKSAR Government, the Bank whole-heartedly supports the "SME Financing Guarantee Scheme" offered by HKMC Insurance Limited.

During the period, the Bank's syndicated loan business flourished, with a total of ten completed syndicated loans. The Bank successfully concluded four mandated lead and book running transactions, doubling the number of deals achieved in the same period last year, and attaining the highest deal count thus far since the establishment of the syndicated loan business franchise in 2017. Furthermore, the Bank proactively enhanced the quality of the loan asset portfolio and improved relevant returns via secondary market transactions.

For the first half of 2019, the Bank's net interest income and non-interest income from corporate banking both recorded steady growth as compared with the same period of the previous year.

## PERSONAL BANKING

Based on providing a wide range of personal wealth management services to its clients, our personal banking team actively maintains a close relationship with existing customers and continuously reaches out to wealth management customers, while extending product range and uplifting overall service quality. During the period, the Bank set up a dedicated team to provide quality commercial banking services with cross-border expertise for customers in the Greater Bay Area.

In the first half of 2019, the personal banking business continued to record steady growth.

- For the deposit and loan businesses, the Bank introduced preferential interest rate offers for different deposit tenors in response to market and customer needs and also launched promotional offers for foreign currency exchange and foreign exchange forward contracts. The Bank attracted deposits and promoted cross-selling to improve its revenue structure. Meanwhile, the Bank actively optimised existing loan portfolios under the requirement of preserving the quality of loan business.
- For the credit card business, in addition to the traditional business, the Bank actively developed an all-in-one payment solution and launched mobile payment services to improve convenience for both customers and merchants.
- To meet the market demand for digital financing and to enhance operating efficiency, the Bank further expanded electronic distribution channels. The number of fund subscription transactions carried out by online and mobile banking, compared with the total number of fund transactions, increased to more than 50% in June of this year following the launch in the fourth quarter of last year. In addition to optimising existing life insurance services, the Bank offered "Premium Financing" and "Policy Financing" to increase customer's financial flexibility.
- The Bank proactively acquired wealth management customers and premium and private banking customers. Through customer segment management, we provided a highly flexible wealth management platform as well as personalised financial solutions. For the period, overall non-interest income contributed by premium and private banking increased by more than 200% when compared with the same period of last year.

## FINANCIAL MARKETS BUSINESS

The Bank is committed to developing its financial markets business and has seen significant growth in areas such as treasury, product development and customer business. The Bank established its trading business, enhanced its ability to provide quotations within the risk limit and expanded its market share, thereby continuing to increase revenue in recent years.

With regard to the treasury business, the Bank aims at optimising the balance sheet by effectively applying a variety of financial instruments while complying with established risk appetite, risk limits and ensuring a safe liquidity level. The Bank continued to focus on fine-tuning its investment strategy to enhance its asset quality.

The Bank has been progressively completing the building of its product and marketing team, which comprises personnel with substantial financial market experience. Meanwhile, the Bank actively enriches its financial products and offers appropriate advice and services to suit the needs of different types of corporate and personal customers, thereby increasing its market competitiveness and fee income.

## CHIEF EXECUTIVE'S STATEMENT

### MAINLAND OPERATIONS

In the first half of 2019, the Bank's branches and sub-branches in the Mainland remained in good shape as a whole as a result of a series of measures. These included effectively handling the complicated changes arising from the external environment, achieving steady growth in business scale and continuously improving operating efficiency as well as our excellent asset quality. Apart from gradually diversifying their product offering, the Bank's branches and sub-branches constantly consolidated their customer base and effectively strengthened risk management and control.

The Bank continued to receive support from the municipal governments of Guangzhou and Hengqin through fiscal deposits as the Bank further consolidated and strengthened its institutional business.

To support the national Greater Bay Area development strategy, the Bank enhanced a variety of businesses such as cross-border settlement services and financing activities in the Mainland. The Bank also successfully carried out many cross-border financing businesses by capitalising on the policies of pilot free trade zones in Guangdong, thereby fully displaying the advantages of cross-border collaboration for the Bank.

Taking the actual needs of customers as a starting point, the Bank's branches and sub-branches in the Mainland constantly optimise their corporate online banking functions, focus on enhancing corporate serving capability and improve customer experience to strengthen electronic channel construction. Therefore, our number of online banking users and our online banking business has seen rapid growth.

During the period, the Bank made breakthroughs in the development of its Mainland outlets with the construction of the Shanghai Branch approved by the Mainland regulatory institution. The Bank will endeavour to speed up the establishment of the Shanghai Branch while further strengthening the network distribution in the Greater Bay Area and preparing the construction of other sub-branches.

### CHONG HING SECURITIES LIMITED

Investors tended to be cautious about entering the market as it focused on developments in the Sino-US trade negotiations, a factor contributing to lower investment in retail securities. For the period, the commission income of Chong Hing Securities recorded less than that of last year due to the weak market conditions. With the listing of large new shares in Hong Kong, Chong Hing Securities will launch promotional offers promptly to broaden the customer base and increase revenue.

### CHONG HING INSURANCE COMPANY LIMITED

The operation of the insurance industry in Hong Kong was still facing difficulties and the market was highly competitive. However, Chong Hing Insurance maintained stable and solid operations. The performance for the period remained satisfactory with underwriting and pre-tax results recording growth.

## TRANSFORMATION OF BUSINESS DEVELOPMENT

### *Fintech*

In January, the Bank rolled out the infrastructure of Open API in support of the Hong Kong Monetary Authority's policy of moving forward into the new era of Smart Banking and aiming to provide further banking products and service applications within the year. With the support of "Finance + Technology" professional talent teams, the Bank proactively put payment innovations into practice, including the JP Morgan Interbank Information Network, IIN<sup>SM</sup> and SWIFT GPI cross-border remittance services, creating a quality digital service experience for customers. In addition, to strengthen the development of cross-border Fintech, the Bank set up Shenzhen's business teams for digital transformation to explore cross-border collaboration within the Greater Bay Area as well as the development and application of Fintech, thus promoting the digital information transformation of banking services.

### *Process Banking*

The Bank continued to optimise the business and operating process, establishing an independent governance team when conducting various IT projects. On the one hand, the Bank supported business development to enhance customer experience and service quality. On the other hand, the Bank effectively improved the level of technology governance and reduced operating risks. The key projects are as follows:

- Simplifying the process of opening accounts for the Mainland's individual and corporate customers in the Greater Bay Area.
- Establishing an operating system in the Mainland and integrating the official website and online banking to further optimise corporate account services.
- Setting up a professional team to promote the transformation of the trade financing business to increase revenue from new products and professional services.

## CORPORATE CULTURE

The Bank established its corporate culture in 2017. Since then, the Bank has organised diverse, innovative, and interactive activities to promote its corporate culture, encouraging employees to integrate the spirit of the corporate culture into their work and drive corporate development.

In the first half of 2019, the Bank carried out the following projects to promote the corporate culture. Through continuous and long-term efforts to build an excellent corporate culture, the Bank expects to obtain a higher level of governance and enhance the sense of belonging and cohesion among its staff members.

- Carrying out the "Bright Ideas" sharing platform to allow staff to offer their suggestions for innovation and improvement in terms of the working process, customer services and future development of the Bank.
- Launching the "Corporate Culture Ambassador Programme" and selecting cultural ambassadors from all units of the Bank to promote the corporate culture.
- Introducing new mechanisms for rank and job promotion and improving the training management system.
- Continuing to fulfil the corporate mission "to benefit employees" by appreciating and recognising their services and contribution to the Bank.

### CORPORATE RESPONSIBILITY

In the first half of 2019, the Bank actively participated in community activities and environmental protection projects and also continued to enable employees to benefit from their contribution. The Bank's efforts to fulfil its corporate social responsibility were recognised by various sectors of the community. These efforts and awards included:

- Participation in the "Earth Hour 2019" environmental protection activity.
- The "Platinum Award" for the fourth consecutive year for compliance with the "Charter on External Lighting" organised by the Environment Bureau of the HKSAR.
- Participation in the Hong Kong Jockey Club Charities Trust's "Jockey Club Age-friendly City Partnership Scheme".
- The "Raffle Tickets Selling Award" presented by the Tung Wah Group of Hospitals.
- The "Employer of Choice Award 2019" presented by JobMarket.
- The "2019 Talent Development Award" presented by the Hong Kong Institute of Bankers.
- The 10 Years Plus "Caring Company" title awarded by the Hong Kong Council of Social Service.

### CORPORATE GOVERNANCE

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

### AWARDS

The Bank is committed to providing quality banking services and improving operational efficiency. These efforts were recognised by the following awards in the first half of 2019:

- The "Best SME's Partner Award" from the Hong Kong General Chamber of Small and Medium Business for the 11th time, and the "Best SME's Partner Gold Award 2019".
- The "Straight Through Processing (STP) Award" of the US dollar from the Bank of New York Mellon for the 11th consecutive year.
- Selected among "The Banker" magazine's "Top 1000 World Banks" for many years, and ranked among the top 400 for the first time, in the 398th place, a further recognition from the international community of the Bank's all-round strength.



## FUTURE DEVELOPMENT

The Bank is progressively carrying forward its five-year strategic plan, constantly cultivating competitive advantages in cross-border business, establishing a number of frontline profit centres, pushing forward the diverse development of its operations and strengthening business innovation in order to provide excellent and more competitive services and products for corporate and retail customers. Meanwhile, the Bank is committed to consolidating its development foundation, enhancing management efficiency and actively allocating resources to strengthen risk management. The Bank also strives to optimise its customer structure, improve its operational process and enhance its talent team.

Looking ahead, the Bank will grasp the opportunities arising from the development of the Greater Bay Area and make full use of the advantages of Hong Kong as an international financial centre to steadily expand its Hong Kong operation. At the same time, the Bank will also implement in a stable fashion its strategy for operational development in the Mainland and expand its service network in an orderly manner. The Bank's major shareholder Yuexiu Group and its strategic shareholder Guangzhou Metro enjoy the advantages of abundant resources in the Greater Bay Area and the strengths of the regional network. Driven by synergies, the Bank will accelerate business growth in the Mainland. In addition, the Bank will speed up its digital banking transformation and Fintech application, realising the close combination of Fintech and traditional business, and driving forward the corporate vision of establishing itself as "an integrated commercial bank with cross-border expertise".

## APPRECIATION

The Bank will maintain its prudent management and in a timely manner introduce innovative development thinking in light of uncertain global economic prospects, fierce competition in the banking industry, the challenging operational environment and the trend of Fintech. We will leverage the strength of our operational teams to strive for higher quality development and create greater value for Chong Hing Bank.

Finally, I would like to express my sincere gratitude to the Board of Directors for their valuable leadership and strong support to the Bank, and to the management team and all the Bank's staff for their dedicated efforts, as their diligent contribution continues to make the Bank a success. Also, I would like to convey my sincere appreciation to our shareholders, business partners and customers for their long-term trust and support.

**Zong Jianxin**  
*Chief Executive*

Hong Kong, 22 August 2019

## DIRECTORS' (INCLUDING THE CHIEF EXECUTIVE'S) INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2019, the interests and short positions of the Directors (including the Chief Executive) of the Bank in the shares, underlying shares and debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO (the "Register"), or as otherwise notified to the Bank and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

### INTERESTS IN SHARES

Name of Director	Associated Corporation	Long/short position	Number of ordinary shares held, nature and capacity of interests			Total interests	Approximate percentage of interests <sup>(1)</sup>
			Personal Interests (held as beneficial owner)	Family Interests (interest of spouse or child under 18)	Corporate Interests (interest of corporation)		
Li Feng	Yuexiu Property Company Limited	Long position	172,900	—	—	172,900	0.001%
Lee Ka Lun	Yuexiu Property Company Limited	Long position	3,200,000	—	—	3,200,000	0.021%
Yu Lup Fat Joseph	Yuexiu Property Company Limited	Long position	4,000,000	—	—	4,000,000	0.026%

Note:

- The approximate percentage of interests held was calculated on the basis of 15,482,280,438 ordinary shares of Yuexiu Property Company Limited in issue as at 30 June 2019.

Save as disclosed above, as at 30 June 2019, to the knowledge of the Bank, none of the Directors (including the Chief Executive) of the Bank had any other interests or short positions in any shares, underlying shares or debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the Register, or as otherwise notified to the Bank and the Stock Exchange pursuant to the Model Code.

Save as disclosed above, during the six months ended 30 June 2019, none of the Directors (including the Chief Executive) of the Bank and their spouses or children under the age of 18 was granted, or exercised, any right to subscribe for shares in or debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO).

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS

As at 30 June 2019, the following persons, other than the Directors or the Chief Executive of the Bank, had interests or short positions in the shares and underlying shares of the Bank as recorded in the register required to be kept under section 336 of the SFO:

### INTERESTS IN SHARES

Name	Long/short position	Nature and capacity of interests	Number of ordinary shares held	Approximate percentage of interests <sup>(1)</sup>
Yuexiu Financial Holdings Limited <sup>(2)</sup>	Long position	Direct interests/ Beneficial owner	729,394,500	75%
Yue Xiu Enterprises (Holdings) Limited ("YX Enterprises")	Long position	Corporate interests/ Interest of controlled corporation	729,394,500	75%
Guangzhou Yuexiu Holdings Limited* (廣州越秀集團有限公司) ("GZYX Holdings")	Long position	Corporate interests/ Interest of controlled corporation	729,394,500	75%
Guangzhou Metro Group Co., Ltd.* (廣州地鐵集團有限公司) <sup>(3)</sup>	Long position	Corporate interests/ Interest of controlled corporation	70,126,000	7.21%

*Notes:*

- The approximate percentage of interests held was calculated on the basis of 972,526,094 ordinary shares of the Bank in issue as at 30 June 2019.
- Yuexiu Financial Holdings Limited is wholly-owned by YX Enterprises, and YX Enterprises is wholly-owned by GZYX Holdings.
- Guangzhou Metro Group Co., Ltd.\* (廣州地鐵集團有限公司) is deemed to be interested in these 70,126,000 shares held by its wholly-owned subsidiary, Guangzhou Metro Investment Finance (HK) Limited, under the SFO.

Save as disclosed above, as at 30 June 2019, no person, other than the Directors or the Chief Executive of the Bank whose interests are set out in the above section headed "Directors' (including the Chief Executive's) interests and short positions in shares, underlying shares and debentures", had any interests or short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept under section 336 of the SFO.

\* For identification purpose only

# CORPORATE GOVERNANCE

## COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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

Throughout the six months ended 30 June 2019, the Bank complied with all the applicable code provisions set out in the CG Code, except for deviation from the code provision A.4.1. Under the code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. Currently, all Non-executive Directors of the Bank are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Bank in accordance with the Bank’s Articles of Association.

## COMPLIANCE WITH MODEL CODE

The Bank has adopted its own code for securities transactions by Directors on terms no less exacting than those set out in the Model Code. All the Directors confirmed, following specific enquiry by the Bank, that they have complied with the required standards set out in the Model Code and the Bank’s own code for securities transactions by Directors throughout the six months ended 30 June 2019.

## REVIEW OF FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial statements of the Bank for the six months ended 30 June 2019 have been reviewed by the Audit Committee and by the Bank’s auditor in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

## DISCLOSURE OF CHANGES IN DIRECTORS' INFORMATION

In accordance with rule 13.51B(1) of the Listing Rules, the changes in information required to be disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of rule 13.51(2) of the Listing Rules since the date of the Bank's 2018 annual report and up to 22 August 2019 (being the date of approval of the Bank's interim report) are set out below:

Name of Director	Details of Changes
<b>Mr Zong Jianxin</b> <i>Executive Director</i>	<ul style="list-style-type: none"> <li>Appointed as independent director, chairman of both risk management committee and audit committee, member of both nomination and remuneration committee, and strategic and investment committee of 鼎誠人壽保險有限責任公司 (formerly known as 新光海航人壽保險有限責任公司), all with effect from 19 April 2019</li> </ul>
<b>Mr Li Feng</b> <i>Non-executive Director</i>	<ul style="list-style-type: none"> <li>Appointed as chairman of the board of directors and chairman of the nomination committee of Yuexiu Transport Infrastructure Limited (Stock Code: 01052), a company listed on the Stock Exchange, both with effect from 22 July 2019</li> </ul>
<b>Ms Chen Jing</b> <i>Non-executive Director</i>	<ul style="list-style-type: none"> <li>Appointed as chief financial officer (首席財務官) and ceased to act as chief financial officer (財務總監) of both Guangzhou Yuexiu Holdings Limited* (廣州越秀集團有限公司) and Yue Xiu Enterprises (Holdings) Limited, both with effect from 30 March 2019</li> </ul>
<b>Mr Ma Chiu Cheung Andrew</b> <i>Independent Non-executive Director</i>	<ul style="list-style-type: none"> <li>Appointed as independent non-executive director and the chairman of the audit committee of S.A.I. Leisure Group Company Limited (Stock Code: 01832), a company listed on the Stock Exchange, with effect from 9 April 2019</li> <li>Retired as an independent non-executive director; ceased to act as a chairman of the audit committee and a member of the compliance committee, the remuneration committee, the nomination committee and the risk committee; appointed as an advisor of Asia Financial Holdings Ltd. (Stock Code: 00662), a company listed on the Stock Exchange, all with effect from 23 May 2019</li> </ul>

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

\* For identification purpose only

## OTHER INFORMATION

### INTERIM DIVIDEND

The Board has declared an interim cash dividend for 2019 of HK\$0.17 per share, payable on Friday, 11 October 2019, to the shareholders whose names appear on the register of members of the Bank on Thursday, 3 October 2019 (2018 interim cash dividend: HK\$0.17 per share paid on 9 October 2018).

### CLOSURE OF REGISTER OF MEMBERS

The register of members of the Bank will be closed from Monday, 30 September 2019 to Thursday, 3 October 2019 and no transfer of shares can be registered during the period. In order to qualify for the 2019 interim cash dividend, all transfer documents, together with the relevant share certificates, must be lodged for registration with the Bank's share registrar and transfer office, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 pm on Friday, 27 September 2019.

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

Neither the Bank nor any of its subsidiaries has purchased, sold or redeemed any of the Bank's listed securities during the six months ended 30 June 2019.

### SHARE OPTION SCHEME

The Bank has no outstanding share options at the beginning and at the end of the period under review. During the period under review, no share options have been granted under the share option scheme adopted by the Bank pursuant to a resolution passed on 9 May 2012 (the "Scheme") and there is no change in any terms of the Scheme. Details of the Scheme were disclosed in the 2018 annual report of the Bank.

### PUBLICATION OF 2019 INTERIM REPORT

The Bank's 2019 interim report in both English and Chinese is now available in printed form and on the websites of the Bank ([www.chbank.com](http://www.chbank.com)) and Hong Kong Exchanges and Clearing Limited ([www.hkexnews.hk](http://www.hkexnews.hk)). Shareholders are encouraged to access the Bank's corporate communications in electronic form to help protect the environment. Notwithstanding any wish to the contrary the shareholders have previously conveyed to the Bank, shareholders may change their choice of language or means of receipt of the Bank's corporate communications free of charge at any time by reasonable notice in writing to the Bank c/o the Bank's share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, or via email to [chbank.ecom@computershare.com.hk](mailto:chbank.ecom@computershare.com.hk) specifying their name, address and request.

# REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Board of Directors of Chong Hing Bank Limited

*(incorporated in Hong Kong with limited liability)*

## INTRODUCTION

We have reviewed the interim financial information set out on pages 22 to 68, which comprises the condensed consolidated statement of financial position of Chong Hing Bank Limited (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2019 and the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Bank are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

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

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 22 August 2019



# CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2019

	Notes	Six months ended 30 June	
		2019	2018
		HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Interest income		3,115,800	2,286,006
Interest expense		(1,571,125)	(925,622)
Net interest income	6	1,544,675	1,360,384
Fee and commission income		232,858	282,882
Fee and commission expenses		(59,781)	(56,652)
Net fee and commission income	7	173,077	226,230
Net income from trading and investments	8	122,211	108,400
Other operating income	9	82,458	75,660
Operating expenses	10	(756,518)	(725,389)
Operating profit before impairment allowances		1,165,903	1,045,285
Net impairment losses on financial assets	11	(96,580)	(39,954)
Operating profit after impairment allowances		1,069,323	1,005,331
Net losses on disposal of property and equipment		(342)	(80)
Net gains on fair value adjustments on investment properties	21	1,656	8,960
Share of profits of associates		26,165	28,035
Profit before taxation		1,096,802	1,042,246
Taxation	13	(192,207)	(188,092)
Profit for the period			
– Attributable to equity owners of the Bank	14	904,595	854,154
Earnings per share – basic and diluted	14	HK\$0.85	HK\$1.19

The notes on pages 28 to 68 form an integral part of this condensed consolidated interim financial information.

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Profit for the period	904,595	854,154
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Surplus on transfer of land and building to investment properties	–	5,386
Exchange differences arising on translation	(13,774)	(47,110)
Net gain (loss) on investments in debt instruments measured at FVOCI	295,954	(188,252)
Amount reclassified to profit or loss upon disposal of FVOCI debt securities	(27,496)	(19,629)
Income tax effect relating to disposal of financial assets measured at FVOCI	4,537	3,239
Income tax effect relating to fair value change of financial assets measured at FVOCI	(46,135)	33,461
Share of other comprehensive income of associates	11,486	(9,692)
Items that may not be reclassified subsequently to profit or loss:		
Net loss on investments in equity instruments measured at FVOCI	(528)	(3,575)
Other comprehensive income for the period (net of tax)	224,044	(226,172)
Total comprehensive income for the period	1,128,639	627,982
Total comprehensive income for the period attributable to:		
Equity owners of the Bank	1,128,639	627,982

The notes on pages 28 to 68 form an integral part of this condensed consolidated interim financial information.

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	Notes	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
<b>Assets</b>			
Cash and short-term funds	16	23,713,099	26,182,402
Placements with banks maturing between one to twelve months		7,098,277	7,945,726
Derivative financial instruments	17	763,269	896,140
Investments in securities	18	53,467,366	46,986,126
Advances and other accounts	20	115,444,225	106,808,471
Interests in associates		382,871	347,320
Investment properties	21	313,422	311,942
Property and equipment	22	1,133,054	521,330
Prepaid lease payments for land	23	–	2,073
Deferred tax assets	29	12,773	19,907
Intangible assets	24	598,523	554,201
<b>Total assets</b>		<b>202,926,879</b>	<b>190,575,638</b>
<b>Liabilities</b>			
Deposits and balances of banks		11,194,765	5,615,953
Financial assets sold under repurchase agreements	25	7,182,750	6,571,696
Deposits from customers	26	147,378,064	143,690,294
Derivative financial instruments	17	1,985,210	873,617
Other accounts and accruals		2,860,564	2,118,485
Current tax liabilities		357,681	240,637
Certificates of deposit	27	4,090,359	2,688,386
Debt securities issued	27	–	1,707,923
Loan capital	28	4,594,359	4,507,147
Deferred tax liabilities	29	87,431	19,171
<b>Total liabilities</b>		<b>179,731,183</b>	<b>168,033,309</b>
<b>Equity attributable to owners of the Bank</b>			
Share capital		9,977,060	9,977,060
Additional equity instruments	30	2,312,030	2,312,030
Reserves		10,906,606	10,253,239
<b>Total equity</b>		<b>23,195,696</b>	<b>22,542,329</b>
<b>Total liabilities and equity</b>		<b>202,926,879</b>	<b>190,575,638</b>

The notes on pages 28 to 68 form an integral part of this condensed consolidated interim financial information.

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

Note	Share capital HK\$'000	Additional equity instruments HK\$'000	Goodwill HK\$'000	Investment revaluation reserve HK\$'000	Land and building revaluation reserve HK\$'000	General reserve HK\$'000	Translation reserve HK\$'000	Regulatory reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2019	9,977,060	2,312,030	(182)	7,092	179,633	1,388,500	(113,933)	912,000	7,880,129	22,542,329
Profit for the period	-	-	-	-	-	-	-	-	904,595	904,595
Other comprehensive income	-	-	-	237,818	-	-	(13,774)	-	-	224,044
Total comprehensive income for the period	-	-	-	237,818	-	-	(13,774)	-	904,595	1,128,639
Distribution payment for additional equity instruments	-	(76,536)	-	-	-	-	-	-	-	(76,536)
Transfer from retained profits	-	76,536	-	-	-	-	-	-	(76,536)	-
Final dividend paid	15	-	-	-	-	-	-	-	(398,736)	(398,736)
Earmark of retained profits as regulatory reserve	-	-	-	-	-	-	-	48,000	(48,000)	-
At 30 June 2019	9,977,060	2,312,030	(182)	244,910	179,633	1,388,500	(127,707)	960,000	8,261,452	23,195,696
At 1 January 2018	5,435,904	2,312,030	(182)	459,866	174,247	1,388,500	66,016	813,000	6,790,891	17,440,272
Profit for the period	-	-	-	-	-	-	-	-	854,154	854,154
Other comprehensive income	-	-	-	(184,448)	5,386	-	(47,110)	-	-	(226,172)
Total comprehensive income for the period	-	-	-	(184,448)	5,386	-	(47,110)	-	854,154	627,982
Distribution payment for additional equity instruments	-	(76,314)	-	-	-	-	-	-	-	(76,314)
Transfer from retained profits	-	76,314	-	-	-	-	-	-	(76,314)	-
Final dividend paid	15	-	-	-	-	-	-	-	(254,475)	(254,475)
Earmark of retained profits as regulatory reserve	-	-	-	-	-	-	-	7,000	(7,000)	-
At 30 June 2018	5,435,904	2,312,030	(182)	275,418	179,633	1,388,500	18,906	820,000	7,307,256	17,737,465

The retained profits of the Group included retained profits of HK\$183,817,000 (30 June 2018: retained profits of HK\$184,651,000) retained by the associates of the Group.

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

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

The notes on pages 28 to 68 form an integral part of this condensed consolidated interim financial information.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	1,096,802	1,042,246
Adjustments for:		
Net interest income	(1,544,675)	(1,360,384)
Net impairment losses on financial assets	96,580	39,954
Net losses on disposal of property and equipment	342	80
Net gains on disposal of financial assets measured at FVOCI	(27,496)	(19,629)
Net gains on fair value adjustments on investment properties	(1,656)	(8,960)
Share of profits of associates	(26,165)	(28,035)
Net (gains) losses on fair value hedge	(7,853)	764
Dividend received from investments	(3,918)	(4,458)
Depreciation and amortisation	111,155	38,829
Release of prepaid lease payments for land	–	33
Exchange adjustments	(57,357)	(42,207)
Operating cash flows before movements in operating assets and liabilities	(364,241)	(341,767)
(Increase) decrease in operating assets:		
Money at call and short notice with original maturity over three months	200,109	(200,000)
Placements with banks with original maturity over three months	3,062,818	1,175,785
Financial assets at fair value through profit or loss	(863)	8
Advances to customers	(7,549,303)	(4,591,039)
Advances to banks	334,895	(834,971)
Other accounts	(1,357,630)	(565,346)
Increase (decrease) in operating liabilities:		
Deposits and balances of banks	5,578,812	282,708
Financial assets sold under repurchase agreements	611,054	(6,173,037)
Deposits from customers	3,687,770	2,325,555
Certificates of deposit	1,401,973	(1,975,952)
Derivative financial instruments	177,328	(101,062)
Other accounts and accruals	(190,224)	115,054
Cash generated from (used in) operations	5,592,498	(10,884,064)
Hong Kong Profits Tax paid	20	(404,387)
Overseas tax paid	(41,320)	(14,811)
Interest received	2,329,245	1,658,199
Interest paid	(1,083,442)	(672,606)
<b>NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES</b>	<b>6,797,001</b>	<b>(10,317,669)</b>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
<b>INVESTING ACTIVITIES</b>		
Interest received on investments in securities	661,515	560,731
Dividends received on investments in securities	3,918	4,458
Dividends received from associates	2,100	5,670
Purchase of financial assets measured at amortised cost	(173,989)	(96,423)
Purchase of financial assets measured at FVOCI	(36,289,956)	(10,448,910)
Purchase of property and equipment	(19,860)	(16,772)
Purchase of intangible assets	(50,387)	(64,706)
Proceeds from redemption of financial assets measured at amortised cost	218,453	58,254
Proceeds from sale and redemption of financial assets measured at FVOCI	31,211,505	11,150,668
Proceeds from disposal of property and equipment	–	2,484
<b>NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES</b>	<b>(4,436,701)</b>	<b>1,155,454</b>
<b>FINANCING ACTIVITIES</b>		
Interest paid on loan capital	(98,181)	(93,406)
Interest paid on debt securities issued	(62,103)	(66,599)
Repayment of debt securities issued	(1,708,650)	–
Principal elements of lease payments	(69,919)	–
Dividends paid to ordinary shareholders	(398,736)	(254,475)
Distribution paid on additional equity instruments	(76,536)	(76,314)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(2,414,125)</b>	<b>(490,794)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(53,825)</b>	<b>(9,653,009)</b>
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<b>30,694,891</b>	<b>24,901,867</b>
<b>CASH AND CASH EQUIVALENTS AT 30 JUNE</b>	<b>30,641,066</b>	<b>15,248,858</b>

The notes on pages 28 to 68 form an integral part of this condensed consolidated interim financial information.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

## 1. GENERAL INFORMATION

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

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

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

The financial information relating to the year ended 31 December 2018 that is included in the condensed consolidated interim financial information for the six months ended 30 June 2019 as comparative information does not constitute the Bank's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Bank has delivered the financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

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

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This condensed consolidated interim financial information for the six months ended 30 June 2019 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").



## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES *(Continued)*

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2018, as described in those annual financial statements, except for the adoption of the Hong Kong Financial Reporting Standard ("HKFRS") 16 with a date of transition of 1 January 2019, which resulted in changes in accounting policies.

The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. Under this method, comparative information is not restated.

### ADJUSTMENTS RECOGNISED ON ADOPTION OF HKFRS 16

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.2%.

	HK\$'000
Operating lease commitments disclosed as at 31 December 2018	201,269
Discounted using the lessee's incremental borrowing rate of at the date of initial application	189,383
Less: short-term leases recognised on a straight-line basis as expense	(20,737)
Less: low-value leases recognised on a straight-line basis as expense	(7)
<b>Lease liabilities recognised as at 1 January 2019</b>	<b>168,639</b>

Right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. The impact on transition is summarised below.

	1 January 2019 HK\$'000
Right-of-use assets presented in property and equipment	181,690
Lease liabilities	168,639
Provision for restoration cost	10,978

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

### 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES *(Continued)*

#### ADJUSTMENTS RECOGNISED ON ADOPTION OF HKFRS 16 *(Continued)*

##### Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HKFRIC 4 *Determining whether an Arrangement contains a Lease*.

#### THE GROUP'S LEASING ACTIVITIES AND HOW THESE ARE ACCOUNTED FOR

The Group leases various offices and retail branches. Rental contracts are typically made for fixed periods but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

Until the 2018 financial year, leases of property and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the consolidated income statement on a straight-line basis over the period of the lease. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments), less any lease incentives receivable.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

### 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES *(Continued)*

#### THE GROUP'S LEASING ACTIVITIES AND HOW THESE ARE ACCOUNTED FOR *(Continued)*

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentive received
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in consolidated income statement. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of equipment.

### 3. SEGMENT INFORMATION

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

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

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

The operating segment information allocation basis was changed for better assessment of segment's performance for the six-month period ended 30 June 2019. The comparative figures have been restated to conform to current period's presentation.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

### 3. SEGMENT INFORMATION *(Continued)*

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

#### OPERATING SEGMENT REVENUE AND RESULTS

Six months ended 30 June 2019

	Corporate and personal banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	2,080,785	1,004,112	4,100	26,803	—	3,115,800
Interest expense to external customers	(1,123,679)	(292,446)	—	(155,000)	—	(1,571,125)
Inter-segment interest income <i>(Note 1)</i>	278,991	—	—	249,991	(528,982)	—
Inter-segment interest expense <i>(Note 1)</i>	—	(528,982)	—	—	528,982	—
Net interest income	1,236,097	182,684	4,100	121,794	—	1,544,675
Fee and commission income	177,230	—	53,017	2,611	—	232,858
Fee and commission expenses	(59,523)	(233)	(25)	—	—	(59,781)
Net income (loss) from trading and investments	64,199	60,027	28	(2,043)	—	122,211
Other operating income	65,292	—	399	36,057	(19,290)	82,458
Segment revenue						
Total operating income	1,483,295	242,478	57,519	158,419	(19,290)	1,922,421
Comprising:						
– Segment revenue from external customers	1,204,304	771,460	57,519	(91,572)		
– Inter-segment transactions	278,991	(528,982)	—	249,991		
Operating expenses <i>(Note 2)</i>	(653,669)	(52,288)	(40,390)	(29,443)	19,290	(756,500)
Net impairment losses on financial assets	(68,684)	(27,900)	—	4	—	(96,580)
Net losses on disposal of property and equipment	—	—	—	(342)	—	(342)
Net gains on fair value adjustments on investment properties	—	—	—	1,656	—	1,656
Segment profit	760,942	162,290	17,129	130,294	—	1,070,655
Unallocated corporate expenses						(18)
Share of profits of associates						26,165
Profit before taxation						1,096,802

Notes:

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

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

### 3. SEGMENT INFORMATION *(Continued)*

#### OPERATING SEGMENT ASSETS AND LIABILITIES

At 30 June 2019

	Corporate and personal banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Consolidated HK\$'000
<b>Assets</b>					
Segment assets	121,063,549	79,404,310	356,952	496,261	201,321,072
Interests in associates					382,871
Unallocated corporate assets					1,222,936
Consolidated total assets					<u>202,926,879</u>
<b>Liabilities</b>					
Segment liabilities	148,609,960	29,773,001	243,181	150,130	178,776,272
Unallocated corporate liabilities					954,911
Consolidated total liabilities					<u>179,731,183</u>

#### OTHER INFORMATION

Six months ended 30 June 2019

	Corporate and personal banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital expenditure during the period	11,574	40	49	1	58,583	70,247
Depreciation and amortisation	73,661	4,891	4,686	369	27,548	111,155
Release of prepaid lease payments for land	–	–	–	–	–	–

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

### 3. SEGMENT INFORMATION *(Continued)*

#### OPERATING SEGMENT REVENUE AND RESULTS

Six months ended 30 June 2018

	Corporate and personal banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	1,601,588	650,450	4,911	29,057	–	2,286,006
Interest expense to external customers	(664,232)	(121,261)	(29)	(140,100)	–	(925,622)
Inter-segment interest income <i>(Note 1)</i>	166,881	–	–	161,553	(328,434)	–
Inter-segment interest expense <i>(Note 1)</i>	–	(328,434)	–	–	328,434	–
Net interest income	1,104,237	200,755	4,882	50,510	–	1,360,384
Fee and commission income	197,445	649	83,932	856	–	282,882
Fee and commission expenses	(56,504)	(9)	(139)	–	–	(56,652)
Net income (loss) from trading and investments	48,110	47,612	(22)	12,700	–	108,400
Other operating income	70,353	–	315	22,363	(17,371)	75,660
Segment revenue						
Total operating income	1,363,641	249,007	88,968	86,429	(17,371)	1,770,674
Comprising:						
– Segment revenue from external customers	1,196,760	577,441	88,968	(75,124)		
– Inter-segment transactions	166,881	(328,434)	–	161,553		
Operating expenses <i>(Note 2)</i>	(620,885)	(49,012)	(44,958)	(11,431)	17,371	(708,915)
Net impairment losses on financial assets	(33,933)	(6,003)	–	(18)	–	(39,954)
Net losses on disposal of property and equipment	–	–	–	(80)	–	(80)
Net gains on fair value adjustments on investment properties	–	–	–	8,960	–	8,960
Segment profit	<u>708,823</u>	<u>193,992</u>	<u>44,010</u>	<u>83,860</u>	<u>–</u>	1,030,685
Unallocated corporate expenses						(16,474)
Share of profits of associates						<u>28,035</u>
Profit before taxation						<u>1,042,246</u>

Notes:

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

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

### 3. SEGMENT INFORMATION *(Continued)*

#### OPERATING SEGMENT ASSETS AND LIABILITIES

At 31 December 2018

	Corporate and personal banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Consolidated HK\$'000
<b>Assets</b>					
Segment assets	113,015,885	75,302,489	203,010	478,794	189,000,178
Interests in associates					347,320
Unallocated corporate assets					1,228,140
Consolidated total assets					<u>190,575,638</u>
<b>Liabilities</b>					
Segment liabilities	144,569,731	22,438,236	97,536	137,577	167,243,080
Unallocated corporate liabilities					790,229
Consolidated total liabilities					<u>168,033,309</u>

#### OTHER INFORMATION

Six months ended 30 June 2018

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



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

### 3. SEGMENT INFORMATION (Continued)

#### OTHER INFORMATION (Continued)

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

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

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

#### GEOGRAPHICAL INFORMATION

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

	Six months ended 30 June 2019			At 30 June 2019			
	Total operating income	Profit before taxation	Capital expenditure during the period	Total assets	Total liabilities	Total contingent liabilities and commitments	Non-current assets
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	1,592,122	1,039,902	61,636	167,057,185	147,787,132	31,982,037	2,162,196
Macau and Mainland China	330,299	56,900	8,611	35,869,694	31,944,051	15,689,895	278,447
Total	1,922,421	1,096,802	70,247	202,926,879	179,731,183	47,671,932	2,440,643

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

### 3. SEGMENT INFORMATION *(Continued)*

#### GEOGRAPHICAL INFORMATION *(Continued)*

	Six months ended 30 June 2018			At 31 December 2018			
	Total	Profit	Capital	Total	Total	Total	Non-current
	operating	before	expenditure				
	income	taxation	during the	assets	liabilities	commitments	assets
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Hong Kong	1,443,040	924,454	55,537	160,539,779	141,766,681	37,314,868	1,565,789
Macau and Mainland China	327,634	117,792	13,955	30,035,859	26,266,628	201,269	190,984
Total	<u>1,770,674</u>	<u>1,042,246</u>	<u>69,492</u>	<u>190,575,638</u>	<u>168,033,309</u>	<u>37,516,137</u>	<u>1,756,773</u>

Note:

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

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

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

### 4. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

#### 4.1 FAIR VALUE ESTIMATION

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

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

The following table presents the Group's financial assets and liabilities that are measured at fair value as at 30 June 2019.

	Fair value hierarchy			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
<b>At 30 June 2019</b>				
Financial assets measured at fair value through profit or loss				
Equity securities	244	–	–	244
Debt securities	116,647	–	–	116,647
Financial assets measured at FVOCI				
Equity securities	52,040	–	40,310	92,350
Debt securities	50,296,658	2,514,883	–	52,811,541
Derivative financial assets not used for hedging	–	725,843	–	725,843
Derivative financial assets used for hedging	–	37,426	–	37,426
Derivative financial liabilities not used for hedging	–	(778,814)	–	(778,814)
Derivative financial liabilities used for hedging	–	(1,206,396)	–	(1,206,396)
<b>Total</b>	<b>50,465,589</b>	<b>1,292,942</b>	<b>40,310</b>	<b>51,798,841</b>

#### 4. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS *(Continued)*

##### 4.1 FAIR VALUE ESTIMATION *(Continued)*

The following table presents the Group's financial assets and liabilities that are measured at fair value as at 31 December 2018.

	Fair value hierarchy			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
<b>At 31 December 2018</b>				
Financial assets measured at fair value through profit or loss				
Equity securities	215	–	–	215
Debt securities	115,813	–	–	115,813
Financial assets measured at FVOCI				
Equity securities	44,624	–	40,954	85,578
Debt securities	42,424,549	3,868,429	–	46,292,978
Derivative financial assets not used for hedging				
	–	541,932	–	541,932
Derivative financial assets used for hedging				
	–	354,207	–	354,207
Derivative financial liabilities not used for hedging				
	–	(561,577)	–	(561,577)
Derivative financial liabilities used for hedging				
	–	(312,040)	–	(312,040)
<b>Total</b>	<b>42,585,201</b>	<b>3,890,951</b>	<b>40,954</b>	<b>46,517,106</b>

There were no transfer between Levels 1, 2 and 3 during the period ended 30 June 2019. In 2018, debt securities measured at FVOCI of HK\$42,424,549,000 were transferred from Level 2 to Level 1 given the Group can access to quoted prices in active markets as at 31 December 2018. The Group's policy is to recognise transfer between levels of fair value hierarchy as at the end of the reporting period in which they occur.

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

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

### 4. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS *(Continued)*

#### 4.1 FAIR VALUE ESTIMATION *(Continued)*

	Carrying amount HK\$'000	Fair value HK\$'000
<b>At 30 June 2019</b>		
Financial assets		
– Financial assets measured at amortised cost	446,584	446,040
Financial liabilities		
– Loan capital	4,594,359	4,693,806
– Debt securities issued	—	—
<b>At 31 December 2018</b>		
Financial assets		
– Financial assets measured at amortised cost	491,542	490,224
Financial liabilities		
– Loan capital	4,507,147	4,546,544
– Debt securities issued	1,707,923	1,705,198

#### 4.2 VALUATION TECHNIQUES

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

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

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

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

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

#### 4. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS *(Continued)*

##### 4.3 RECONCILIATION OF LEVEL 3 FAIR VALUE MEASUREMENTS OF FINANCIAL ASSETS

	Financial assets measured at FVOCI HK\$'000
Balance at 1 January 2018	34,735
Purchase	7,718
Exchange difference	(1,500)
Total net gain recognised in the investment revaluation reserve	1
<b>Balance at 1 January 2019</b>	<b>40,954</b>
Total net loss recognised in the investment revaluation reserve	(644)
<b>Balance at 30 June 2019</b>	<b>40,310</b>

The majority of the Group's investments are valued based on quoted market information or observable market data. A small percentage, less than 0.01% (31 December 2018: less than 0.02%), assets recorded at fair value, are based on estimates and recorded as Level 3 investments. Whilst such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not have a material impact on the Group's financial positions.

#### 5. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group has financial assets and financial liabilities that:

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

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

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

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

### 6. NET INTEREST INCOME

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Interest income		
Balances and placements with central bank and banks	374,204	300,582
Investments in securities	771,119	552,024
Loans and advances	1,970,477	1,433,400
	<u>3,115,800</u>	<u>2,286,006</u>
Interest expense		
Deposits and balances of banks	(205,686)	(52,896)
Deposits from customers	(1,076,023)	(642,470)
Financial assets sold under repurchase agreements	(87,375)	(63,967)
Certificates of deposit	(47,831)	(29,104)
Debt securities issued	(25,249)	(34,780)
Loan capital in issue	(119,934)	(102,405)
Lease liabilities	(9,027)	–
	<u>(1,571,125)</u>	<u>(925,622)</u>
Net interest income	<u>1,544,675</u>	<u>1,360,384</u>
Included within interest income		
Interest income on impaired loans and advances	<u>5,775</u>	<u>4,193</u>

Included within interest income and interest expense are HK\$3,113,098,000 (2018: HK\$2,286,006,000) and HK\$1,571,125,000 (2018: HK\$925,622,000) earned and incurred from financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

Included above is interest income from unlisted investments in debt securities of HK\$771,119,000 (2018: HK\$552,024,000).

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

### 7. NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Fee and commission income		
Securities dealings	53,583	84,585
Loans, overdrafts and guarantees	55,350	52,501
Trade finance	7,127	8,173
Credit card services	67,020	65,393
Agency services	42,365	58,797
Others	7,413	13,433
Total fee and commission income	232,858	282,882
Less: Fee and commission expenses	(59,781)	(56,652)
Net fee and commission income	173,077	226,230
of which:		
Net fee and commission, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities, that are not measured at FVPL nor designated at fair value through profit or loss		
– Fee income	103,483	96,779
– Fee expenses	(57,623)	(55,046)
	45,860	41,733



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

### 8. NET INCOME FROM TRADING AND INVESTMENTS

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Foreign exchange gains	78,546	95,477
Net gains (losses) on financial instruments at fair value through profit or loss	8,316	(5,942)
Net gains (losses) on fair value hedge:		
– Net gains (losses) on hedged items attributable to the hedged risk	1,074,989	(491,298)
– Net (losses) gains on hedging instruments	(1,067,136)	490,534
Net gains on disposal of financial assets at FVOCI		
– Debt securities	27,496	19,629
	<u>122,211</u>	<u>108,400</u>

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

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

Net gains on disposal of the financial assets at FVOCI were included in the net income from trading and investments of the Group which form part of the business operation. This is in line with the current business model of the Group.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

### 9. OTHER OPERATING INCOME

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Dividend income		
– Listed investments	1,043	998
– Unlisted investments	2,875	3,460
	3,918	4,458
Gross rents from investment properties	4,358	4,274
Less: Outgoings	(187)	(222)
Net rental income	4,171	4,052
Safe deposit box rentals	28,521	27,667
Net insurance income ( <i>Note</i> )	13,520	6,134
Other banking services income	27,440	28,102
Others	4,888	5,247
	<u>82,458</u>	<u>75,660</u>

*Note:* Details of net insurance income are as follows:

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Gross insurance premium income	20,209	20,226
Reinsurers' share of gross insurance premium income	(6,134)	(6,116)
	14,075	14,110
Decrease (increase) in gross outstanding claims	3,514	(16,227)
Gross claim paid	(6,593)	(7,739)
	(3,079)	(23,966)
Increase in recoverable from reinsurance of outstanding claims	376	13,845
Reinsurance claims recoveries	209	392
	585	14,237
Net insurance commission income	1,939	1,753
Net insurance income	<u>13,520</u>	<u>6,134</u>

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

### 10. OPERATING EXPENSES

	Six months ended 30 June	
	2019 HK\$'000	2018 HK\$'000
Auditor's remuneration	3,860	3,454
Staff costs (including directors' emoluments)		
– Salaries and other costs	460,294	437,930
– Retirement benefits scheme contributions	24,258	24,573
– Capitalised to intangible assets	(23,948)	(19,205)
Total staff costs	460,604	443,298
Depreciation	109,111	40,913
– Capitalised to intangible assets	–	(2,084)
– Government grants (Note)	(1,535)	–
	107,576	38,829
Amortisation of intangible assets	2,044	–
Release of prepaid lease payments for land	–	33
Premises and equipment expenses, excluding depreciation and release of prepaid lease payments for land		
– Rentals and rates for premises	24,917	84,468
– Capitalised to intangible assets	(1,444)	(1,811)
	23,473	82,657
– Others	6,608	15,960
Other operating expenses	153,111	141,942
– Capitalised to intangible assets	(758)	(784)
	152,353	141,158
	<u>756,518</u>	<u>725,389</u>

*Note:* Government grants were received by the Group from the Government of the People's Republic of China for office rental in Shenzhen. There are no unfulfilled conditions or contingencies relating to these grants.

## 11. NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	Six months ended 30 June	
	2019 HK\$'000	2018 HK\$'000
Loans and advances to customers	64,392	36,208
Short-term funds and placement with banks	3,312	(384)
Investment in securities	26,139	9,813
Loan commitments and financial guarantee	2,737	(5,683)
	<u>96,580</u>	<u>39,954</u>

## 12. IMPAIRMENT ASSESSMENT ON GOODWILL

For the six-month period ended 30 June 2019, the management has reviewed goodwill for impairment testing purposes. The review comprised a comparison of the carrying amount and the fair value less cost to sell, of an acquired subsidiary (the smallest cash-generating unit) to which the goodwill has been allocated. The acquired subsidiary is involved in insurance business.

The fair value of the acquired subsidiary as at 30 June 2019 was estimated by applying market approach based on a price-to-book ratio of 1.

The management of the Group determines that there is no impairment loss on the goodwill for the six-month period ended 30 June 2019 (30 June 2018: Nil).

## 13. TAXATION

	Six months ended 30 June	
	2019 HK\$'000	2018 HK\$'000
The tax charge comprises:		
Hong Kong Profits Tax	116,152	102,042
Overseas taxation	42,192	40,840
Deferred tax	33,863	45,210
	<u>192,207</u>	<u>188,092</u>

Hong Kong Profits Tax is calculated at 16.5% (2018: 16.5%) of the estimated assessable profit for the period.

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

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

### 14. EARNINGS PER SHARE – BASIC AND DILUTED

The calculation of basic earnings per share is based on the profit attributable to equity owners of the Bank of HK\$904,595,000 (2018: HK\$854,154,000) with deduction of distribution payment for additional equity instruments of HK\$76,536,000 (2018: HK\$76,314,000) and on 972,526,000 (2018 (restated): 653,807,000) ordinary shares in issue.

The number of ordinary shares in issue for the period ended 30 June 2018 has been restated to take into account the effect of the new shares issued and rights issue of the Group completed in the year of 2018. No impact on the basic earnings per share for the period ended 30 June 2018 resulted from the restatement of the number of ordinary shares in issue.

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

### 15. DIVIDENDS

On 4 June 2019, a dividend of HK\$0.41 per share totalling HK\$398,736,000 was paid to shareholders as the final dividend for 2018.

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

Subsequent to the end of the interim period, the Board has declared a total amount of interim dividend in respect of the financial year ending 31 December 2019 of HK\$165,329,000 (2018: HK\$165,329,000) at a rate of HK\$0.17 (2018: HK\$0.17) per share should be paid to the shareholders of the Bank whose names appear on the Register of Members on 3 October 2019.

### 16. CASH AND SHORT-TERM FUNDS

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
Cash and balances with central bank and banks	7,239,211	5,295,825
Money at call and short notice	16,473,888	20,886,577
	<u>23,713,099</u>	<u>26,182,402</u>

Included in the "Cash and balances with central bank and banks" are surplus reserve deposits placed with People's Bank of China in the Mainland China by the Mainland branches of HK\$142,623,000 (31 December 2018: HK\$348,578,000).

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

### 17. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2019		
	Notional amount	Fair value	
		Assets	Liabilities
HK\$'000	HK\$'000	HK\$'000	
Derivatives held for trading			
– Foreign currency forward contracts and swaps	275,701,582	661,224	720,270
– Interest rate swaps	46,716,815	60,626	54,593
– Foreign exchange options	1,451,652	3,946	3,951
– Futures	312,328	47	–
Derivatives designated as hedging instruments			
– Interest rate swaps	35,214,491	37,426	1,206,396
		<u>763,269</u>	<u>1,985,210</u>

	31 December 2018		
	Notional amount	Fair value	
		Assets	Liabilities
HK\$'000	HK\$'000	HK\$'000	
Derivatives held for trading			
– Foreign currency forward contracts and swaps	260,404,113	517,316	535,554
– Interest rate swaps	15,389,236	23,730	25,136
– Foreign exchange options	344,608	887	887
– Futures	–	–	–
Derivatives designated as hedging instruments			
– Interest rate swaps	31,200,783	354,207	312,040
		<u>896,140</u>	<u>873,617</u>

As at 30 June 2019, the currencies of foreign currency forward contracts mainly comprise buying Hong Kong dollars and United States dollars (31 December 2018: Hong Kong dollars and United States dollars). As at 30 June 2019, all of these contracts have settlement dates within 2 years (31 December 2018: 2 years) from the end of the reporting period.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

### 18. INVESTMENTS IN SECURITIES

	Financial assets at fair value through profit or loss HK\$'000	Financial assets measured at FVOCI HK\$'000	Financial assets measured at amortised cost HK\$'000	Total HK\$'000
<b>30 June 2019</b>				
Equity securities:				
Listed in Hong Kong	244	49,524	–	49,768
Listed overseas	–	2,516	–	2,516
	244	52,040	–	52,284
Unlisted	–	40,310	–	40,310
	244	92,350	–	92,594
Debt securities:				
Certificate of deposits - unlisted	–	1,783,624	–	1,783,624
Other debt securities - unlisted	116,647	51,027,917	446,584	51,591,148
	116,647	52,811,541	446,584	53,374,772
Total:				
Listed in Hong Kong	244	49,524	–	49,768
Listed overseas	–	2,516	–	2,516
Unlisted	116,647	52,851,851	446,584	53,415,082
	116,891	52,903,891	446,584	53,467,366
As analysed by issuing entities:				
Central government and central banks	116,647	18,475,611	425,216	19,017,474
Banks	–	14,351,958	19,368	14,371,326
Corporate entities	244	20,076,322	2,000	20,078,566
	116,891	52,903,891	446,584	53,467,366

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

### 18. INVESTMENTS IN SECURITIES (Continued)

	Financial assets at fair value through profit or loss HK\$'000	Financial assets measured at FVOCI HK\$'000	Financial assets measured at amortised cost HK\$'000	Total HK\$'000
<b>31 December 2018</b>				
Equity securities:				
Listed in Hong Kong	215	41,889	–	42,104
Listed overseas	–	2,735	–	2,735
	215	44,624	–	44,839
Unlisted	–	40,954	–	40,954
	215	85,578	–	85,793
Debt Securities:				
Certificates of deposits – unlisted	–	2,202,155	–	2,202,155
Other debt securities – unlisted	115,813	44,090,823	491,542	44,698,178
	115,813	46,292,978	491,542	46,900,333
Total:				
Listed in Hong Kong	215	41,889	–	42,104
Listed overseas	–	2,735	–	2,735
Unlisted	115,813	46,333,932	491,542	46,941,287
	116,028	46,378,556	491,542	46,986,126
As analysed by issuing entities:				
Central governments and central banks	115,813	15,061,973	470,204	15,647,990
Banks	–	14,677,763	–	14,677,763
Corporate entities	215	16,638,820	21,338	16,660,373
	116,028	46,378,556	491,542	46,986,126



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

### 18. INVESTMENTS IN SECURITIES (Continued)

Debt securities classified as FVOCI amounting to HK\$12,869,082,000 (31 December 2018: HK\$8,719,156,000) were issued by the Government of Hong Kong Special Administrative Region and the Mainland China.

The debt securities classified as FVOCI held by the Group are mainly guaranteed or issued by corporates and financial institutions from Hong Kong and Mainland China.

The Group has disposed certain securities classified as FVOCI financial instruments during the six-month period ended 30 June 2019 and 30 June 2018. Net gains on disposal of FVOCI securities are included in net income from trading and investments.

### 19. TRANSFER OF FINANCIAL ASSETS

The following were the Group's debt securities classified as financial assets measured at FVOCI as at 30 June 2019 and 31 December 2018 that were transferred to an entity with terms to repurchase these debt securities at agreed dates and prices. As the Group has retained substantially all the risks and rewards relating to these debt securities, the full carrying amount of these debt securities continued to be recognised. The cash received on the transfer was reported as liabilities under "Financial assets sold under repurchase agreements" (see Note 25). The transferred debt securities serve as collateral to secure these liabilities. During the covered periods, the legal title of the debt securities are transferred to the counterparty entity and there is no restriction for the counterparty entity to sell or repledge the collateral. These debt securities are measured at fair value in the condensed consolidated statement of financial position.

	30 June 2019 Financial assets measured at FVOCI HK\$'000
Carrying amount of transferred assets	8,288,488
Carrying amount of associated liabilities (Note 25)	7,182,750

  

	31 December 2018 Financial assets measured at FVOCI HK\$'000
Carrying amount of transferred assets	7,165,740
Carrying amount of associated liabilities (Note 25)	6,571,696

## 20. ADVANCES AND OTHER ACCOUNTS

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
Advances to customers		
Bills receivable	655,163	753,851
Trade bills	1,565,042	2,361,920
Other advances to customers	107,147,680	98,709,456
	<u>109,367,885</u>	<u>101,825,227</u>
Interest receivable	1,021,979	895,015
Impairment allowances		
– Stage 1	(298,104)	(379,031)
– Stage 2	(99,024)	(12,382)
– Stage 3	(205,322)	(154,435)
	<u>109,787,414</u>	<u>102,174,394</u>
Advances to banks	–	334,895
Other accounts	5,656,811	4,299,182
	<u>115,444,225</u>	<u>106,808,471</u>

Included in the "Other accounts" is variation margin of HK\$1,876,651,000 (31 December 2018: HK\$456,206,000) deposited in banks for certain interest rate swaps, foreign currency forward contracts and repurchase agreements and an amount of approximately HK\$3,167,269,000 (31 December 2018: HK\$3,330,321,000) placed as reserve funds with a financial institution in the Mainland China by the Mainland branches. Among which, HK\$2,867,083,000 (31 December 2018: HK\$2,756,418,000) are the mandatory reserve deposits placed with the People's Bank of China. The mandatory reserve deposits are not available for the Group's daily operation; HK\$300,186,000 (31 December 2018: HK\$573,903,000) are the fixed deposits placed with a bank in the Mainland in compliance with the requirements of Regulations Governing Foreign Financial Institutions of the Mainland.

The remaining balance of "Other accounts" of the Group amounting to HK\$612,891,000 (31 December 2018: HK\$512,655,000) mainly included account receivables from Hong Kong Securities Clearing Company Limited, Hong Kong Futures Exchange Clearing Corporation Limited and brokerage clients in relation to securities dealing of HK\$288,432,000 (31 December 2018: HK\$194,144,000).

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

### 20. ADVANCES AND OTHER ACCOUNTS (Continued)

Details of the impaired loans are as follows:

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
Gross impaired loans	511,317	353,230
Less: Impairment allowances under stage 3	(205,322)	(154,435)
Net impaired loans	305,995	198,795
Gross impaired loans as a percentage of gross advances to customers	0.47%	0.35%
Market value of collateral pledged	397,106	267,720

Details of the non-performing loans are as follows:

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
Gross non-performing loans (Note)	509,216	354,859
Less: Impairment allowances under stage 3	(205,285)	(154,435)
Net non-performing loans	303,931	200,424
Gross non-performing loans as a percentage of gross advances to customers	0.47%	0.35%
Market value of collateral pledged	383,336	254,310

Note: Non-performing loans represent advances which are either classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality.

## 21. INVESTMENT PROPERTIES

	2019 HK\$'000	2018 HK\$'000
At 1 January	311,942	298,765
Transfer from land and buildings	–	5,400
Net increase in fair value recognised in the profit or loss	1,656	10,250
Exchange adjustments	(176)	(2,473)
At 30 June/31 December	313,422	311,942

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

Net gains on fair value adjustments on investment properties:

	Six months ended 30 June	
	2019 HK\$'000	2018 HK\$'000
Net gains on fair value adjustments on investment properties	1,656	8,960

Investment properties owned by the Group were revalued at 30 June 2019 by adopting the direct comparison approach and with reference to the recent transactions for similar premises by Vigers Appraisal and Consulting Limited, independent professional qualified valuer. The fair value is mainly arrived at by reference to comparable market transactions for similar properties.

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

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

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

One of the key inputs used in valuing the investment properties was the unit sale rate taking into account of time, location and individual factors such as size and levels of building, which ranged from HK\$3,590 to HK\$50,430 (2018: HK\$3,520 to HK\$50,280) per square feet. A decrease in the unit sale rate would result in decrease in fair value measurement of the investment properties by the same percentage decrease and vice versa.

Investment properties are classified as Level 3 under fair value hierarchy as at 30 June 2019 and 31 December 2018. There were no transfer into or out of Level 3 during the periods.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

### 22. PROPERTY AND EQUIPMENT

	Leasehold land HK\$'000	Buildings HK\$'000	Right-of-use assets HK\$'000	Equipment HK\$'000	Total HK\$'000
<b>COST</b>					
At 1 January 2019	345,225	112,493	–	826,902	1,284,620
Impact on initial application of HKFRS 16	–	–	181,690	–	181,690
Restated balance at 1 January 2019	345,225	112,493	181,690	826,902	1,466,310
Additions	–	–	518,242	19,860	538,102
Disposals	–	–	–	(5,488)	(5,488)
Transfer to investment properties	–	–	–	–	–
Exchange adjustments and others	–	(14)	–	(657)	(671)
<b>At 30 June 2019</b>	<b>345,225</b>	<b>112,479</b>	<b>699,932</b>	<b>840,617</b>	<b>1,998,253</b>
<b>ACCUMULATED DEPRECIATION</b>					
At 1 January 2019	91,088	35,848	–	636,354	763,290
Depreciation	3,913	1,383	73,649	30,166	109,111
Eliminated on disposals	–	–	–	(5,146)	(5,146)
Transfer to investment properties	–	–	–	–	–
Exchange adjustments and others	–	(3)	(1,536)	(517)	(2,056)
<b>At 30 June 2019</b>	<b>95,001</b>	<b>37,228</b>	<b>72,113</b>	<b>660,857</b>	<b>865,199</b>
<b>CARRYING AMOUNTS</b>					
At 30 June 2019	250,224	75,251	627,819	179,760	1,133,054
At 1 January 2019	254,137	76,645	–	190,548	521,330
<b>COST</b>					
At 1 January 2018	345,257	113,217	–	825,184	1,283,658
Additions	–	–	–	55,017	55,017
Disposals	–	–	–	(44,047)	(44,047)
Transfer to investment properties	(32)	–	–	–	(32)
Exchange adjustments and others	–	(724)	–	(9,252)	(9,976)
<b>At 31 December 2018</b>	<b>345,225</b>	<b>112,493</b>	<b>–</b>	<b>826,902</b>	<b>1,284,620</b>
<b>ACCUMULATED DEPRECIATION</b>					
At 1 January 2018	83,279	32,987	–	576,646	692,912
Depreciation	7,827	2,771	–	68,331	78,929
Eliminated on disposals	–	–	–	(3,662)	(3,662)
Transfer to investment property	(18)	–	–	–	(18)
Exchange adjustments and others	–	90	–	(4,961)	(4,871)
<b>At 31 December 2018</b>	<b>91,088</b>	<b>35,848</b>	<b>–</b>	<b>636,354</b>	<b>763,290</b>
<b>CARRYING AMOUNTS</b>					
At 31 December 2018	254,137	76,645	–	190,548	521,330
At 1 January 2018	261,978	80,230	–	248,538	590,746

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

### 23. PREPAID LEASE PAYMENTS FOR LAND

The prepaid lease payments for land comprise:

	2019 HK\$'000	2018 HK\$'000
<b>COST</b>		
Outside Hong Kong held on:		
Leases of between 10 to 50 years	–	2,850
Net book value at 1 January	2,073	2,134
Reclassified to right-of-use assets upon adoption of HKFRS 16	(2,073)	–
Release of prepaid operating lease payments	–	(66)
Exchange adjustments	–	5
Net book value at 30 June/31 December	–	2,073
Analysed as:		
Current portion	–	66
Non-current portion	–	2,007
Total	–	2,073

### 24. INTANGIBLE ASSETS

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
Internally developed software and software	544,827	500,505
Goodwill (Note 12)	39,606	39,606
Club Membership	14,090	14,090
	598,523	554,201

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

### 25. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
Analysed by collateral type:		
Debt securities classified as:		
Financial assets at FVOCI	7,182,750	6,571,696
	<u>7,182,750</u>	<u>6,571,696</u>

As at 30 June 2019, debt securities which are classified as financial assets at FVOCI with carrying amount of HK\$8,288,488,000 (31 December 2018: HK\$7,165,740,000) were sold under repurchase agreements with other banks. All repurchase agreements are due within 12 months (31 December 2018: within 12 months) from the end of the reporting period.

### 26. DEPOSITS FROM CUSTOMERS

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
Demand deposits and current accounts	12,464,299	11,605,357
Savings deposits	38,405,161	37,250,772
Time, call and notice deposits	96,508,604	94,834,165
	<u>147,378,064</u>	<u>143,690,294</u>

## 27. CERTIFICATES OF DEPOSIT AND DEBT SECURITIES ISSUED

The Group has issued certificates of deposit which are measured at amortised cost with a total carrying amount of HK\$4,090,359,000 as at 30 June 2019 (31 December 2018: HK\$2,688,386,000). Certificates of deposit bear contractual interest rates between 2.1% to 3.2% (31 December 2018: 2.4% to 3.4%) per annum and will mature within 2 years (2018: 2 years). All certificates of deposit issued are not secured by any collateral.

The Group has issued debt securities which are measured at amortised cost with a total carrying amount of HK\$Nil as at 30 June 2019 (31 December 2018: HK\$1,707,923,000). The debt securities were matured in May 2019.

Analysis of changes in financing cash flows of debt securities issued during the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
At 1 January	1,707,923	1,796,069
Changes from financing cash flows:		
Interest paid on debt securities issued	(62,103)	(66,599)
Repayment of debt securities issued	(1,708,650)	–
	(62,830)	1,729,470
Exchange adjustments	–	(23,400)
Other changes		
Interest expense	25,249	34,780
Other non-cash movements	37,581	32,731
Total other changes	62,830	67,511
At 30 June	–	1,773,581



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

### 28. LOAN CAPITAL

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
Subordinated notes, at amortised cost with fair value hedge adjustments		
US\$204 million fixed rate subordinated note due 2020 ( <i>Notes</i> (a) & (c))	1,600,316	1,592,297
US\$383 million fixed rate subordinated note due 2027 ( <i>Notes</i> (b) & (c))	2,994,043	2,914,850
	<u>4,594,359</u>	<u>4,507,147</u>

*Notes:*

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

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

### 28. LOAN CAPITAL (Continued)

Analysis of changes in financing cash flows of loan capital during the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
At 1 January	4,507,147	4,541,380
Changes from financing cash flows:		
Interest paid on loan capital	(98,181)	(93,406)
	4,408,966	4,447,974
Exchange adjustments	(13,956)	21,456
Fair value hedge adjustments	98,209	(98,871)
Other changes		
Interest expense	119,934	102,405
Other non-cash movements	(18,794)	(8,226)
Total other changes	101,140	94,179
At 30 June	4,594,359	4,464,738

### 29. DEFERRED TAXATION

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

	30 June	31 December
	2019	2018
	HK\$'000	HK\$'000
Deferred tax assets	12,773	19,907
Deferred tax liabilities	(87,431)	(19,171)
	(74,658)	736

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

### 29. DEFERRED TAXATION (Continued)

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

	Accelerated tax depreciation HK\$'000	Impairment allowance HK\$'000	Investment properties HK\$'000	Revaluation of FVOCI securities HK\$'000	Remeasurement of retirement benefits HK\$'000	Total HK\$'000
<b>At 1 January 2019</b>	(52,141)	61,454	(18,550)	14,397	(4,424)	736
(Charge) credit to the income statement for the period	(25,009)	(9,601)	747	–	–	(33,863)
Charge to other comprehensive income for the period	–	–	–	(41,598)	–	(41,598)
Exchange adjustments	–	–	67	–	–	67
<b>At 30 June 2019</b>	<b>(77,150)</b>	<b>51,853</b>	<b>(17,736)</b>	<b>(27,201)</b>	<b>(4,424)</b>	<b>(74,658)</b>
<b>At 1 January 2018</b>	140	56,622	(13,156)	(75,476)	(4,424)	(36,294)
(Charge) credit to income statement for the period	(52,281)	4,832	(6,359)	–	–	(53,808)
Credit to other comprehensive income for the period	–	–	–	89,873	–	89,873
Exchange adjustments	–	–	965	–	–	965
<b>At 31 December 2018</b>	<b>(52,141)</b>	<b>61,454</b>	<b>(18,550)</b>	<b>14,397</b>	<b>(4,424)</b>	<b>736</b>

### 30. ADDITIONAL EQUITY INSTRUMENTS

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
US\$300 million undated non-cumulative subordinated additional tier 1 capital securities	2,312,030	2,312,030

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

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

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

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

During the period, a distribution payment of US\$9,750,000 (2018: US\$9,750,000) (equivalent to HK\$76,535,550) (2018: HK\$76,314,000) was paid to the securities holders.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

### 31. MATURITY PROFILES

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

	Repayable on demand HK\$'000	Repayable within 1 month HK\$'000	Repayable after 1 month but within 3 months HK\$'000	Repayable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
<b>At 30 June 2019</b>								
<b>Assets</b>								
Cash and short-term funds	1,302,304	19,083,939	3,270,872	55,984	-	-	-	23,713,099
Placements with banks	-	-	7,041,507	56,770	-	-	-	7,098,277
Derivative financial instruments	-	242,108	219,956	177,617	113,249	10,339	-	763,269
Financial assets at fair value through profit or loss	-	-	-	-	-	116,647	244	116,891
Financial assets at FVOCI	-	5,870,223	5,104,995	3,310,185	21,198,551	17,327,587	92,350	52,903,891
Financial assets at amortised cost	-	29,127	100,961	-	21,379	295,117	-	446,584
Advances to customers	3,271,981	3,581,257	10,847,086	24,096,179	49,341,800	18,210,255	19,327	109,367,885
Advances to banks	-	-	-	-	-	-	-	-
Other financial assets	4,120,994	539,504	501,216	914,626	-	-	-	6,076,340
<b>Total financial assets</b>	<b>8,695,279</b>	<b>29,346,158</b>	<b>27,086,593</b>	<b>28,611,361</b>	<b>70,674,979</b>	<b>35,959,945</b>	<b>111,921</b>	<b>200,486,236</b>
<b>Liabilities</b>								
Deposits and balances of banks	325,094	4,932,052	2,573,123	3,364,496	-	-	-	11,194,765
Financial assets sold under repurchase agreements	-	6,348,951	833,799	-	-	-	-	7,182,750
Deposits from customers	53,580,005	33,463,550	31,613,738	20,535,249	8,185,144	378	-	147,378,064
Certificates of deposit	-	614,068	185,355	3,212,858	78,078	-	-	4,090,359
Derivative financial instruments	-	252,356	198,808	248,618	530,626	754,802	-	1,985,210
Debt securities issued	-	-	-	-	-	-	-	-
Loan capital	-	-	-	-	1,600,316	2,994,043	-	4,594,359
Lease liabilities	-	13,141	25,656	120,657	429,828	884	-	590,166
Other financial liabilities	541,602	444,749	437,944	460,698	316,798	3,347	65,260	2,270,398
<b>Total financial liabilities</b>	<b>54,446,701</b>	<b>46,068,867</b>	<b>35,868,423</b>	<b>27,942,576</b>	<b>11,140,790</b>	<b>3,753,454</b>	<b>65,260</b>	<b>179,286,071</b>
<b>Net position</b>								
- Total financial assets and liabilities	(45,751,422)	(16,722,709)	(8,781,830)	668,785	59,534,189	32,206,491	46,661	21,200,165
Of which debt securities included in:								
Financial assets at fair value through profit or loss	-	-	-	-	-	116,647	-	116,647
Financial assets at FVOCI	-	5,870,223	5,104,995	3,310,185	21,198,551	17,327,587	-	52,811,541
Financial assets at amortised cost	-	29,127	100,961	-	21,379	295,117	-	446,584
	-	5,899,350	5,205,956	3,310,185	21,219,930	17,739,351	-	53,374,772

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

### 31. MATURITY PROFILES *(Continued)*

	Repayable on demand HK\$'000	Repayable				Repayable after 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
		Repayable within 1 month HK\$'000	Repayable after 1 month but within 3 months HK\$'000	Repayable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000			
<b>At 31 December 2018</b>								
<b>Assets</b>								
Cash and short-term funds	57,517	23,292,051	2,145,014	687,820	-	-	-	26,182,402
Placements with banks	216,465	-	5,598,618	2,130,643	-	-	-	7,945,726
Derivative financial instruments	-	165,157	102,930	196,844	151,485	279,724	-	896,140
Financial assets at fair value								
through profit or loss	-	-	-	-	-	115,813	215	116,028
Financial assets measured at FVOCI	-	6,552,675	2,266,230	5,762,937	16,094,769	15,616,367	85,578	46,378,556
Financial assets measured at								
amortised cost	-	43,689	29,126	97,092	21,347	300,288	-	491,542
Advances to customers	1,397,750	7,182,043	8,985,614	19,930,337	45,649,316	18,615,641	64,526	101,825,227
Advances to banks	-	334,895	-	-	-	-	-	334,895
Other financial assets	2,528,730	358,616	941,728	806,461	9,813	3,001	-	4,648,349
<b>Total financial assets</b>	<b>4,200,462</b>	<b>37,929,126</b>	<b>20,069,260</b>	<b>29,612,134</b>	<b>61,926,730</b>	<b>34,930,834</b>	<b>150,319</b>	<b>188,818,865</b>
<b>Liabilities</b>								
Deposits and balances of banks	28,874	2,892,104	1,695,540	999,435	-	-	-	5,615,953
Financial assets sold under								
repurchase agreements	-	2,944,714	3,626,982	-	-	-	-	6,571,696
Deposits from customers	51,538,924	33,540,597	35,180,685	16,632,282	6,797,806	-	-	143,690,294
Derivative financial instruments	-	195,212	104,467	185,091	249,819	139,028	-	873,617
Certificates of deposit	-	600,079	1,716,574	293,494	78,239	-	-	2,688,386
Debt securities issued	-	-	-	1,707,923	-	-	-	1,707,923
Loan capital	-	-	-	-	1,592,297	2,914,850	-	4,507,147
Lease liabilities	-	-	-	-	-	-	-	-
Other financial liabilities	679,295	281,600	521,515	370,177	9,979	-	255,919	2,118,485
<b>Total financial liabilities</b>	<b>52,247,093</b>	<b>40,454,306</b>	<b>42,845,763</b>	<b>20,188,402</b>	<b>8,728,140</b>	<b>3,053,878</b>	<b>255,919</b>	<b>167,773,501</b>
<b>Net position</b>								
- total financial assets and								
liabilities	(48,046,631)	(2,525,180)	(22,776,503)	9,423,732	53,198,590	31,876,956	(105,600)	21,045,364
Of which debt securities included in:								
Financial assets at fair value								
through profit or loss	-	-	-	-	-	115,813	-	115,813
Financial assets at FVOCI	-	6,438,907	2,266,230	5,762,937	16,094,769	15,730,135	-	46,292,978
Financial assets at Amortised cost	-	43,601	29,126	97,092	21,347	300,376	-	491,542
	-	6,482,508	2,295,356	5,860,029	16,116,116	16,146,324	-	46,900,333

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

### 32. RELATED PARTY TRANSACTIONS

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

	Interest and commission income		Interest, rental and other operating expenses	
	Six months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Ultimate holding company	10	8	6,471	9,936
Intermediate holding company	4,768	5,751	4,313	535
Fellow subsidiaries	18,335	8,461	36,749	33,547
Associates	23,664	33,419	11,890	1,090
Key management personnel (Note)	475	399	1,634	236

During the period, the Group had net trading income with intermediate holding company and fellow subsidiary of HK\$2,961,000 (2018: Net trading loss HK\$888,000).

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

	Amounts due from related parties		Amounts due to related parties	
	30 June 2019	31 December 2018	30 June 2019	31 December 2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Ultimate holding company	–	–	6,585	1,047,143
Intermediate holding company	500,000	798,887	157,016	742,263
Fellow subsidiaries	909,286	1,008,537	3,690,084	2,824,204
Associates	–	–	403,650	234,260
Key management personnel (Note)	58,209	59,118	311,194	238,139

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

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

## 32. RELATED PARTY TRANSACTIONS *(Continued)*

### COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Short-term benefits	80,965	87,354
Post employment benefits	5,123	5,179
	<u>86,088</u>	<u>92,533</u>

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

## 33. ESTIMATES

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

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2018 except for the adoption of HKFRS16 from 1 January 2019 and the measurement of expected credit loss allowance, which resulted in changes in critical accounting judgement.

### CRITICAL JUDGEMENTS IN DETERMINING THE LEASE TERM

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



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

### 33. ESTIMATES *(Continued)*

#### CRITICAL JUDGEMENTS IN KEY ASSUMPTIONS USED IN THE EXPECTED CREDIT LOSS (“ECL”) CALCULATION

In the first half of 2019, the Group engaged an independent party to perform model validation and review of certain data proxy adopted for portfolios lacking of historical default history and it provided recommendations to the Group for future considerations. The Group revisited and updated two key assumptions based on those recommendations:

- Update of probability-weighting assignment in the forward-looking macro-economic forecast to 80%, 10% and 10% for base, good and bad scenarios respectively; and
- Adjustments of the probability of default multiplier for Mainland China originated corporate loan exposures.

As at 30 June 2019, the above assumptions changes lead to a release of ECL provision and the aggregated amount represents approximately 0.11% of the advances to customers balance.

The Group monitors and reviews the underlying assumptions used in the ECL calculation on a regular basis. If nature of a credit portfolio is changing, the monitoring and review will be performed more frequently.

### 34. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

The Bank successfully issued US\$400 million 5.7% Undated Non-Cumulative Subordinated Additional Tier 1 Capital Securities (the “Securities”) on 15 July 2019, which was completed under the US\$2 billion Medium Term Note and Perpetual Capital Securities Programme of the Bank. The Securities are qualified as Basel III-compliant additional tier 1 capital. The proceeds from the offering will enable the Bank to strengthen its capital base and will be used for its corporate operating and business growth to support the implementation of its strategic plans for the Bank.

### 35. COMPARATIVE AMOUNTS

Certain comparative figures have been reclassified to conform to current period’s presentation.

# SUPPLEMENTARY INFORMATION

For the six months ended 30 June 2019

## 1. ADVANCES TO CUSTOMERS – BY INDUSTRY SECTORS

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

	30 June 2019				
	Gross loans and advances	Impairment allowances stage 1 & stage 2	Impairment allowances stage 3	Loans and advances secured by collateral	Gross impaired advances
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Note 1)	
Loans for use in Hong Kong					
Industrial, commercial and financial					
– Property development	5,838,355	2,572	–	3,170,916	–
– Property investment	9,706,000	16,567	–	6,263,860	–
– Financial concerns	7,767,905	1,533	–	805,653	–
– Stockbrokers	2,128,349	291	–	916,988	–
– Wholesale and retail trade	1,803,668	3,176	15,744	1,626,642	27,248
– Manufacturing	723,565	1,252	1,201	465,836	1,198
– Transport and transport equipment	1,138,797	5,900	–	1,009,502	–
– Recreational activities	583	–	–	583	–
– Information technology	355,117	1,993	2,865	81,529	30,253
– Others (Note 2)	7,703,204	14,415	2,051	4,713,868	120,671
Individuals					
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	498,631	34	20	498,631	823
– Loans for the purchase of other residential properties	8,808,206	439	61	8,804,478	11,073
– Credit card advances	71,689	1,039	453	–	425
– Others (Note 3)	3,293,866	2,924	1,297	3,020,751	8,472
	49,837,935	52,135	23,692	31,379,237	200,163
Trade finance	3,980,869	38,865	77,801	824,628	203,638
Loans for use outside Hong Kong	55,549,081	306,128	103,829	11,667,500	107,516
	109,367,885	397,128	205,322	43,871,365	511,317

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

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

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

## SUPPLEMENTARY INFORMATION

For the six months ended 30 June 2019

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

	31 December 2018				
	Gross loans and	Impairment	Impairment	Loans and	Gross impaired
	advances	allowances	allowances	advances secured	advances
	stage 1 & stage 2	stage 3	by collateral		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Note 1)	
Loans for use in Hong Kong					
Industrial, commercial and financial					
– Property development	5,446,148	5,264	–	2,687,387	–
– Property investment	8,891,687	26,955	–	6,685,007	–
– Financial concerns	7,684,878	1,904	–	1,454,725	–
– Stockbrokers	1,465,644	241	–	764,000	–
– Wholesale and retail trade	1,846,350	2,981	13,662	1,722,340	17,193
– Manufacturing	593,998	818	1,738	343,919	2,726
– Transport and transport equipment	1,898,132	2,414	–	1,023,665	–
– Recreational activities	616	–	–	616	–
– Information technology	364,368	1,585	–	86,112	–
– Others (Note 2)	7,291,366	19,656	1,614	4,391,405	124,845
Individuals					
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	519,770	126	2	519,770	498
– Loans for the purchase of other residential properties	9,234,292	1,987	197	9,232,929	16,473
– Credit card advances	79,580	1,706	586	–	586
– Others (Note 3)	2,857,321	3,920	947	2,613,179	3,714
	48,174,150	69,557	18,746	31,525,054	166,035
Trade finance	4,928,803	9,292	14,151	1,038,346	16,904
Loans for use outside Hong Kong	48,722,274	312,564	121,538	11,530,276	170,291
	101,825,227	391,413	154,435	44,093,676	353,230

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

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

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

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

The Group's advances to customers overdue for over three months as at 30 June 2019 and 31 December 2018, and new impairment allowances and advances written-off during the six months ended 30 June 2019 and 2018 in respect of industry sectors which constitute not less than 10% of gross advances to customers are analysed as follows:

	2019		
	Advances overdue for over three months as at 30 June HK\$'000	New impairment allowances during the six months ended 30 June HK\$'000	Advances written-off during six months ended 30 June HK\$'000
Loans for use outside Hong Kong	170,216	29,876	–

  

	2018		
	Advances overdue for over three months as at 31 December HK\$'000	New impairment allowances during the six months ended 30 June HK\$'000	Advances written-off during six months ended 30 June HK\$'000
Loans for use outside Hong Kong	164,907	116	–

## SUPPLEMENTARY INFORMATION

For the six months ended 30 June 2019

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

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

	30 June 2019				
	Total advances	Advances overdue for over three months	Impaired advances	Impairment allowances stage 3	Impairment allowance stage 1 & stage 2
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	84,713,919	122,837	405,322	103,014	116,227
Mainland China	20,186,115	102,186	102,186	102,186	277,018
Macau	4,017,481	2,663	3,809	122	1,595
Others	450,370	—	—	—	2,288
	<u>109,367,885</u>	<u>227,686</u>	<u>511,317</u>	<u>205,322</u>	<u>397,128</u>

	31 December 2018				
	Total advances	Advances overdue for over three months	Impaired advances	Impairment allowances stage 3	Impairment allowance stage 1 & stage 2
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	78,976,168	94,668	246,847	82,847	222,518
Mainland China	18,488,068	102,519	102,519	71,362	166,028
Macau	4,049,389	—	3,864	226	2,867
Others	311,602	—	—	—	—
	<u>101,825,227</u>	<u>197,187</u>	<u>353,230</u>	<u>154,435</u>	<u>391,413</u>

### 3. INTERNATIONAL CLAIMS

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

	At 30 June 2019				
	Non-bank private sector				Total
	Banks	Official sector	Non-bank		
			financial institutions	Non-financial private sector	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Offshore centres of which	3,181,351	8,039	11,222,332	17,537,089	31,948,811
– Hong Kong	2,790,857	7,673	7,706,541	7,474,649	17,979,720
Developing Asia-Pacific of which	10,810,435	251,352	18,200,746	6,304,460	35,566,993
– Mainland China	9,287,146	251,175	18,200,746	6,294,039	34,033,106
Developed countries	7,865,130	5,314,712	131,460	282,760	13,594,062

	At 31 December 2018				
	Non-bank private sector				Total
	Banks	Official sector	Non-bank		
			financial institutions	Non-financial private sector	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Offshore centres of which	2,805,110	2,956	21,426,035	20,593,448	44,827,549
– Hong Kong	2,564,499	2,956	5,877,939	7,884,211	16,329,605
Developing Asia-Pacific of which	13,730,662	225,919	545,151	6,223,604	20,725,336
– Mainland China	12,030,286	225,919	545,151	6,213,926	19,015,282
Developed countries	8,088,759	4,490,938	1,485,559	813,334	14,878,590

## SUPPLEMENTARY INFORMATION

For the six months ended 30 June 2019

### 4. OVERDUE AND RESCHEDULED ASSETS

	30 June 2019		31 December 2018	
	Gross amount of advances HK\$'000	Percentage to total advances %	Gross amount of advances HK\$'000	Percentage to total advances %
Advances overdue for				
– 6 months or less but over 3 months	28,968	0.0	118,577	0.1
– 1 year or less but over 6 months	119,098	0.1	34,208	0.0
– Over 1 year	46,514	0.0	16,141	0.0
Trade bills overdue for				
– 6 months or less but over 3 months	5,632	0.0	28,261	0.0
– 1 year or less but over 6 months	27,474	0.0	—	0.0
– Over 1 year	—	0.0	—	0.0
Total overdue advances	<u>227,686</u>	<u>0.1</u>	<u>197,187</u>	<u>0.1</u>
Rescheduled advances				
– 3 months or less	119,191	0.1	123,836	0.1
– Over 3 months	454	0.0	607	0.0
Total rescheduled advances	<u>119,645</u>	<u>0.1</u>	<u>124,443</u>	<u>0.1</u>
Impairment allowances under stage 3 made in respect of overdue loans and advances	<u>185,962</u>		<u>139,619</u>	
Covered portion of overdue loans and advances	28,705		23,668	
Uncovered portion of overdue loans and advances	<u>198,981</u>		<u>173,519</u>	
	<u>227,686</u>		<u>197,187</u>	
Market value of collateral held against covered portion of overdue loans and advances	<u>53,855</u>		<u>38,097</u>	

#### 4. OVERDUE AND RESCHEDULED ASSETS *(Continued)*

There are no overdue debt securities included in “Financial assets at fair value through profit or loss” and “Financial assets at FVOCI” as at 30 June 2019 and 31 December 2018.

There were no advances to banks which were overdue for over three months as at 30 June 2019 and 31 December 2018, nor were there any rescheduled advances to banks.

Repossessed assets held by the Group as at 30 June 2019 was HK\$Nil (31 December 2018: HK\$9,500,000).

#### 5. MAINLAND ACTIVITIES EXPOSURES

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

Type by counterparties	30 June 2019		Total HK\$'000
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	31,836,388	4,137,687	35,974,075
2. Local government, local government-owned entities and their subsidiaries and JVs	7,229,604	1,374,053	8,603,657
3. Mainland China nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	21,714,485	8,618,050	30,332,535
4. Other entities of central government not reported in item 1 above	5,888,897	1,948,135	7,837,032
5. Other entities of local government not reported in item 2 above	937,374	323,403	1,260,777
6. Mainland China nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	8,878,370	925,749	9,804,119
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	8,142,231	1,075,745	9,217,976
<b>Total</b>	<b>84,627,349</b>	<b>18,402,822</b>	<b>103,030,171</b>
<b>Total assets after provision <i>(Note)</i></b>	<b>201,718,591</b>		
<b>On-balance sheet exposures as percentage of total assets <i>(Note)</i></b>	<b>41.95%</b>		



## SUPPLEMENTARY INFORMATION

For the six months ended 30 June 2019

### 5. MAINLAND ACTIVITIES EXPOSURES *(Continued)*

Type by counterparties	31 December 2018		Total HK\$'000
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	23,257,752	2,859,722	26,117,474
2. Local government, local government-owned entities and their subsidiaries and JVs	5,007,396	2,597,854	7,605,250
3. Mainland China nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	20,975,633	7,561,415	28,537,048
4. Other entities of central government not reported in item 1 above	4,487,871	1,752,436	6,240,307
5. Other entities of local government not reported in item 2 above	1,054,338	358,172	1,412,510
6. Mainland China nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	8,688,010	1,667,797	10,355,807
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	7,653,238	871,864	8,525,102
<b>Total</b>	<b>71,124,238</b>	<b>17,669,260</b>	<b>88,793,498</b>
<b>Total assets after provision (Note)</b>	<b>189,347,701</b>		
<b>On-balance sheet exposures as percentage of total assets (Note)</b>	<b>37.56%</b>		

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

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

## 6. CURRENCY RISK

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

	30 June 2019		
	USD	RMB	Total
Equivalent in thousand of HK\$			
Spot assets	57,039,134	37,895,788	94,934,922
Spot liabilities	(54,024,083)	(39,733,220)	(93,757,303)
Forward purchases	131,318,089	14,118,841	145,436,930
Forward sales	(133,666,952)	(11,633,204)	(145,300,156)
Net long position	<u>666,188</u>	<u>648,205</u>	<u>1,314,393</u>
	MOP	RMB	Total
Net structural position	<u>48,544</u>	<u>2,157,260</u>	<u>2,205,804</u>

	31 December 2018		
	USD	RMB	Total
Equivalent in thousand of HK\$			
Spot assets	44,960,622	37,086,928	82,047,550
Spot liabilities	(44,262,308)	(37,865,617)	(82,127,925)
Forward purchases	132,417,175	14,560,418	146,977,593
Forward sales	(129,376,565)	(13,229,032)	(142,605,597)
Net long position	<u>3,738,924</u>	<u>552,697</u>	<u>4,291,621</u>
	MOP	RMB	Total
Net structural position	<u>48,544</u>	<u>2,164,290</u>	<u>2,212,834</u>

## SUPPLEMENTARY INFORMATION

For the six months ended 30 June 2019

### 7. CONTINGENT LIABILITIES AND COMMITMENTS

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
<b>Contingent liabilities and commitments</b>		
– contractual amounts		
Direct credit substitutes	466,593	592,606
Trade-related contingencies	5,867,319	4,528,485
Forward asset purchases	88,125	86,125
<b>Undrawn formal standby facilities, credit lines and other commitments</b>		
Which are unconditionally cancellable without prior notice	30,776,265	22,860,607
With an original maturity of one year and under	4,196,596	3,011,346
With an original maturity of over one year	6,270,298	6,235,699
<b>Lease commitments (Note)</b>	6,736	201,269
	<b>47,671,932</b>	<b>37,516,137</b>

The credit risk-weighted amount of contingent liabilities and commitments is HK\$4,754,144,000 (31 December 2018: HK\$4,441,022,000).

*Note:* The Group is the lessee in respect of a number of properties held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases. From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statement of financial position in accordance with the policies set out in note 2 of the condensed consolidated interim financial information.

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

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

	30 June 2019			31 December 2018		
	Notional amount HK\$'000	Replacement cost HK\$'000	Credit risk-weighted amount HK\$'000	Notional amount HK\$'000	Replacement cost HK\$'000	Credit risk-weighted amount HK\$'000
Exchange rate contracts	277,153,234	665,170	1,182,074	260,748,721	518,203	1,039,483
Interest rate contracts	82,243,634	98,099	140,842	46,590,019	377,937	201,718
		<b>763,269</b>	<b>1,322,916</b>		<b>896,140</b>	<b>1,241,201</b>

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

## 7. CONTINGENT LIABILITIES AND COMMITMENTS *(Continued)*

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

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

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

	30 June 2019	31 December 2018
	%	%
Total capital ratio	17.76	19.01
Tier 1 capital ratio	14.31	15.19
Common Equity Tier 1 ("CET 1") capital ratio	12.70	13.44

	30 June 2019	31 December 2018
	%	%
Capital buffers (as a percentage of risk-weighted assets)		
Capital conservation buffer ratio	2.50	1.88
Countercyclical capital buffer ratio	1.79	1.37
	<u>4.29</u>	<u>3.25</u>

	30 June 2019	31 December 2018
	%	%
Leverage ratio	9.63	10.03

	Six months ended 30 June 2019	Six months ended 30 June 2018
	%	%
Average liquidity maintenance ratio ("LMR") for the period	46.00	43.58

## SUPPLEMENTARY INFORMATION

For the six months ended 30 June 2019

### 8. CAPITAL ADEQUACY RATIOS, LEVERAGE RATIO AND LIQUIDITY RATIOS *(Continued)*

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

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

### 9. OTHER FINANCIAL INFORMATION

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

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

### 10. BASIS OF CONSOLIDATION

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

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

There are no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation but where the method of consolidation differs at 30 June 2019.

There are no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation at 30 June 2019.

## 10. BASIS OF CONSOLIDATION *(Continued)*

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

Name of company	Principal activities	Total assets		Total equity	
		30 June 2019	31 December 2018	30 June 2019	31 December 2018
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Chong Hing (Nominees) Limited	Provision of nominee services	100	100	100	100
Chong Hing Securities Limited	Stockbroking	700,870	545,871	472,266	443,443
Chong Hing Commodities and Futures Limited	Investment holding and commodities and futures broking	70,981	70,908	66,100	64,405
Chong Hing Insurance Company Limited	Insurance underwriting	429,051	378,307	274,580	262,974
Chong Hing (Management) Limited	Provision of management services	205	105	92	92

## 11. RISK MANAGEMENT

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

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

## SUPPLEMENTARY INFORMATION

For the six months ended 30 June 2019

### 11. RISK MANAGEMENT *(Continued)*

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

#### (I) CAPITAL MANAGEMENT

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

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

#### (II) CREDIT RISK

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

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

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

#### (III) LIQUIDITY RISK

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

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

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

## 11. RISK MANAGEMENT *(Continued)*

### (IV) MARKET RISK

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

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

### (V) FOREIGN EXCHANGE RISK

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

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

### (VI) INTEREST RATE RISK

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

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



## SUPPLEMENTARY INFORMATION

For the six months ended 30 June 2019

### 11. RISK MANAGEMENT *(Continued)*

#### (VII) OPERATIONAL AND LEGAL RISK

Operational risk is the risk of unexpected losses attributable to human error, systems failures, frauds, or inadequate internal controls and procedures. Identification, assessment, mitigation, monitoring and reporting of operational risk are to be done for departments and processes, with escalation and reporting mechanism designated for major operational risk incidents.

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

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

#### (VIII) REPUTATION RISK

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

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

