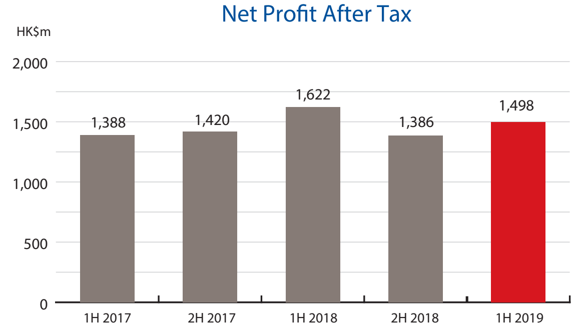
中信银行(国际)
CHINA CITIC BANK INTERNATIONAL

2019 Interim Results Highlights

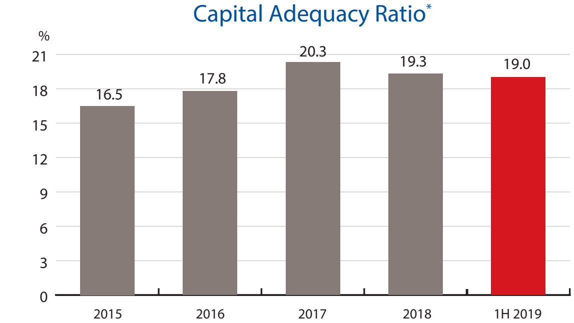
Financial Performance

- Operating environment during 1H2019 remained challenging given the impact of Sino-US trade conflicts on loan demand and increasingly fierce market competition.
- **Net profit after tax** was HK$1.50 billion, down 7.7% year on year.
- **Operating profit after impairment** decreased by 7.3% to HK$1.83 billion, with HK$621 million of impairment made.
- **Operating income** dropped by 2.6% to HK$4.25 billion. **Net interest income** decreased by 3.5% to HK$3.19 billion. **Net interest margin** increased by 4 basis points to 1.86% versus FY2018 level as the increase in asset yields exceeded the increase in funding costs. **Non-interest income** was up slightly by 0.2% to HK$1.06 billion.
- **ROA** was up 3 basis points to 0.87% versus FY2018 while **ROE** was 9 basis points lower at 8.28%.
- **Total assets** decreased by 3.4% versus end-2018 to HK$350.62 billion. **Total deposits** dropped by 4.1% to HK$276.71 billion while **customer loans (including trade bills)** were down 2.1% to HK$197.53 billion.
- **Retail deposits and lending** expanded by 4.6% and 10.2% respectively versus end-2018, while non-NII from the retail business surged by 31.9% year on year.
- **Impaired loan ratio** as at end-June 2019 was 1.38% while **non-performing loan coverage ratio** was 107.7%.
- **Capital adequacy ratio** and **CET1 ratio** exceeded regulatory requirements at 19.0% and 13.3% respectively.
- Despite multiple challenges and mounting stress, the Bank will maintain its strategic focus and steadily press ahead with fintech transformation in order to achieve long-term sustainable development.

Net Profit After Tax



Capital Adequacy Ratio*



* End-of-period figures

Core Businesses

Wholesale Banking Group (WBG) showed perseverance in the face of an adverse operating environment and placed greater emphasis on collaboration with the CITIC Group and CNCB. The number of corporate clients referred to WBG by the CITIC Group and CNCB reached 1,189, up 1.5% year on year. A joint marketing mechanism has been established with CNCB's branches and CITIC Bank International (China) Limited to deepen customer relationships and create more cross-selling opportunities. In an effort to diversify income sources, WBG reinvigorated the trade finance business with total bills turnover amounting to HK$13.60 billion during 1H2019, of which HK$7.82 billion was recorded in 2Q, representing an increase of 35.2% from 1Q.

Personal and Business Banking Group (PBG) recorded a 12.6% year-on-year growth in total operating income, reaching HK$1.43 billion in 1H2019 and attaining a new half-year record. Customer deposits reached HK$159.99 billion. Meanwhile, total retail lending balance also increased to a record high of HK$56.80 billion. PBG continued to focus on high net worth customers with total number of customers and assets under management up by 3.2% and 4.1% respectively versus end-2018. PBG has also expanded the product offering under "inMotion" and launched the first truly virtual credit card in Hong Kong and a full-function securities trading service via the platform. PBG customers can also purchase life insurance policies via "inMotion", making it a genuinely comprehensive virtual banking platform that enables customers to manage account opening, spending, investing and purchasing of insurance anytime and anywhere.

Treasury and Markets Group (TMG) recorded an increase of 7.8% in total operating income, reaching HK$631 million in 1H2019. The trading team maintained a competitive position in the market-making business on RMB and HKD products. According to Thomson Reuters, CNCBI was ranked top two among all Chinese banks for HKD FX spot trading volume in Asia and top three among banks in Asia for RMB FX spot trading volume during 1H2019. In March, the trading team completed the first HKEx centrally cleared CNH FX swap transaction in Hong Kong. CNCBI has also successfully joined the Continuous Linked Settlement system to achieve multi-currency, multilateral and real-time global FX trade settlement capabilities. The DCM team completed 75 deals with an aggregate issuance size of US$33.05 billion, of which CNCBI acted as global coordinator for 44 transactions. Starting from October this year, CNCBI will become a CNH HIBOR contributing bank as appointed by the Treasury Markets Association, which is an acknowledgement of CNCBI's increasing presence in the CNH market.

中信银行(国际)
CHINA CITIC BANK INTERNATIONAL

CHINA CITIC BANK INTERNATIONAL LIMITED

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

ANNOUNCEMENT OF 2019 INTERIM RESULTS

The Board of Directors of China CITIC Bank International Limited ("the Bank") is pleased to announce the unaudited consolidated results of the Bank and its subsidiaries ("the Group") for the six months ended 30 June 2019. The interim financial report is unaudited, but has been reviewed by PricewaterhouseCoopers, in accordance with Hong Kong Standards on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

CONDENSED CONSOLIDATED INCOME STATEMENT
For the six months ended 30 June 2019 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2019	2018
	Note	***HK$'000***	*HK$'000*
Interest income	*4(a)*	**6,121,530**	5,441,182
Interest expense	*4(b)*	**(2,933,016)**	(2,138,071)
Net interest income		**3,188,514**	3,303,111
Fee and commission income		**841,329**	837,009
Fee and commission expense		**(57,317)**	(47,275)
Net fee and commission income	*5*	**784,012**	789,734
Net trading income	*6*	**227,053**	235,714
Net hedging (loss)/gain	*7*	**(3,007)**	4,344
Net gain on disposal of financial assets at fair value through other comprehensive income	*8*	**35,866**	9,936
Other operating income	*9*	**16,969**	19,458
Operating income		**4,249,407**	4,362,297
Operating expenses	*10*	**(1,800,781)**	(1,617,443)
Operating profit before impairment		**2,448,626**	2,744,854
Expected credit losses on financial assets	*11*	**(546,533)**	(741,030)
Impairment losses on other assets		**(74,029)**	(32,000)
Impairment losses		**(620,562)**	(773,030)
Operating profit		**1,828,064**	1,971,824
Net loss on disposal of property and equipment		**(2,630)**	(527)
Revaluation gain/(loss) on investment properties	*20*	**7,073**	(170)
Share of profit of associates		**841**	–
Gain on disposal of interest in associates	*19*	**9,226**	–
Loss on partial redemption of loan capital	*28*	**(58,995)**	–
Profit before taxation		**1,783,579**	1,971,127
Income tax	*12*	**(285,713)**	(348,638)
Profit for the period		**1,497,866**	1,622,489
Profit attributable to shareholders		**1,497,866**	1,622,489

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2019 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
Profit for the period	**1,497,866**	1,622,489
Other comprehensive income for the period		
Items that will be reclassified subsequently to consolidated income statement when specific conditions are met		
Exchange differences on translation of financial statements of foreign operations	**(3,102)**	(20,873)
Financial assets at fair value through other comprehensive income		
– change in the fair value of debt instruments	**667,489**	(538,836)
– transfer to income statement on disposal	**(35,391)**	(11,120)
– transfer to income statement on impairment	**(50,819)**	74,011
– deferred tax related to the above	**(109,191)**	78,474
	472,088	(397,471)
Items that will not be reclassified subsequently to consolidated income statement		
Financial assets at fair value through other comprehensive income		
– change in fair value of equity instruments	**33,328**	731
– deferred tax related to the above	**(5,484)**	(121)
	27,844	610
Property revaluation reserve		
– transfer to deferred tax on disposal	**10**	–
Other comprehensive income/(loss) for the period	**496,840**	(417,734)
Total comprehensive income for the period	**1,994,706**	1,204,755
Total comprehensive income attributable to shareholders	**1,994,706**	1,204,755

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2019 – unaudited
(Expressed in Hong Kong dollars)

	Note	**At 30 June 2019 *HK$'000***	At 31 December 2018 *HK$'000*
ASSETS			
Cash and balances with banks, central banks and other financial institutions	*13*	**20,969,197**	29,622,486
Placements with and advances to banks, central banks and other financial institutions	*14*	**52,621,210**	52,886,380
Financial assets at fair value through profit or loss	*15*	**2,756,147**	1,440,532
Derivative financial instruments	*16*	**4,582,402**	6,027,833
Loans and advances to customers and other accounts	*17*	**200,726,694**	203,829,256
Financial assets at fair value through other comprehensive income	*18*	**66,568,136**	66,977,407
Interest in associates	*19*	**–**	352,151
Property and equipment	*20*		
– Investment properties		**237,662**	241,970
– Other premises and equipment		**514,448**	492,854
Right-of-use assets	*2*	**787,766**	–
Intangible assets	*21*	**609,884**	652,210
Tax recoverable	*26(a)*	**24,554**	8,353
Deferred tax assets	*26(b)*	**220,646**	413,359
Total Assets		**350,618,746**	362,944,791
LIABILITIES AND EQUITY			
Liabilities			
Deposits and balances of banks and other financial institutions	*22*	**3,953,485**	2,849,375
Deposits from customers	*23*	**273,588,030**	285,492,851
Derivative financial instruments	*16*	**4,834,254**	6,543,351
Certificates of deposit issued	*24*	**3,120,265**	3,133,151
Debt securities issued	*25*	**3,402,991**	3,408,077
Current tax liabilities	*26(a)*	**411,759**	600,053
Deferred tax liabilities	*26(b)*	**6,269**	7,940
Other liabilities	*27*	**9,711,502**	8,645,374
Loan capital	*28*	**6,275,259**	6,283,542
Total Liabilities		**305,303,814**	316,963,714
Equity			
Share capital	*29(a)*	**18,404,013**	18,404,013
Reserves		**19,140,507**	17,496,484
Total shareholders' equity		**37,544,520**	35,900,497
Additional equity instruments	*30*	**7,770,412**	10,080,580
Total Equity		**45,314,932**	45,981,077
Total Equity and Liabilities		**350,618,746**	362,944,791

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2019 – unaudited
(Expressed in Hong Kong dollars)

	Share capital	Capital reserve	General reserve	Exchange differences reserve	Property revaluation reserve	Investment revaluation reserve	Statutory reserve	Regulatory general reserve	Retained profits	Total reserves (note 29(b))	Additional equity instruments	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2019	**18,404,013**	**6,589**	**100,000**	**(63,485)**	**76,300**	**(225,266)**	**58,073**	**149,500**	**17,394,773**	**17,496,484**	**10,080,580**	**45,981,077**
Changes in equity for the six months ended 30 June 2019:												
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,497,866**	**1,497,866**	**–**	**1,497,866**
Other comprehensive income for the period	**–**	**–**	**–**	**(3,102)**	**10**	**499,932**	**–**	**–**	**–**	**496,840**	**–**	**496,840**
Total comprehensive income for the period	**–**	**–**	**–**	**(3,102)**	**10**	**499,932**	**–**	**–**	**1,497,866**	**1,994,706**	**–**	**1,994,706**
Release of reserve upon disposal of property	**–**	**–**	**–**	**–**	**(65)**	**–**	**–**	**–**	**65**	**–**	**–**	**–**
Transfer from retained profits	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(308,022)**	**(308,022)**	**308,022**	**–**
Distribution payment for Additional Tier 1 Capital Securities ("AT1 Capital Securities")	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(308,022)**	**(308,022)**
Redemption of AT1 Capital Securities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(42,661)**	**(42,661)**	**(2,310,168)**	**(2,352,829)**
At 30 June 2019	**18,404,013**	**6,589**	**100,000**	**(66,587)**	**76,245**	**274,666**	**58,073**	**149,500**	**18,542,021**	**19,140,507**	**7,770,412**	**45,314,932**
At 1 January 2018	18,404,013	6,589	100,000	24,940	55	(18,767)	58,073	149,500	17,532,144	17,852,534	6,173,252	42,429,799
Changes in equity for the six months ended 30 June 2018:												
Profit for the period	–	–	–	–	–	–	–	–	1,622,489	1,622,489	–	1,622,489
Other comprehensive income for the period	–	–	–	(20,873)	–	(396,861)	–	–	–	(417,734)	–	(417,734)
Total comprehensive income for the period	–	–	–	(20,873)	–	(396,861)	–	–	1,622,489	1,204,755	–	1,204,755
Dividend paid	–	–	–	–	–	–	–	–	(2,808,437)	(2,808,437)	–	(2,808,437)
Transfer from retained profits	–	–	–	–	–	–	–	–	(168,784)	(168,784)	168,784	–
Distribution payment for AT1 Capital Securities	–	–	–	–	–	–	–	–	–	–	(168,784)	(168,784)
At 30 June 2018	18,404,013	6,589	100,000	4,067	55	(415,628)	58,073	149,500	16,177,412	16,080,068	6,173,252	40,657,333
At 1 July 2018	18,404,013	6,589	100,000	4,067	55	(415,628)	58,073	149,500	16,177,412	16,080,068	6,173,252	40,657,333
Changes in equity for the six months ended 31 December 2018:												
Profit for the period	–	–	–	–	–	–	–	–	1,385,869	1,385,869	–	1,385,869
Other comprehensive income for the period	–	–	–	(67,552)	76,245	190,362	–	–	–	199,055	–	199,055
Total comprehensive income for the period	–	–	–	(67,552)	76,245	190,362	–	–	1,385,869	1,584,924	–	1,584,924
Issue of AT1 Capital Securities	–	–	–	–	–	–	–	–	–	–	3,907,328	3,907,328
Transfer from retained profits	–	–	–	–	–	–	–	–	(168,508)	(168,508)	168,508	–
Distribution payment for AT1 Capital Securities	–	–	–	–	–	–	–	–	–	–	(168,508)	(168,508)
At 31 December 2018	18,404,013	6,589	100,000	(63,485)	76,300	(225,266)	58,073	149,500	17,394,773	17,496,484	10,080,580	45,981,077

CONDENSED CONSOLIDATED CASH FLOWS STATEMENT
For the six months ended 30 June 2019 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2019	2018
	Note	***HK$'000***	*HK$'000*
Net cash flows used in operating activities	*31(a)*	**(4,926,553)**	(8,144,058)
Cash flows generated from/(used in) investing activities			
Dividends received from equity instruments		**2,910**	4,361
Purchase of property and equipment and intangible assets		**(119,243)**	(79,073)
Proceeds from disposal of interest in associates		**362,218**	–
Net cash flows generated from/(used in) investing activities		**245,885**	(74,712)
Cash flows generated from/(used in) financing activities			
Proceeds from loan capital issued		**3,908,552**	–
Payment for redemption of loan capital		**(3,960,618)**	–
Dividend paid		**–**	(2,808,437)
Payment for redemption of AT1 Capital Securities		**(2,358,567)**	–
Distribution paid on AT1 Capital Securities		**(308,022)**	(168,784)
Payment of lease liability		**(155,973)**	–
Interest paid on debt securities issued		**(149,655)**	(162,523)
Interest paid on loan capital		**(171,145)**	(205,525)
Net cash flows used in financing activities		**(3,195,428)**	(3,345,269)
Net decrease in cash and cash equivalents		**(7,876,096)**	(11,564,039)
Cash and cash equivalents at 1 January		**92,228,603**	89,385,112
Cash and cash equivalents at 30 June	*31(b)*	**84,352,507**	77,821,073

NOTES TO THE INTERIM FINANCIAL REPORT – UNAUDITED

(Expressed in Hong Kong dollars unless otherwise indicated)

(1) BASIS OF PREPARATION

The interim financial report has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, Interim financial reporting, issued by the HKICPA. It also contains the disclosure information required under the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority ("HKMA"). The interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2018 which have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs").

The preparation of the interim financial report that conforms with HKAS 34 requires that management make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year-to-date basis. Actual results may differ from these estimates. In preparing this interim financial report, 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 first time adoption of HKFRS 16 "Leases" ("HKFRS 16") as described in note 2 below.

The financial information relating to the year ended 31 December 2018 that is included in the interim financial report for the six months ended 30 June 2019 as comparative information does not constitute the Group'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 Group 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 Group's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

The interim financial report has been prepared in accordance with the accounting policies adopted to be consistent with the 2018 annual financial statements and corresponding interim reporting period, which have been prepared in accordance with Hong Kong Financial Reporting Standards, except for the adoption of new and amended standards as set out below.

(2) CHANGES IN ACCOUNTING POLICIES

2.1 New and amended standards adopted by the Group

During the current reporting period, the Group had to change its accounting policies as a result of adopting HKFRS 16, Leases. The Group has assumed the other amendments to the standards did not have any significant impact on the Group's accounting policies.

2.2 Changes in accounting policies on adoption of HKFRS 16

The Group has lease contracts for various items of properties and equipment. Before the adoption of HKFRS 16, the Group classified each of its leases (as leasee) at the inception date as operating lease, which the leased property or equipment was not capitalised and the lease payments were recognised as rental expense in the income statement on a straight-line bases over the lease term. Upon the adoption of HKFRS 16, the Group applied a single recognition and measurement approach for all leases that 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 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 impact of the adoption of HKFRS 16 on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019. The Group has applied the simplified transition approach and adopted the HKFRS 16 from 1 January 2019, and no restated comparatives required for the 2018 reporting period. The opening adjustment as at 1 January 2019 arising from the new lease rules was considered to have no material financial impact on the Group's current reporting period. The operating lease commitments disclosed as at 31 December 2018 under HKAS 17 "Leases" was HK$1,092,383,000, while the lease liabilities discounted using the interest rate implicit in the lease as at 1 January 2019 under HKFRS 16 was HK$937,130,000. The opening adjustment as at 1 January 2019 arising from the adoption of HKFRS 16 increased both assets and liabilities by the same amount of HK$937,130,000 and with no effect on net assets or retained profits.

(2) CHANGES IN ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies on adoption of HKFRS 16 (continued)

The new accounting policies of the Group upon adoption of HKFRS 16:

Right-of-use assets

The Group recognises right-of-use asset at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses (if any), and adjusted for any remeasurement of lease liabilities. The cost of right-of-use asset includes the amount of lease liabilities recognised, initial direct cost incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use asset is depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Lease liabilities

At the commencement date of the lease, the Group recognised lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantee. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments.

2.3 Amounts recognised in the statement of financial position and income statement

The carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets			
	Leased properties *HK$'000*	**Office equipment** *HK$'000*	**Total** *HK$'000*	**Lease liabilities** *HK$'000*
At 1 January 2019	**937,093**	**37**	**937,130**	**937,130**
Depreciation expense	(149,499)	(16)	(149,515)	–
Interest expense	–	–	–	16,662
Payments	–	–	–	(155,973)
Exchange adjustments	150	1	151	161
At 30 June 2019	**787,744**	**22**	**787,766**	**797,980**

The amounts are recognised in the income statement:

	Six months ended 30 June 2019 *HK$'000*
Depreciation of right-of-use assets	**149,515**
Interest expense on lease liabilities	**16,662**
	166,177

For the impact on the adoption of HKFRS 16, the right-of-use assets, lease liabilities and related profit or loss have been properly included in corporate assets or liabilities, and corporate expenses which grouped under "Others" segment for segmental disclosure information.

2.4 Critical accounting estimates and judgements

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease terms as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is necessary certain not to be exercised.

Subsequent to the commencement date, the Group will need to apply judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. Moreover, the Group will reassess the lease term if there is any significant event or changes that affects its ability to exercise the option to renew.

(3) SEGMENT REPORTING

Segment information is prepared consistently with reportable segments. Information is regularly reported to the chief operating decision-maker, including management committee members, to allocate resources to the segments and to assess their performance. The Group has identified the following four main reportable segments:

Wholesale banking business includes wholesale banking business in Hong Kong and overseas branches, and China banking. Wholesale banking mainly comprises corporate lending and syndicated loans, trade financing, deposit account services and cash management. Overseas branches include the management office unit in Hong Kong and the branches operated overseas. China banking mainly includes a subsidiary bank in China.

Personal and business banking mainly comprises deposit account services, residential mortgages, other consumer lending, credit card services and Small and Medium Enterprises ("SMEs") banking business, wealth management services and private banking.

Treasury and markets covers the provision of foreign exchange services, money market activities, the management of investment securities and central cash management.

Others mainly comprises unallocated revenue and expenses, head office and corporate expenses.

For the purpose of segment reporting, the allocation of operating income reflects the benefits of funding resources allocated to the business segments based on the internal funds transfer pricing mechanism. Cost allocation is based on the direct costs incurred by the respective business segments and the apportionment of overheads on a reasonable basis to the business segments.

In the second-half year of 2018, the Group had revised certain allocation methods of some income and expenses among different operating units in preparing the information reported to the Group's senior executive management for the purposes of performance assessment. Corresponding amounts have been revised on a basis consistent with the segment information presented for the period ended 30 June 2019.

(a) Reportable segments

	Six months ended 30 June 2019				
	Wholesale banking *HK$'000*	Personal and business banking *HK$'000*	Treasury and markets *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
Net interest income	1,854,984	899,703	278,164	155,663	3,188,514
Other operating income/(expenses)	327,151	525,880	324,208	(152,212)	1,025,027
Net gain on disposal of financial assets at fair value through other comprehensive income	7,152	–	28,714	–	35,866
Operating income	2,189,287	1,425,583	631,086	3,451	4,249,407
Operating expenses	(264,821)	(412,880)	(91,794)	(1,031,286)	(1,800,781)
Inter-segment (expenses)/income	(212,919)	(304,153)	(104,601)	621,673	–
Operating profit/(loss) before impairment	1,711,547	708,550	434,691	(406,162)	2,448,626
Expected credit losses on financial assets	(599,124)	(14,048)	67,588	(949)	(546,533)
Impairment losses on other assets	(74,029)	–	–	–	(74,029)
Operating profit/(loss)	1,038,394	694,502	502,279	(407,111)	1,828,064
Net loss on disposal of property and equipment	(19)	(125)	–	(2,486)	(2,630)
Revaluation gain on investment properties	–	–	–	7,073	7,073
Share of profit of associates	–	–	–	841	841
Gain on disposal of interest in associates	–	–	–	9,226	9,226
Loss on partial redemption of loan capital	–	–	–	(58,995)	(58,995)
Profit/(loss) before taxation	1,038,375	694,377	502,279	(451,452)	1,783,579
Income tax	–	–	–	(285,713)	(285,713)
Profit/(loss) for the period	1,038,375	694,377	502,279	(737,165)	1,497,866
Other segment items:					
Depreciation and amortisation	30,624	10,428	1,829	246,312	289,193

	At 30 June 2019				
Other segment items:					
Segment assets	152,495,959	57,610,494	163,504,558	(22,992,265)	350,618,746
Segment liabilities	140,874,786	166,191,419	15,507,874	(17,270,265)	305,303,814
Capital expenditure during the period	14,754	32,172	12,232	60,085	119,243

(3) SEGMENT REPORTING (CONTINUED)

(a) Reportable segments (continued)

	Six months ended 30 June 2018 (Restated)				
	Wholesale banking *HK$'000*	Personal and business banking *HK$'000*	Treasury and markets *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
Net interest income	1,985,583	867,466	329,274	120,788	3,303,111
Other operating income/(expenses)	557,747	398,620	249,902	(157,019)	1,049,250
Net gain on disposal of financial assets at fair value through other comprehensive income	3,821	–	6,115	–	9,936
Operating income/(loss)	2,547,151	1,266,086	585,291	(36,231)	4,362,297
Operating expenses	(276,474)	(385,210)	(58,316)	(897,443)	(1,617,443)
Inter-segment income/(expenses)	(190,061)	(273,130)	(65,637)	528,828	–
Operating profit/(loss) before impairment	2,080,616	607,746	461,338	(404,846)	2,744,854
Expected credit losses on financial assets	(633,029)	(18,595)	(88,074)	(1,332)	(741,030)
Impairment losses on other assets	(32,000)	–	–	–	(32,000)
Operating profit/(loss)	1,415,587	589,151	373,264	(406,178)	1,971,824
Net loss on disposal of property and equipment	–	(527)	–	–	(527)
Revaluation loss on investment properties	–	–	–	(170)	(170)
Profit/(loss) before taxation	1,415,587	588,624	373,264	(406,348)	1,971,127
Income tax	–	–	–	(348,638)	(348,638)
Profit/(loss) for the period	1,415,587	588,624	373,264	(754,986)	1,622,489
Other segment items:					
Depreciation	7,966	7,823	281	84,430	100,500

	At 31 December 2018				
Other segment items:					
Segment assets	163,587,847	52,226,341	176,523,533	(29,392,930)	362,944,791
Segment liabilities	163,196,201	159,124,190	19,289,708	(24,646,385)	316,963,714
Capital expenditure during the year	18,179	62,209	3,960	432,520	516,868

(3) SEGMENT REPORTING (CONTINUED)

(b) Geographical information

The geographical information analysis is based on the location of the principal operations of the subsidiaries, or in the case of the Bank itself, the location of the branches responsible for reporting the results or booking the assets and liabilities.

	Six months ended 30 June			
	2019	2018	**2019**	2018
	Profit/(loss) before taxation	Profit/(loss) before taxation	**Operating income/(expense)**	Operating income/(expense)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**1,839,336**	1,864,017	**3,905,261**	3,955,728
Mainland China	**(119,363)**	(65,402)	**75,324**	134,997
United States	**85,147**	116,269	**128,366**	140,285
Singapore	**(43,262)**	47,333	**105,608**	98,559
Others	**21,737**	9,052	**34,864**	32,870
Inter-segment items	**(16)**	(142)	**(16)**	(142)
	1,783,579	1,971,127	**4,249,407**	4,362,297

	At 30 June 2019	At 31 December 2018	**At 30 June 2019**	At 31 December 2018
	Total assets	Total assets	**Total liabilities**	Total liabilities
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**334,745,875**	350,012,740	**289,899,428**	304,619,968
Mainland China	**10,918,616**	8,964,339	**9,563,499**	7,477,234
United States	**10,215,028**	13,509,382	**10,045,854**	13,276,532
Singapore	**12,843,593**	12,425,457	**12,879,774**	12,402,980
Others	**2,350,899**	2,790,436	**2,337,927**	2,749,565
Inter-segment items	**(20,455,265)**	(24,757,563)	**(19,422,668)**	(23,562,565)
	350,618,746	362,944,791	**305,303,814**	316,963,714

(4) INTEREST INCOME AND INTEREST EXPENSE

(a) Interest income

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
Listed securities	**583,445**	556,487
Unlisted securities	**322,321**	264,114
Balances and placements with banks and other financial institutions	**710,840**	629,289
Advances and other accounts *(Note)*	**4,504,924**	3,991,292
Interest income on financial assets that are not at fair value through profit or loss	**6,121,530**	5,441,182

Note:

Included in the above is interest income accrued on impaired financial assets of HK$22,165,000 (six months ended 30 June 2018: HK$27,216,000), which includes interest income of HK$17,499,000 for the six months ended 30 June 2019 (six months ended 30 June 2018: HK$24,764,000) on unwinding of the discount on loan impairment losses.

(4) INTEREST INCOME AND INTEREST EXPENSE (CONTINUED)

(b) Interest expense

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
Deposits from customers, banks and other financial institutions and others	**2,598,072**	1,809,025
Certificates of deposit issued	**45,401**	39,792
Debt securities issued	**77,689**	82,909
Loan capital issued	**211,854**	206,345
Interest expense on financial liabilities that are not at fair value through profit or loss	**2,933,016**	2,138,071

(5) NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
Fee and commission income		
Bills commission	**37,811**	44,146
Card-related income	**20,067**	18,851
Banking services	**254,289**	215,490
Insurance	**327,332**	188,738
Investment and structured investment products	**81,571**	99,150
Loans, overdrafts and facilities fees	**120,064**	270,284
Others	**195**	350
	841,329	837,009
Fee and commission expense	**(57,317)**	(47,275)
	784,012	789,734
Of which:		
Net fee and commission income (other than the amounts included in determining the effective interest rate) relating to financial assets and liabilities not at fair value through profit or loss:		
– Fee and commission income	**177,942**	333,281
– Fee and commission expense	**(18,144)**	(13,208)
	159,798	320,073

(6) NET TRADING INCOME

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
Gains less losses from dealing in foreign currencies	**146,944**	262,546
Gains less losses from financial assets at fair value through profit or loss	**54,917**	(24,184)
Gains less losses from other dealing activities	**2,740**	(48,804)
Net interest income/(expense) on trading activities		
– Listed	**25,333**	22,139
– Unlisted	**(2,881)**	24,017
	227,053	235,714

(7) NET HEDGING (LOSS)/GAIN

	Six months ended 30 June 2019 HK$'000	2018 HK$'000
Net hedging (loss)/gain on fair value hedges		
– Net gain/(loss) on hedged items attributable to the hedged risk	**107,771**	(23,852)
– Net (loss)/gain on hedging instruments	**(110,778)**	28,196
	(3,007)	4,344

(8) NET GAIN ON DISPOSAL OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Six months ended 30 June 2019 HK$'000	2018 HK$'000
Net revaluation gain transferred from reserves	**35,391**	11,120
Net gain/(loss) arising in current period	**475**	(1,184)
	35,866	9,936

(9) OTHER OPERATING INCOME

	Six months ended 30 June 2019 HK$'000	2018 HK$'000
Dividend income		
– Listed investments	**–**	201
– Unlisted investments	**2,910**	4,160
Rental income from investment properties less direct outgoings of HK$49,000 (six months ended 30 June 2018: HK$150,000)	**3,051**	2,710
Others	**11,008**	12,387
	16,969	19,458

(10) OPERATING EXPENSES

	Six months ended 30 June 2019 HK$'000	2018 HK$'000
(a) Staff costs		
Salaries and other staff costs	**1,077,078**	981,123
Retirement costs	**57,426**	53,456
	1,134,504	1,034,579
(b) Depreciation and amortisation		
Depreciation – property and equipment *(note 20)*	**50,638**	100,500
Depreciation – right-of-use assets *(note 2)*	**149,515**	–
Amortisation – intangible assets *(note 21)*	**89,040**	–
	289,193	100,500
(c) Other operating expenses		
Property and equipment expenses (excluding depreciation)	**155,096**	286,856
Auditors' remuneration	**4,945**	4,031
Advertising	**29,310**	26,723
Communication, printing and stationery	**57,729**	53,780
Legal and professional fees	**33,255**	25,168
Others	**96,749**	85,806
	377,084	482,364
Total operating expenses	**1,800,781**	1,617,443

(11) EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS

Expected credit losses ("ECL") charged/(written back) on financial assets

	Six months ended 30 June 2019			
	Stage 1 *HK$'000*	**Stage 2** *HK$'000*	**Stage 3** *HK$'000*	**Total** *HK$'000*
Balances with banks, central banks and other financial institutions	**(12,516)**	**–**	**–**	**(12,516)**
Placements with and advances to banks, central banks and other financial institutions	**(3,607)**	**–**	**–**	**(3,607)**
Loans and advances to customers	**(105,283)**	**(344,896)**	**1,076,085**	**625,906**
Other accounts	**(482)**	**–**	**–**	**(482)**
Financial assets at fair value through other comprehensive income	**10,011**	**–**	**(60,830)**	**(50,819)**
Loan commitments and guarantees (included in contingent liabilities and commitments)	**2,888**	**–**	**–**	**2,888**
	(108,989)	**(344,896)**	**1,015,255**	**561,370**
Recoveries				**(14,837)**
				546,533

	Six months ended 30 June 2018			
	Stage 1 *HK$'000*	Stage 2 *HK$'000*	Stage 3 *HK$'000*	Total *HK$'000*
Balances with banks, central banks and other financial institutions	(39)	–	–	(39)
Placements with and advances to banks, central banks and other financial institutions	(5,309)	–	–	(5,309)
Loans and advances to customers	(170,569)	519,860	350,309	699,600
Other accounts	(1,006)	(372)	7,762	6,384
Financial assets at fair value through other comprehensive income	(33,977)	30,072	77,916	74,011
Loan commitments and guarantees (included in contingent liabilities and commitments)	187	–	–	187
	(210,713)	549,560	435,987	774,834
Recoveries				(33,804)
				741,030

(12) INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
Provision for the period	**189,567**	365,594
Current tax – Overseas		
Provision for the period	**31,674**	46,544
(Over)/under-provision in respect of prior periods	**(11,715)**	3,388
	19,959	49,932
Deferred tax		
Origination/(Reversal) of temporary differences *(note 26(b))*	**76,187**	(66,888)
	285,713	348,638

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The provision for Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 June 2018: 16.5%) of the estimated assessable profits for the period. Taxation for overseas branches and subsidiaries is charged at the appropriate current rates of taxation in the relevant countries.

(13) CASH AND BALANCES WITH BANKS, CENTRAL BANKS AND OTHER FINANCIAL INSTITUTIONS

	At 30 June	At 31 December
	2019	2018
	HK$'000	*HK$'000*
Cash in hand	**223,906**	224,723
Balances with central banks	**1,231,242**	5,673,768
Balances with banks	**18,123,609**	21,908,657
Balances with other financial institutions	**1,400,537**	1,837,951
	20,979,294	29,645,099
Expected credit losses allowances – Stage 1	**(10,097)**	(22,613)
	20,969,197	29,622,486

Included in the balances with central banks are balances subject to exchange control or regulatory restrictions, amounting to HK$322,907,000 at 30 June 2019 (31 December 2018: HK$457,560,000).

There were no impaired balances with banks and other financial institutions at 30 June 2019 and at 31 December 2018.

(14) PLACEMENTS WITH AND ADVANCES TO BANKS, CENTRAL BANKS AND OTHER FINANCIAL INSTITUTIONS

	At 30 June 2019 *HK$'000*	At 31 December 2018 *HK$'000*
Placements with banks	**52,505,616**	50,781,855
Advances to banks	**118,814**	2,111,352
	52,624,430	52,893,207
Expected credit losses allowances – Stage 1	**(3,220)**	(6,827)
	52,621,210	52,886,380
Maturing:		
– Within 1 month	**44,626,751**	36,216,347
– Between 1 month and 1 year	**7,994,459**	16,670,033
	52,621,210	52,886,380

There were no impaired advances to banks and other financial institutions at 30 June 2019 and at 31 December 2018.

(15) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	At 30 June 2019 *HK$'000*	At 31 December 2018 *HK$'000*
Debt securities	**2,156,147**	944,630
Treasury bills	**600,000**	495,389
Investment funds	**–**	513
	2,756,147	1,440,532
Issued by:		
Sovereigns	**1,135,648**	495,953
Banks and other financial institutions	**1,067,023**	642,997
Corporate entities	**553,476**	301,582
	2,756,147	1,440,532
Listed	**2,132,731**	931,441
Unlisted	**623,416**	509,091
	2,756,147	1,440,532

(16) DERIVATIVE FINANCIAL INSTRUMENTS

(a) Notional amounts of derivatives

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or index. The notional amounts of these instruments indicate the volume of outstanding transactions and do not represent amounts at risk.

The following is a summary of the notional amounts of each significant type of derivative entered into by the Group:

	At 30 June 2019			At 31 December 2018		
	Held for hedging *HK$'000*	**Others (including held for trading)** *HK$'000*	**Total** *HK$'000*	Held for hedging *HK$'000*	Others (including held for trading) *HK$'000*	Total *HK$'000*
Currency derivatives						
Forwards	**–**	**91,001,438**	**91,001,438**	–	95,174,835	95,174,835
Swaps	**–**	**780,520,290**	**780,520,290**	–	790,579,491	790,579,491
Options purchased	**–**	**20,465,347**	**20,465,347**	–	15,197,059	15,197,059
Options written	**–**	**20,074,349**	**20,074,349**	–	14,869,761	14,869,761
Interest rate derivatives						
Forwards/Futures	**–**	**4,984,426**	**4,984,426**	–	23,169,653	23,169,653
Swaps	**4,161,032**	**663,871,586**	**668,032,618**	9,545,458	255,835,562	265,381,020
	4,161,032	**1,580,917,436**	**1,585,078,468**	9,545,458	1,194,826,361	1,204,371,819

Trading includes the Group's proprietary positions in financial instruments, positions which arise from the execution of trade orders from customers and market making, and positions taken in order to hedge other elements of the trading book.

(b) Fair values and credit risk-weighted amounts of derivatives

	At 30 June 2019			At 31 December 2018		
	Fair value assets *HK$'000*	**Fair value liabilities** *HK$'000*	**Credit risk-weighted amount** *HK$'000*	Fair value assets *HK$'000*	Fair value liabilities *HK$'000*	Credit risk-weighted amount *HK$'000*
Currency derivatives	**3,411,709**	**3,631,613**	**5,903,197**	5,453,679	6,066,637	7,492,494
Interest rate derivatives	**1,170,693**	**1,202,641**	**416,732**	574,154	476,714	358,462
	4,582,402	**4,834,254**	**6,319,929**	6,027,833	6,543,351	7,850,956

The credit risk-weighted amount is the amount which has been calculated in accordance with the Banking (Capital) Rules on capital adequacy, and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 150% (31 December 2018: 0% to 150%) for exchange rate, interest rate and other derivatives contracts. The Group did not enter into any bilateral netting arrangements during the period, and accordingly, these amounts are shown on a gross basis.

(16) DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value of derivatives designated as hedging instruments

The following is a summary of the fair value of derivatives held for hedging purposes by product type entered into by the Group:

	At 30 June 2019		At 31 December 2018	
	Fair value assets *HK$'000*	**Fair value liabilities** *HK$'000*	Fair value assets *HK$'000*	Fair value liabilities *HK$'000*
Interest rate contracts				
– Fair value hedge	**29,010**	**51,272**	109,770	8,944

Fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of certain fixed rate assets or liabilities due to movements in the market interest rates.

(d) Remaining life of derivatives

The following tables provide an analysis of the notional amounts of the Group's derivatives by relevant maturity grouping, based on the remaining periods to settlement at the end of the reporting period:

	At 30 June 2019 Notional amounts with remaining life of			
	Total *HK$'000*	**1 year or less** *HK$'000*	**Over 1 year to 5 years** *HK$'000*	**Over 5 years** *HK$'000*
Currency derivatives	**912,061,424**	**883,408,414**	**28,653,010**	**–**
Interest rate derivatives	**673,017,044**	**508,128,730**	**158,038,957**	**6,849,357**
	1,585,078,468	**1,391,537,144**	**186,691,967**	**6,849,357**

	At 31 December 2018 Notional amounts with remaining life of			
	Total *HK$'000*	1 year or less *HK$'000*	Over 1 year to 5 years *HK$'000*	Over 5 years *HK$'000*
Currency derivatives	915,821,146	885,809,533	30,011,613	–
Interest rate derivatives	288,550,673	201,443,738	84,152,843	2,954,092
	1,204,371,819	1,087,253,271	114,164,456	2,954,092

(17) LOANS AND ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS

(a) Loans and advances to customers and other accounts less expected credit losses/impairment allowances

	At 30 June 2019 *HK$'000*	At 31 December 2018 *HK$'000*
Gross loans and advances to customers	**197,527,235**	201,819,882
– Expected credit losses allowances	**(2,945,008)**	(2,658,898)
	194,582,227	199,160,984
Other accounts	**6,183,020**	4,785,508
– Expected credit losses allowances	**(38,553)**	(39,036)
– Individually assessed impairment allowances	**–**	(78,200)
	6,144,467	4,668,272
	200,726,694	203,829,256

(b) Loans and advances to customers analysed by industry sectors

The following economic sector analysis is based on the categories and definitions used by the HKMA.

	At 30 June 2019		At 31 December 2018	
	Gross loans and advances to customers *HK$'000*	**% of gross loans and advances to customers by collateral**	Gross loans and advances to customers *HK$'000*	% of gross loans and advances to customers by collateral
Industrial, commercial and financial				
– Property development	**4,263,124**	**48**	4,584,774	44
– Property investment	**17,180,154**	**94**	17,289,899	91
– Financial concerns	**17,594,458**	**17**	18,058,392	24
– Stockbrokers	**1,150,000**	**28**	3,131,658	9
– Wholesale and retail trade	**9,052,223**	**74**	9,156,964	77
– Manufacturing	**10,563,932**	**30**	12,099,051	22
– Transport and transport equipment	**453,566**	**97**	1,537,234	28
– Recreational activities	**2,884,513**	**7**	3,471,434	11
– Information technology	**6,708,684**	**6**	6,674,493	5
– Others	**12,453,015**	**67**	9,364,279	79
Individuals				
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**23,674**	**100**	22,413	100
– Loans for the purchase of other residential properties	**16,422,782**	**100**	15,560,640	100
– Credit card advances	**450,725**	**–**	506,195	–
– Others	**13,406,142**	**91**	10,983,726	91
Gross loans and advances for use in Hong Kong	**112,606,992**	**62**	112,441,152	59
Trade finance	**5,233,898**	**29**	4,325,261	37
Gross loans and advances for use outside Hong Kong	**79,686,345**	**23**	85,053,469	25
Gross loans and advances to customers	**197,527,235**	**45**	201,819,882	44

(17) LOANS AND ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS (CONTINUED)

(c) Reconciliation of gross carrying amount and ECL allowances for loans and advances to customers

	2019							
	Stage 1		**Stage 2**		**Stage 3**		**Total**	
	Gross carrying amount *HK$'000*	**ECL allowances** *HK$'000*	**Gross carrying amount** *HK$'000*	**ECL allowances** *HK$'000*	**Gross carrying amount** *HK$'000*	**ECL allowances** *HK$'000*	**Gross carrying amount** *HK$'000*	**ECL allowances** *HK$'000*
At 1 January 2019	**184,853,695**	**631,370**	**15,250,049**	**1,628,226**	**1,716,138**	**399,302**	**201,819,882**	**2,658,898**
Transfer:								
– Transfer to Stage 1	**2,526,492**	**7,064**	**(2,526,491)**	**(7,064)**	**(1)**	**–**	**–**	**–**
– Transfer to Stage 2	**(4,836,649)**	**(65,069)**	**4,836,887**	**65,161**	**(238)**	**(92)**	**–**	**–**
– Transfer to Stage 3	**(195,919)**	**(149)**	**(1,562,291)**	**(731,116)**	**1,758,210**	**731,265**	**–**	**–**
Net remeasurement of ECL allowances arising from transfer between stage	**–**	**(5,916)**	**–**	**164,376**	**–**	**41,255**	**–**	**199,715**
Net financial assets originated/ (derecognised or repaid)	**(393,246)**	**64,570**	**(3,159,187)**	**(4,521)**	**(417,917)**	**(39,761)**	**(3,970,350)**	**20,288**
Changes in risk parameters and model inputs	**–**	**(105,783)**	**–**	**168,268**	**–**	**343,418**	**–**	**405,903**
Unwinding of discount on loan impairment losses *(Note 4(a))*	**–**	**–**	**–**	**–**	**–**	**(17,499)**	**–**	**(17,499)**
Amounts written-off	**–**	**–**	**–**	**–**	**(322,297)**	**(322,297)**	**(322,297)**	**(322,297)**
At 30 June 2019	**181,954,373**	**526,087**	**12,838,967**	**1,283,330**	**2,733,895**	**1,135,591**	**197,527,235**	**2,945,008**

	2018							
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount *HK$'000*	ECL allowances *HK$'000*	Gross carrying amount *HK$'000*	ECL allowances *HK$'000*	Gross carrying amount *HK$'000*	ECL allowances *HK$'000*	Gross carrying amount *HK$'000*	ECL allowances *HK$'000*
At 1 January 2018	186,086,640	875,989	7,736,270	739,345	2,464,012	1,176,687	196,286,922	2,792,021
Transfer:								
– Transfer to Stage 1	221,118	26,257	(221,118)	(26,257)	–	–	–	–
– Transfer to Stage 2	(9,257,475)	(86,059)	9,257,712	86,296	(237)	(237)	–	–
– Transfer to Stage 3	(284,177)	(2,591)	(1,627,211)	(223,318)	1,911,388	225,909	–	–
Net remeasurement of ECL allowances arising from transfer between stage	–	(24,599)	–	1,328,039	–	144,954	–	1,448,394
Net financial assets originated/ (derecognised or repaid)	8,088,469	15,225	104,796	(98,691)	(1,302,331)	(166,089)	6,890,934	(249,555)
Changes in risk parameters and model inputs	–	(171,972)	–	(176,788)	–	418,138	–	69,378
Unwinding of discount on loan impairment losses	–	–	–	–	–	(43,366)	–	(43,366)
Amounts written-off	(880)	(880)	(400)	(400)	(1,356,694)	(1,356,694)	(1,357,974)	(1,357,974)
At 31 December 2018	184,853,695	631,370	15,250,049	1,628,226	1,716,138	399,302	201,819,882	2,658,898

(17) LOANS AND ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS (CONTINUED)

(d) Impaired loans and advances to customers

	At 30 June 2019 *HK$'000*	At 31 December 2018 *HK$'000*
Gross impaired loans and advances to customers	**2,733,895**	1,716,138
Expected credit losses allowances – Stage 3	**(1,135,591)**	(399,302)
	1,598,304	1,316,836
Gross impaired loans and advances as a % of total loans and advances to customers	**1.38%**	0.85%

Collateral amounts of HK$1,541,676,000 (31 December 2018: HK$1,587,943,000) have been taken into account in respect of the assessment of the expected credit losses allowances on impaired loans and advances to customers. Collateral mainly comprises mortgages on residential or commercial properties and cash placed with the Group.

An analysis of impaired loans and advances to customers by individual loan usage, which accounted for 10% or more of the gross loans and advances to customers, is as follows:

	At 30 June 2019			
	Stage 1 ECL allowances *HK$'000*	**Stage 2 ECL allowances** *HK$'000*	**Stage 3 ECL allowances** *HK$'000*	**Impaired loans and advances to customers** *HK$'000*
Gross loans and advances for use outside Hong Kong	**247,708**	**1,057,316**	**187,856**	**939,379**

	At 31 December 2018			
	Stage 1 ECL allowances *HK$'000*	Stage 2 ECL allowances *HK$'000*	Stage 3 ECL allowances *HK$'000*	Impaired loans and advances to customers *HK$'000*
Gross loans and advances for use outside Hong Kong	292,892	837,706	317,605	846,979

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

	At 30 June 2019 HK$'000	At 31 December 2018 HK$'000
Debt securities		
– Certificates of deposit held	**7,287,238**	14,394,029
– Treasury bills	**16,984,150**	15,975,480
– Other debt securities	**42,167,714**	36,512,097
	66,439,102	66,881,606
Equity securities	**129,034**	95,801
	66,568,136	66,977,407
Issued by:		
Sovereigns	**18,319,623**	16,277,569
Banks and other financial institutions	**39,969,789**	41,427,485
Corporate entities	**7,553,073**	7,175,580
Public entities	**725,651**	2,096,773
	66,568,136	66,977,407
Listed	**37,947,594**	31,181,259
Unlisted	**28,620,542**	35,796,148
	66,568,136	66,977,407

(19) INTEREST IN ASSOCIATES

	At 30 June 2019 HK$'000	At 31 December 2018 HK$'000
Share of net assets	**–**	352,151

During the period ended 30 June 2019, the Group has disposed of its interest in associates at a consideration of HK$362,218,000, a gain on disposal of HK$9,226,000 was recognised accordingly to the income statement.

(20) PROPERTY AND EQUIPMENT

	Investment properties *HK$'000*	Other premises *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Total *HK$'000*
Cost or valuation:				
At 1 January 2019	**241,970**	**666,008**	**946,708**	**1,854,686**
Additions	**–**	**–**	**71,255**	**71,255**
Disposals	**(11,381)**	**–**	**(8,140)**	**(19,521)**
Surplus on revaluation	**7,073**	**–**	**–**	**7,073**
Exchange adjustments	**–**	**–**	**(26)**	**(26)**
At 30 June 2019	**237,662**	**666,008**	**1,009,797**	**1,913,467**
At 1 January 2018	132,780	709,009	1,776,876	2,618,665
Additions	–	–	463,323	463,323
Reclassification	109,000	(109,000)	–	–
Reclassification to intangible assets	–	–	(1,216,852)	(1,216,852)
Disposals	–	–	(73,403)	(73,403)
Surplus on revaluation	190	76,245	–	76,435
Elimination of accumulated depreciation on revaluation	–	(10,246)	–	(10,246)
Exchange adjustments	–	–	(3,236)	(3,236)
At 31 December 2018	241,970	666,008	946,708	1,854,686
Accumulated depreciation:				
At 1 January 2019	**–**	**342,298**	**777,564**	**1,119,862**
Charge for the period *(note 10(b))*	**–**	**7,896**	**42,742**	**50,638**
Written back on disposals	**–**	**–**	**(8,908)**	**(8,908)**
Exchange adjustments	**–**	**–**	**(235)**	**(235)**
At 30 June 2019	**–**	**350,194**	**811,163**	**1,161,357**
At 1 January 2018	–	335,909	1,262,407	1,598,316
Charge for the year	–	16,635	167,917	184,552
Elimination of accumulated depreciation on revaluation	–	(10,246)	–	(10,246)
Reclassification to intangible assets	–	–	(574,751)	(574,751)
Written back on disposals	–	–	(72,610)	(72,610)
Exchange adjustments	–	–	(5,399)	(5,399)
At 31 December 2018	–	342,298	777,564	1,119,862
Net book value:				
At 30 June 2019	**237,662**	**315,814**	**198,634**	**752,110**
At 31 December 2018	241,970	323,710	169,144	734,824

Investment properties

All investment properties of the Group were revalued and assessed by the management of the Group at 30 June 2019 with reference to a property valuation report which was conducted by an independent firm of surveyors. The basis of the property valuation is market value, which is consistent with the definition of fair value under HKFRS 13, Fair value measurement. The revaluation surplus of HK$7,073,000 (year ended 31 December 2018: a revaluation surplus of HK$190,000) was recognised by the Group and has been credited to the income statement for the period ended 30 June 2019.

During the period ended 30 June 2019, a loss on disposal of investment properties of HK$2,600,000 (30 June 2018: Nil) was recognised to the income statement.

(21) INTANGIBLE ASSETS

	Software *HK$'000*
Cost:	
At 1 January 2019	**1,270,593**
Additions	**47,988**
Disposals	**(73)**
Exchange adjustments	**48**
At 30 June 2019	**1,318,556**
At 1 January 2018	–
Reclassification from furniture, fixtures and equipments since 1 October 2018	1,216,852
Additions	53,545
Exchange adjustments	196
At 31 December 2018	1,270,593
Accumulated depreciation:	
At 1 January 2019	**618,383**
Charge for the period *(note 10(b))*	**89,040**
Disposals	**(73)**
Exchange adjustments	**1,322**
At 30 June 2019	**708,672**
At 1 January 2018	–
Reclassification from furniture, fixtures and equipments since 1 October 2018	574,751
Charge for the year	42,299
Exchange adjustments	1,333
At 31 December 2018	618,383
Net book value:	
At 30 June 2019	**609,884**
At 31 December 2018	652,210

(22) DEPOSITS AND BALANCES OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	At 30 June 2019 ***HK$'000***	At 31 December 2018 *HK$'000*
Deposits and balances from banks	**3,953,485**	2,849,375

(23) DEPOSITS FROM CUSTOMERS

	At 30 June 2019 ***HK$'000***	At 31 December 2018 *HK$'000*
Demand deposits and current deposits	**26,543,690**	28,122,134
Savings deposits	**48,373,768**	45,642,418
Time, call and notice deposits	**198,670,572**	211,728,299
	273,588,030	285,492,851

(24) CERTIFICATES OF DEPOSIT ISSUED

	At 30 June 2019	At 31 December 2018
	HK$'000	*HK$'000*
At amortised cost	**3,120,265**	3,133,151

(25) DEBT SECURITIES ISSUED

	At 30 June 2019	At 31 December 2018
	HK$'000	*HK$'000*
At amortised cost	**3,402,991**	3,408,077

The debt securities were issued by the Bank in 2017, bear a coupon interest rate at 4.4% per annum and will mature in 2020.

(26) INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	At 30 June 2019	At 31 December 2018
	HK$'000	*HK$'000*
Hong Kong Profits Tax	**396,873**	574,204
Overseas Taxation	**(9,668)**	17,496
	387,205	591,700
Of which:		
Tax recoverable	**(24,554)**	(8,353)
Current tax liabilities	**411,759**	600,053
	387,205	591,700

(b) Deferred tax assets and liabilities recognised

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the period are as follows:

	Depreciation allowances in excess of related depreciation	**Impairment allowances for loans and advances**	**Revaluation adjustments for properties**	**Revaluation adjustments for FVOCI**	**Others**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Deferred tax arising from:						
At 1 January 2019	**118,357**	**(438,235)**	**7,951**	**(84,688)**	**(8,804)**	**(405,419)**
Charged/(credited) to consolidated income statement *(note 12)*	**(6,425)**	**86,898**	**(5,939)**	**–**	**1,653**	**76,187**
Charged/(credited) to reserves	**–**	**–**	**(10)**	**114,675**	**–**	**114,665**
Exchange and other adjustments	**4**	**186**	**–**	**–**	**–**	**190**
At 30 June 2019	**111,936**	**(351,151)**	**2,002**	**29,987**	**(7,151)**	**(214,377)**
At 1 January 2018	65,786	(308,877)	1,639	(36,032)	(11,778)	(289,262)
Charged/(credited) to consolidated income statement	52,510	(129,159)	6,312	–	2,840	(67,497)
Credited to reserves	–	–	–	(48,656)	–	(48,656)
Exchange and other adjustments	61	(199)	–	–	134	(4)
At 31 December 2018	118,357	(438,235)	7,951	(84,688)	(8,804)	(405,419)

(26) INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(b) Deferred tax assets and liabilities recognised (continued)

	At 30 June 2019 ***HK$'000***	At 31 December 2018 *HK$'000*
Net deferred tax assets recognised in the consolidated statement of financial position	**(220,646)**	(413,359)
Net deferred tax liabilities recognised in the consolidated statement of financial position	**6,269**	7,940
	(214,377)	(405,419)

(c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$709,000 as at 30 June 2019 (31 December 2018: HK$706,000), as it is improbable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under the current tax legislation.

(27) OTHER LIABILITIES

	At 30 June 2019 ***HK$'000***	At 31 December 2018 *HK$'000*
Accruals and other payables and provisions	**8,913,522**	8,645,374
Lease liabilities	**797,980**	–
	9,711,502	8,645,374

At 30 June 2019, included above is the provision for expected credit losses (Stage 1) on loan commitments and guarantees amounted to HK$43,039,000 (31 December 2018: HK$40,151,000).

(28) LOAN CAPITAL

	At 30 June 2019 ***HK$'000***	At 31 December 2018 *HK$'000*
Subordinated notes, at amortised cost with fair value hedge adjustments:		
US$500 million Subordinated Fixed Rate Notes at 6.875%, due 2020*	**2,402,862**	3,943,791
US$300 million Subordinated Fixed Rate Notes at 6.000%, due 2024**	**–**	2,339,751
US$500 million Subordinated Fixed Rate Notes at 4.625%, due 2029***	**3,872,397**	–
	6,275,259	6,283,542

* Under a US$2 billion Medium Term Note Programme ("the Programme") issued in December 2007 and the new Offering Circular issued in June 2010, the Bank issued subordinated fixed rate notes on 24 June 2010 with a face value of US$500 million (equivalent to HK$3,888.9 million). The notes bear an interest rate of 6.875% per annum, payable semi-annually. The notes are listed on the Singapore Exchange Securities Trading Limited and mature on 24 June 2020. The notes were redeemed partially by the Bank with a face value of US$195,616,000 at a consideration of US$204,548,000 (equivalent to HK$1,605,959,000) during the period ended 30 June 2019, and a loss of partial redemption of HK$58,995,000 was recognised accordingly to the income statement for the period ended 30 June 2019.

(28) LOAN CAPITAL (CONTINUED)

** Under the Programme and the new Offering Circular issued in October 2013, the Bank issued subordinated notes on 7 November 2013 with a face value of US$300 million (equivalent to HK$2,325.8 million) and which qualified as Basel III-compliant Tier-2 capital. The notes bear interest at a fixed rate of 6.000% per annum, payable semi-annually until 7 May 2019, and thereafter fixed at the interest rate of the prevailing five-year US Treasury bonds yield plus 4.718% per annum if the notes are not redeemed on the call date. The notes are listed on The Stock Exchange of Hong Kong Limited and mature on 7 May 2024 with an optional redemption date falling on 7 May 2019. The notes were fully redeemed by the Bank during the period ended 30 June 2019.

*** Under the Programme and supplemental offering circulars released in February 2019, the Bank issued subordinated notes on 28 February 2019 with a face value of US$500 million (equivalent to HK$3,925.6 million) and which qualified as Basel III-compliant Tier-2 capital. The notes bear interest at a fixed rate of 4.625% per annum, payable semi-annually until 28 February 2024, and thereafter fixed at the interest rate of the prevailing five-year US Treasury bonds yield plus 2.25% per annum if the notes are not redeemed on the call date. The notes are listed on The Stock Exchange of Hong Kong Limited and mature on 28 February 2029 with an optional redemption date falling on 28 February 2024.

(29) CAPITAL AND RESERVES

(a) Share capital

(i) Ordinary shares

	At 30 June 2019		At 31 December 2018	
	No.of shares	***HK$'000***	*No. of shares*	*HK$'000*
Ordinary shares, issued and fully paid:				
At 1 January/30 June/31 December	**12,111,121,568**	**18,404,013**	12,111,121,568	18,404,013

(ii) Dividend

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings of the Bank. All ordinary shares rank equally with regard to the Bank's residual assets.

(b) Nature and purpose of components of reserves

(i) Capital reserve

The capital reserve is not available for distribution to shareholders.

(ii) General reserve

The general reserve was set up from the transfer of retained earnings, and it is available for distribution to shareholders.

(iii) Exchange differences reserve

The exchange differences reserve comprises all foreign exchange differences arising from the translation of the financial statement of foreign operations.

(iv) Property revaluation reserve

The property revaluation reserve is not available for distribution to shareholders because it does not constitute realised profits within the meaning of Part 6 of the new Hong Kong Companies Ordinance (Cap. 622).

(v) Cash flow hedging reserve

The cash flow hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions.

(vi) Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of financial assets at fair value through other comprehensive income held at the end of the reporting period.

(29) CAPITAL AND RESERVES (CONTINUED)

(b) Nature and purpose of components of reserves (continued)

(vii) Statutory reserve

Under the relevant legislation of Mainland China, the Bank's wholly-owned PRC subsidiary bank, CITIC Bank International (China) Limited ("CBI (China)") is required to transfer 10% of its profit after taxation to a non-distributable statutory reserve until such reserve has reached 50% of its registered share capital.

(viii) Regulatory general reserve

Pursuant to the banking regulations of Mainland China, CBI (China) is required to set up a regulatory general reserve through a direct transfer from the current year's profit appropriation, as determined based on 1% of the total risk assets at the end of the reporting period to cover its unidentified potential loss exposures. The regulatory general reserve forms part of the equity of the Group.

(ix) Retained profits

A regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of impairment losses which the Bank will or may incur on loans and advances. Movements in the reserve are earmarked directly through retained profits and in consultation with the HKMA. At 30 June 2019, HK$1,092,119,000 (31 December 2018: HK$855,457,000) was included in retained profits in this respect, which is distributable to equity holders of the Bank subject to consultation with the HKMA.

(30) ADDITIONAL EQUITY INSTRUMENTS

	At 30 June 2019 ***HK$'000***	At 31 December 2018 *HK$'000*
Undated non-cumulative subordinated capital securities with US$300 million*	**–**	2,310,168
Undated non-cumulative subordinated capital securities with US$500 million**	**3,863,084**	3,863,084
Undated non-cumulative subordinated capital securities with US$500 million***	**3,907,328**	3,907,328
	7,770,412	10,080,580

* Under the Medium Term Note Programme ("the Programme") issued in December 2007 and the new Offering Circular release in April 2014, the Bank issued Basel III compliant Undated Non-Cumulative Subordinated Additional Tier 1 Capital Securities (the "AT1 Capital Securities") on 22 April 2014 with a face value of US$300 million (equivalent to HK$2,313.47 million). The AT1 Capital Securities are perpetual and listed on The Stock Exchange of Hong Kong Limited, and bear a coupon of 7.250% per annum for the first 5 years from the date of issue to the optional redemption date falling on 22 April 2019. The coupon will be reset every five years, if the AT1 Capital Securities are not redeemed, at a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 5.627% per annum.

According to the terms and conditions, the AT1 Capital Securities confer a right to receive non-cumulative distributions (each a Distribution) on the principal amount (subject to adjustments following the occurrence of a non-viability event as defined) from, and including, the issue date at the applicable distribution rate, payable semi-annually in arrears on 22 April and 22 October each year. The Bank may, at its sole discretion, elect to cancel the distribution payment or redeem the AT1 Capital Securities, which are subject to prior written consent of the HKMA. A distribution payment of US$10,875,000 (equivalent to HK$85,365,000) was paid during the period ended 30 June 2019 (for the year ended 31 December 2018: US$21,750,000, equivalent to HK$170,607,000). The notes were fully redeemed by the Bank during the period ended 30 June 2019.

** Under the Programme and the new and supplemental offering circulars released in August and September 2016, respectively, the Bank priced its US$500 million Basel III compliant Undated Non-Cumulative Subordinated Additional Tier 1 Capital Securities with the legal binding subscription agreements signed on 29 September 2016. The AT1 Capital Securities with a face value and principal amount of US$500 million (equivalent to HK$3,877.86 million) are perpetual and listed on The Stock Exchange of Hong Kong Limited, and bear a coupon of 4.25% per annum for the first 5 years from the date of issue to the optional redemption date falling on 11 October 2021. The distribution rate will be reset every five years if the AT1 Capital Securities are not called by the Bank at a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 3.107% per annum.

(30) ADDITIONAL EQUITY INSTRUMENTS (CONTINUED)

According to the terms and conditions, the AT1 Capital Securities confer a right to the holders to receive non-cumulative distributions on the principal amount from, and including, the issue date at the applicable distribution rate, payable semi-annually in arrears on 11 April and 11 October in each year. The Bank may, at its sole discretion, elect to cancel the distribution payment or redeem the AT1 Capital Securities subject to prior written consent of the HKMA. The outstanding amount of AT1 Capital Securities can be written down by the Bank following the occurrence of a non-viability event as defined and set out in the terms and conditions. At the sole discretion of the relevant Hong Kong resolution authority following a non-viability event, the outstanding amount of AT1 Capital Securities can be adjusted upon the exercise of Hong Kong resolution authority power in accordance with the Hong Kong Financial Institutions (Resolution) Ordinance (Cap.628). A distribution payment of US$10,625,000 (equivalent to HK$83,403,000) was paid during the period ended 30 June 2019 (for the year ended 31 December 2018: US$21,250,000, equivalent to HK$166,685,000).

*** Under the Programme and supplemental offering circulars released in October 2018, the Bank issued the US$500 million Basel III compliant Undated Non-Cumulative Subordinated Additional Tier 1 Capital Securities on 6 November 2018. The AT1 Capital Securities with a face value and principal amount of US$500 million (equivalent to HK$3,916.90 million) are perpetual and listed on the Stock Exchange of Hong Kong Limited, and bear a coupon of 7.10% per annum distribution rate until the first call date on 6 November 2023. The distribution rate will be reset every five years if the AT1 Capital Securities are not called by the Bank to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 4.151% per annum.

According to the terms and conditions, the AT1 Capital Securities confer a right to the holders to receive non-cumulative distributions on the principal amount from, and including, the issue date at the applicable distribution rate, payable semi-annually in arrear on 6 May and 6 November in each year. The Bank may, at its sole discretion, elect to cancel the distribution payment or redeem the AT1 Capital Securities subject to prior written consent of the HKMA. The outstanding amount of AT1 Capital Securities can be written down by the Bank following the occurrence of a non-viability event as defined and set out in the terms and conditions. At the sole discretion of the relevant Hong Kong resolution authority following a non-viability event, the outstanding amount of AT1 Capital Securities can be adjusted upon the exercise of Hong Kong resolution authority power in accordance with the Hong Kong Financial Institutions (Resolution) Ordinance (Cap.628). A distribution payment of US$17,750,000 (equivalent to HK$139,254,000) was paid during the period ended 30 June 2019.

(31) NOTES TO CONSOLIDATED CASH FLOWS STATEMENT

(a) Reconciliation of operating profit to net cash flows from operating activities

	At 30 June 2019 *HK$'000*	At 30 June 2018 *HK$'000*
Operating activities		
Profit before taxation	**1,783,579**	1,971,127
Adjustments for non-cash items:		
Expected credit losses on financial assets	**546,533**	741,030
Impairment losses on other assets	**74,029**	32,000
Net gain on disposal of financial assets at fair value through other comprehensive income	**(35,866)**	(9,936)
Net loss on disposal of property and equipment	**2,630**	527
Revaluation (gain)/loss on investment properties	**(7,073)**	170
Share of profit of associates	**(841)**	–
Gain on disposal of interest in associates	**(9,226)**	–
Loss on partial redemption of loan capital	**58,995**	–
Amortisation of deferred expenses	**29,234**	17,464
Amortisation of intangible assets	**89,040**	–
Depreciation on property and equipment	**50,638**	100,500
Depreciation on right-of-use assets	**149,515**	–
Dividend income from equity securities	**(2,910)**	(4,361)
Interest expense on loan capital and debt securities issued	**289,543**	289,254
Foreign exchange differences	**(54,552)**	(28,019)
Operating profit before changes in working capital	**2,963,268**	3,109,756
Net decrease/(increase) in operating assets		
Placements with and advances to banks, central banks and other financial institutions with original maturity beyond 3 months	**(4,522,400)**	266,523
Treasury bills with original maturity beyond 3 months	**4,566,921**	(1,291,458)
Certificates of deposit held with original maturity beyond 3 months	**7,112,086**	(2,970,238)
Financial assets at fair value through profit or loss	**(1,315,615)**	106,859
Derivative financial instruments	**1,445,431**	(4,535,334)
Loans and advances to customers and other accounts	**2,390,058**	(6,498,981)
Financial assets at fair value through other comprehensive income	**(4,987,558)**	(3,824,722)
	4,688,923	(18,747,351)
Net (decrease)/increase in operating liabilities		
Deposits and balances of banks and other financial institutions	**1,104,110**	196,127
Deposits from customers	**(11,905,012)**	(616,764)
Derivative financial instruments	**(1,709,097)**	4,197,348
Certificates of deposit issued	**1,848**	(374,435)
Other liabilities	**343,662**	4,596,630
	(12,164,489)	7,998,906
Cash flows used in operating activities	**(4,512,298)**	(7,638,689)
Income tax paid		
Hong Kong Profits Tax paid	**(366,898)**	(475,973)
Overseas tax paid	**(47,357)**	(29,396)
Net cash flows used in operating activities	**(4,926,553)**	(8,144,058)
Cash flows from operating activities include:		
Interest received	**5,985,597**	5,202,452
Interest paid	**(2,643,889)**	(1,509,550)

(31) NOTES TO CONSOLIDATED CASH FLOWS STATEMENT (CONTINUED)

(b) Analysis of the balances of cash and cash equivalents

	At 30 June 2019 *HK$'000*	At 30 June 2018 *HK$'000*
Cash and balances with banks, central banks and other financial institutions	**20,656,387**	18,838,363
Placements with and advances to banks, central banks and other financial institutions with original maturity within 3 months	**47,398,359**	46,209,694
Treasury bills and certificates of deposit held with original maturity within 3 months		
– Financial assets at fair value through other comprehensive income	**16,297,761**	12,773,016
	84,352,507	77,821,073

(c) Changes in liabilities arising from financing activities

	2019		2018	
	Liabilities from financing activities		Liabilities from financing activities	
	Debt securities issued *HK$'000*	**Loan capital** *HK$'000*	Debt securities issued *HK$'000*	Loan capital *HK$'000*
At 1 January	**3,408,077**	**6,283,542**	3,584,064	6,340,192
New issue during the period	**–**	**3,908,552**	–	–
Redemption	**–**	**(3,902,486)**	–	–
Foreign exchange differences	**(7,239)**	**(21,206)**	(44,146)	24,756
Other non-cash adjustments	**2,153**	**6,857**	2,312	(77,849)
At 30 June	**3,402,991**	**6,275,259**	3,542,230	6,287,099

(32) MATURITY PROFILE

The following maturity profile is based on the remaining period at the end of the reporting period date and the contractual maturity date.

As the trading portfolio may be sold before maturity or deposits from customers mature without being withdrawn, the contractual maturity dates do not represent expected dates of future cash flows.

	At 30 June 2019							
	Total *HK$'000*	Repayable on demand *HK$'000*	Within 1 month *HK$'000*	3 months or less but over 1 month *HK$'000*	1 year or less but over 3 months *HK$'000*	5 years or less but over 1 year *HK$'000*	Over 5 years *HK$'000*	Undated *HK$'000*
Assets								
Cash and balances with banks, central banks and other financial institutions	20,969,197	20,646,290	–	–	–	–	–	322,907
Placements with and advances to banks, central banks and other financial institutions	52,621,210	–	44,626,751	7,199,599	794,860	–	–	–
Financial assets at fair value through profit or loss	2,756,147	–	600,000	–	16,339	1,062,699	1,077,109	–
Derivative financial instruments	4,582,402	4,582,402	–	–	–	–	–	–
Loans and advances to customers and other accounts	200,726,694	2,541,515	17,780,704	23,871,786	74,232,471	55,009,307	24,067,599	3,223,312
Financial assets at fair value through other comprehensive income	66,568,136	–	7,807,443	13,139,304	14,573,769	28,688,927	2,229,659	129,034
Tax recoverable	24,554	–	–	–	24,554	–	–	–
Undated assets	2,370,406	–	–	–	–	–	–	2,370,406
Total assets	350,618,746	27,770,207	70,814,898	44,210,689	89,641,993	84,760,933	27,374,367	6,045,659
Liabilities								
Deposits and balances of banks and other financial institutions	3,953,485	454,744	1,678,414	1,547,101	273,226	–	–	–
Deposits from customers	273,588,030	74,917,458	62,550,729	68,472,407	67,283,407	359,629	4,400	–
Derivative financial instruments	4,834,254	4,834,254	–	–	–	–	–	–
Certificates of deposit issued	3,120,265	–	–	–	3,120,265	–	–	–
Debt securities issued	3,402,991	–	–	–	3,402,991	–	–	–
Current tax liabilities	411,759	–	–	–	411,759	–	–	–
Other liabilities	9,711,502	–	1,697,480	1,212,386	49,537	–	–	6,752,099
Loan capital	6,275,259	–	–	–	2,402,862	3,872,397	–	–
Undated liabilities	6,269	–	–	–	–	–	–	6,269
Total liabilities	305,303,814	80,206,456	65,926,623	71,231,894	76,944,047	4,232,026	4,400	6,758,368
Asset-liability gap		(52,436,249)	4,888,275	(27,021,205)	12,697,946	80,528,907	27,369,967	

(32) MATURITY PROFILE (CONTINUED)

	At 31 December 2018							
	Total *HK$'000*	Repayable on demand *HK$'000*	Within 1 month *HK$'000*	3 months or less but over 1 month *HK$'000*	1 year or less but over 3 months *HK$'000*	5 years or less but over 1 year *HK$'000*	Over 5 years *HK$'000*	Undated *HK$'000*
Assets								
Cash and balances with banks, central banks and other financial institutions	29,622,486	29,164,926	–	–	–	–	–	457,560
Placements with and advances to banks, central banks and other financial institutions	52,886,380	–	36,216,347	16,101,015	569,018	–	–	–
Financial assets at fair value through profit or loss	1,440,532	–	–	53,027	569,052	814,809	3,131	513
Derivative financial instruments	6,027,833	6,027,833	–	–	–	–	–	–
Loans and advances to customers and other accounts	203,829,256	1,524,727	17,187,388	15,055,351	71,058,803	72,548,029	24,170,062	2,284,896
Financial assets at fair value through other comprehensive income	66,977,407	–	11,542,067	13,074,111	18,896,350	20,880,083	2,488,995	95,801
Tax recoverable	8,353	–	–	–	8,353	–	–	–
Undated assets	2,152,544	–	–	–	–	–	–	2,152,544
Total assets	362,944,791	36,717,486	64,945,802	44,283,504	91,101,576	94,242,921	26,662,188	4,991,314
Liabilities								
Deposits and balances of banks and other financial institutions	2,849,375	530,155	793,990	1,068,975	456,255	–	–	–
Deposits from customers	285,492,851	73,764,552	72,486,427	69,864,368	69,116,658	256,446	4,400	–
Derivative financial instruments	6,543,351	6,543,351	–	–	–	–	–	–
Certificates of deposit issued	3,133,151	–	3,133,151	–	–	–	–	–
Debt securities issued	3,408,077	–	–	–	–	3,408,077	–	–
Current tax liabilities	600,053	–	–	–	600,053	–	–	–
Other liabilities	8,645,374	–	1,027,306	339,775	855,185	–	–	6,423,108
Loan capital	6,283,542	–	–	–	2,339,751	3,943,791	–	–
Undated liabilities	7,940	–	–	–	–	–	–	7,940
Total liabilities	316,963,714	80,838,058	77,440,874	71,273,118	73,367,902	7,608,314	4,400	6,431,048
Asset-liability gap		(44,120,572)	(12,495,072)	(26,989,614)	17,733,674	86,634,607	26,657,788	

(33) MATERIAL RELATED-PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related-party transactions:

(a) Transactions with group companies

During the period, the Group entered into a number of transactions with related parties in the normal course of its banking business including, inter alia, lending, acceptance and placement of inter-bank deposits, and participation in loan syndicates, correspondent banking transactions and foreign exchange transactions. The transactions were priced based on relevant market rates at the time of each transaction, and were under the same terms as those available to other counterparties and customers of the Group. In the opinion of the Directors, these transactions were conducted under normal commercial terms.

The amount of related-party transactions during the periods and outstanding balances at the end of the period/year are set out below:

	Ultimate holding and intermediate parents		Immediate parent		Fellow subsidiaries		Associates *(note (i))*		Related companies *(note (ii))*	
	Six months ended 30 June									
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Interest income	**13,143**	46,462	**–**	–	**10,822**	22,141	**13,256**	23,673	**45,762**	–
Interest expense	**(21,530)**	(65,979)	**(6,239)**	(2,400)	**(45,246)**	(38,588)	**(27,422)**	(11,349)	**(2,506)**	(298)
Fee and commission income/ (expenses)	**(29)**	(800)	**–**	–	**–**	–	**–**	10	**–**	–
Operating expenses	**–**	–	**–**	–	**(7,483)**	(4,179)	**–**	–	**–**	–
Net trading gain/(loss)	**(29,494)**	(111,989)	**–**	–	**(2,861)**	747	**(800)**	9,214	**–**	–
	At 30 June 2019/ 31 December 2018									
Assets										
Financial assets at fair value through other comprehensive income	**–**	–	**–**	–	**118,746**	116,472	**172,104**	172,030	**–**	–
Derivative financial instruments	**98,694**	44,166	**–**	–	**3,441**	457	**16,768**	16,089	**–**	–
Other receivables	**24,980**	19,935	**–**	–	**5,191**	5,261	**1,785**	3,417	**910**	286
Liabilities										
Derivative financial instruments	**157,883**	99,174	**–**	–	**5,827**	2,192	**–**	–	**–**	–
Other payables	**36,411**	28,142	**1,633**	1,556	**17,869**	16,954	**6,333**	6,539	**–**	1,078
Lending activities:										
At 30 June/31 December	**7,217,863**	2,117,136	**–**	–	**404,422**	406,322	**900,081**	698,432	**2,200,000**	2,200,000
Average for the period/year	**3,195,350**	2,287,736	**–**	–	**405,874**	407,017	**704,008**	1,090,609	**2,200,000**	2,200,000
Acceptance of deposits:										
At 30 June/31 December	**6,458,477**	5,343,632	**1,390,502**	640,805	**4,679,903**	5,018,275	**3,328,965**	3,906,657	**820,686**	805,082
Average for the period/year	**4,230,802**	6,647,241	**892,893**	544,538	**5,195,994**	6,028,214	**3,515,953**	5,283,659	**794,809**	819,537
	At 30 June 2019/ 31 December 2018									
Off-statement of financial position items										
Acceptances, guarantees and letters of credit – contract amounts payable	**–**	–	**–**	–	**(3,000)**	(3,000)	**–**	–	**–**	–
Other commitments	**–**	–	**–**	–	**10**	156,661	**1,109,705**	1,596,552	**170,881**	–
Derivative financial instruments – notional amounts	**25,546,878**	19,771,836	**–**	–	**619,026**	727,497	**195,183**	191,097	**–**	–

(33) MATERIAL RELATED-PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with group companies (continued)

No impairment allowances were made in respect of the above loans to and placements with related parties.

Note:

(i) Associates of the Group include the associates of the ultimate controlling party and immediate parent respectively.

(ii) Related companies refers to companies which are common shareholder, and subsidiaries of shareholders of the intermediate parent.

(b) Transactions with key management personnel

The aggregate amount of remuneration of key management personnel of the Group, including the amount paid to the Bank's directors and certain employees with the highest emoluments are as follows:

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
Short-term employee benefits	**47,921**	38,338
Post-employment benefits	**2,371**	1,795
	50,292	40,133

Total remuneration is included in "staff costs" (note 10(a)).

During the period, the Bank provided credit facilities to key management personnel of the Bank and its holding companies and their close family members, as well as to companies controlled or significantly influenced by them. The credit facilities were provided in the ordinary course of business and on substantially the same terms as for comparable transactions with persons of a similar standing, or where applicable, with other employees.

	2019	2018
	HK$'000	*HK$'000*
At 1 January	**16,247**	17,444
At 30 June 2019/31 December 2018	**16,284**	16,247
Maximum amount during the period/year	**17,412**	28,203

No impairment losses have been recorded against balances outstanding with key management personnel during the period, and no individually assessed impairment allowance has been made on balances with key management personnel and their immediate relatives at the period end.

(34) FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial instruments measured at fair value

(i) Fair value hierarchy

Fair value estimates are generally subjective in nature, and are made at a specific point in time based on the characteristics of the financial instruments and relevant market information. Fair values are determined according to the following fair value hierarchy:

	Fair value measurements as at 30 June 2019 using			
	Fair value (Total) *HK$'000*	Quoted prices in active market for identical assets (Level 1) *HK$'000*	Significant other observable inputs (Level 2) *HK$'000*	Significant unobservable inputs (Level 3) *HK$'000*
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss				
– Debt securities	**2,156,147**	**2,156,097**	**50**	**–**
– Treasury bills	**600,000**	**600,000**	**–**	**–**
	2,756,147	**2,756,097**	**50**	**–**
Derivative financial instruments				
– Positive fair value of derivatives	**4,582,402**	**4,422**	**4,577,980**	**–**
Financial assets at fair value through other comprehensive income				
– Certificates of deposit held	**7,287,238**	**776,206**	**6,511,032**	**–**
– Treasury bills	**16,984,150**	**16,730,779**	**253,371**	**–**
– Debt securities	**42,167,714**	**39,912,579**	**2,251,135**	**4,000**
– Equity securities	**129,034**	**–**	**–**	**129,034**
	66,568,136	**57,419,564**	**9,015,538**	**133,034**
	73,906,685	**60,180,083**	**13,593,568**	**133,034**
Liabilities				
Derivative financial instruments				
– Negative fair value of derivatives	**4,834,254**	**11,334**	**4,822,920**	**–**

(34) FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments measured at fair value (continued)

(i) Fair value hierarchy (continued)

	Fair value measurements as at 31 December 2018 using			
	Fair value (Total) *HK$'000*	Quoted prices in active market for identical assets (Level 1) *HK$'000*	Significant other observable inputs (Level 2) *HK$'000*	Significant unobservable inputs (Level 3) *HK$'000*
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss				
– Debt securities	944,630	734,674	209,956	–
– Treasury bills	495,389	495,389	–	–
– Investment funds	513	–	–	513
	1,440,532	1,230,063	209,956	513
Derivative financial instruments				
– Positive fair value of derivatives	6,027,833	9,292	6,018,541	–
Financial assets at fair value through other comprehensive income				
– Certificates of deposit held	14,394,029	754,018	13,640,011	–
– Treasury bills	15,975,480	15,975,480	–	–
– Debt securities	36,512,097	32,967,393	3,530,867	13,837
– Equity securities	95,801	–	–	95,801
	66,977,407	49,696,891	17,170,878	109,638
	74,445,772	50,936,246	23,399,375	110,151
Liabilities				
Derivative financial instruments				
– Negative fair value of derivatives	6,543,351	14,040	6,529,311	–

During the period ended 30 June 2019 and year ended 31 December 2018, there were no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy. For transfer in and out of Level 3 measurements see the note 34(a) (iii) below.

(34) FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments measured at fair value (continued)

(ii) Determination of fair value

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1 – Quoted (unadjusted) market price in active markets for identical instruments at the measurement date.

Level 2 –

(i) Quoted market price for identical or similar instruments that are not active;

(ii) Valuation techniques based on observable inputs, either directly or indirectly, where all significant inputs are observable from market data. This category includes financial instruments with quoted prices in active markets for similar instruments; or quoted prices in markets that are considered less than active for identical or similar instruments.

Level 3 – Valuation techniques using significant unobservable inputs where the valuation techniques include one or more significant inputs that are unobservable. This category includes financial instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect the differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using valuation techniques. Valuation techniques include net present value, discounted cash flow models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other parameters used in estimating discount rates, bond price and foreign currency exchange rates.

The most common valuation techniques applied by the Group to determine the fair value of financial instruments are from interest rates and currency swaps, which are observable market data with high reliability and do not require the significant involvement of management's judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter ("OTC") derivatives like interest rate swaps. However, the availability of observable market prices and inputs varies depending on the products and markets, and is prone to changes based on specific events and general conditions in the financial markets.

Certain financial instruments need to be employed with valuation techniques where one or more significant market inputs involved are not observable. Examples of these financial instruments are structured investments, OTC structured derivatives and certain securities for which there is no active market. For valuation models involving significant unobservable inputs, a high degree of management judgement or estimation is required to select the appropriate valuation model, determine the expected future cash flows on the financial instruments being valued, determine the probability of counterparty default and prepayments, and select the appropriate discount rates.

(34) FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments measured at fair value (continued)

(iii) Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs	Fair value measurement sensitivity to unobservable inputs
Investment funds	Broker quote	Not applicable	Not applicable
Debt securities	Discounted cash flow model	Forecasted cash flows and estimated risk-free rate	Significant increase in the estimated risk-free rate would result in a lower fair value
Equity securities	See note below	See note below	Not applicable

Note:

Equity securities under level 3 fair value measurements are generally classified as financial assets at fair value through other comprehensive income and are not traded in the active market, accordingly, the fair value is estimated by reference to market valuations for similar entities quoted in an active market. It is not practical to quote significant unobservable inputs.

The following table shows a reconciliation between the opening and the closing balance of fair value measurements in Level 3 of the fair value hierarchy:

	At 30 June 2019			
	Financial assets at fair value through profit or loss	**Financial assets at fair value through other comprehensive income**		**Total**
Assets	**Investment funds** *HK$'000*	**Debt securities** *HK$'000*	**Equity securities** *HK$'000*	*HK$'000*
At 1 January 2019	**513**	**13,837**	**95,801**	**110,151**
Sales	**(514)**	**–**	**–**	**(514)**
Repayment	**–**	**(77,371)**	**–**	**(77,371)**
Gains or losses recognised in the income statement	**1**	**(147)**	**(5)**	**(151)**
Gains recognised in other comprehensive income	**–**	**67,681**	**33,238**	**100,919**
At 30 June 2019	**–**	**4,000**	**129,034**	**133,034**
Total gains or losses for the period included in the income statement for assets held at the end of the reporting period recorded in:				
– Gains less losses from dealing in foreign currencies	**1**	**(147)**	**(5)**	**(151)**
– Gains less losses from financial assets at fair value through profit or loss	**–**	**–**	**–**	**–**
Total gains recognised in other comprehensive income	**–**	**67,681**	**33,238**	**100,919**

(34) FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments measured at fair value (continued)

(iii) Information about Level 3 fair value measurements (continued)

	At 31 December 2018			
	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income		Total
Assets	Investment funds *HK$'000*	Debt securities *HK$'000*	Equity securities *HK$'000*	*HK$'000*
At 1 January 2018	804	4,000	91,701	96,505
Purchases	–	–	500	500
Sales	(38)	–	–	(38)
Transfer from level 2	–	44,851	–	44,851
Repayment	–	(35,018)	–	(35,018)
Gains or losses recognised in the income statement	(253)	4	(25)	(274)
Gains recognised in other comprehensive income	–	–	3,625	3,625
At 31 December 2018	513	13,837	95,801	110,151
Total gains or losses for the period included in the income statement for assets held at the end of the reporting period recorded in:				
– Gains less losses from dealing in foreign currencies	–	4	(25)	(21)
– Gains less losses from financial assets at fair value through profit or loss	(253)	–	–	(253)
Total gains recognised in other comprehensive income	–	–	3,625	3,625

(34) FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments measured at fair value (continued)

(iv) Sensitivity of fair values to reasonably possible alternative assumptions

For the level 3 financial assets at fair value through other comprehensive income (equity securities), its fair value is measured by using a valuation model to incorporate assumptions that are not based on observable market data. The following table shows the sensitivity of level 3 fair value measurements on the equity securities measured at fair value through other comprehensive income. The favourable and unfavourable changes are determined on the basis of 10% change in fair value to reasonably possible alternative assumptions.

	At 30 June 2019			
	Effect on income statement		**Effect on other comprehensive income**	
	Favourable *HK$'000*	**(Unfavourable)** *HK$'000*	**Favourable** *HK$'000*	**(Unfavourable)** *HK$'000*
Assets				
Financial assets at fair value through other comprehensive income				
– Equity securities	**–**	**–**	**7,983**	**(6,957)**

	At 31 December 2018			
	Effect on income statement		Effect on other comprehensive income	
	Favourable *HK$'000*	(Unfavourable) *HK$'000*	Favourable *HK$'000*	(Unfavourable) *HK$'000*
Assets				
Financial assets at fair value through other comprehensive income				
– Equity securities	–	–	9,053	(7,654)

(34) FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Fair values of financial instruments measured at other than fair value

All financial instruments are stated at fair value or carried at amounts not materially different from their fair value at 30 June 2019 and 31 December 2018 unless otherwise stated.

(i) Financial assets measured at other than fair value

The Group's financial assets mainly include cash; placements with banks, central banks and other financial institutions; loans and advances to customers; investments; and financial derivative instruments.

The fair values of placements with banks, central banks and other financial institutions are mainly priced at market interest rates, and mature within one year. Accordingly, the carrying values approximate the fair value.

The fair values of loans and advances to customers, taking into account the relevant market interest rates and being mostly priced at floating rates close to the market interest rate which are mainly repriced within 3 months, approximately equals their carrying amount.

(ii) Financial liabilities measured at other than fair value

All financial liabilities are stated at fair value or carried at amounts not materially different from their fair values at 30 June 2019 and 31 December 2018, except the following:

	At 30 June 2019				
	Carrying amount *HK$'000*	**Fair value** *HK$'000*	**Level 1** *HK$'000*	**Level 2** *HK$'000*	**Level 3** *HK$'000*
Financial liabilities					
Certificates of deposit issued	**3,120,265**	**3,141,176**	**–**	**3,141,176**	**–**
Debt securities issued	**3,402,991**	**3,443,925**	**–**	**3,443,925**	**–**
Loan capital	**6,275,259**	**6,502,726**	**6,502,726**	**–**	**–**
	12,798,515	**13,087,827**	**6,502,726**	**6,585,101**	**–**

	At 31 December 2018				
	Carrying amount *HK$'000*	Fair value *HK$'000*	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*
Financial liabilities					
Certificates of deposit issued	3,133,151	3,133,245	–	3,133,245	–
Debt securities issued	3,408,077	3,416,698	–	3,416,698	–
Loan capital	6,283,542	6,442,439	6,442,439	–	–
	12,824,770	12,992,382	6,442,439	6,549,943	–

(35) ASSETS PLEDGED AS SECURITY

	At 30 June 2019 HK$'000	At 31 December 2018 HK$'000
Assets pledged as security		
Cash and balances with banks, central banks and other financial institutions	**–**	4
Financial assets at fair value through other comprehensive income pledged as statutory deposits *(Note)*	**226,395**	195,795
	226,395	195,799

Note:

The assets pledged represented statutory deposits pledged by the overseas branches of the Bank to the Office of the Comptroller of the Currency in the United States.

(36) CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS

(a) Contingent liabilities and commitments to extend credit

The following is a summary of the contractual amounts of each significant class of contingent liability and commitment:

	At 30 June 2019 HK$'000	At 31 December 2018 HK$'000
Direct credit substitutes	**2,215,362**	2,196,356
Transaction-related contingencies	**222,009**	253,309
Trade-related contingencies	**2,433,054**	1,215,101
Forward forward deposits placed	**7,766,139**	4,056,917
Other commitments:		
– which are unconditionally cancellable or automatically cancellable due to deterioration in the creditworthiness of the borrower	**76,274,761**	76,834,222
– with an original maturity of not more than 1 year	**1,213,410**	1,100,493
– with an original maturity of more than 1 year	**7,391,966**	3,789,368
	97,516,701	89,445,766
Credit risk-weighted amounts	**7,795,297**	5,036,814

Contingent liabilities and commitments are credit-related instruments, which include forward forward deposits placed, letters of credit, guarantees and commitments to extend credit. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client defaults. As the facilities may expire without being drawn upon, the contract amounts do not represent expected future cash flows.

The risk weights used in the computation of credit risk-weighted amounts range from 0% to 150% (31 December 2018: 0% to 150%).

(36) CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS (CONTINUED)

(b) Capital commitments

Capital commitments for the purchase of properties and equipment outstanding at the date of financial position and not provided for in the financial statements are as follows:

	At 30 June 2019	31 December 2018
	HK$'000	*HK$'000*
Authorised and contracted for	**120,332**	97,498

(c) Contingent liability in respect of legal claim

The Group is not involved in any legal action that would be significant to the financial position of the Group as at 30 June 2019 and 31 December 2018.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in Hong Kong dollars unless otherwise indicated)

(A) SUMMARY OF FINANCIAL POSITION

For the half-year ended	**30 June 2019**	30 June 2018
Financial ratios		
Average liquidity coverage ratio	**236.9%**	220.7%
Cost to income	**42.4%**	37.1%
Return on assets	**0.87%**	0.94%
Return on average total equity attributable to equity shareholders of the Bank	**8.28%**	8.96%

At period-ended/year-ended	**At 30 June 2019** ***HK$'000***	At 31 December 2018 *HK$'000*
Loans and advances to customers	**197,527,235**	201,819,882
Expected credit losses allowances on loans and advances to customers	**2,945,008**	2,658,898
Total assets	**350,618,746**	362,944,791
Total customers deposits	**276,708,295**	288,626,002
Total equity	**45,314,932**	45,981,077
Financial ratios		
Common Equity Tier 1 ("CET1") capital ratio	**13.3%**	12.8%
Tier 1 capital ratio	**16.2%**	16.7%
Total capital ratio	**19.0%**	19.3%
Loans to deposits	**71.4%**	69.9%
Loans to total assets	**56.3%**	55.6%

(B) REGULATORY DISCLOSURE STATEMENTS AVAILABLE ON THE BANK'S CORPORATE WEBSITE

For the purposes of compliance with Banking (Disclosure) Rules, information relating to the Group's regulatory disclosure information are published by using standard disclosure templates as specified by the HKMA and they can be viewed in the Regulatory Disclosures section of our Bank's corporate website www.cncbinternational.com.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(C) CAPITAL ADEQUACY

(i) Capital base

Capital adequacy ratios ("CAR") comply with the Banking (Capital) Rules issued by the HKMA. The CAR are computed on a consolidated basis covering the Bank and some of its subsidiaries as required by the HKMA. The Bank has adopted the "standardised approach" for calculating the risk-weighted amount for credit risk and market risk and the "basic indicator approach" for calculating operational risk.

	At 30 June 2019 *HK$'000*	At 31 December 2018 *HK$'000*
Common Equity Tier 1 ("CET1") capital instruments and reserves		
Directly issued qualifying CET1 capital instruments plus any related share premium	**18,404,013**	17,931,698
Retained earnings	**18,572,768**	17,411,498
Disclosed reserves	**598,485**	101,710
CET1 capital before regulatory deductions	**37,575,266**	35,444,906
CET1 capital: regulatory deductions		
Deferred tax assets net of deferred tax liabilities	**220,646**	413,359
Other intangible assets (net of related deferred tax liability)	**609,884**	652,210
Cumulative fair value gains arising from the revaluation of land and buildings (covering both own-use and investment properties)	**157,969**	160,768
Regulatory reserve for general banking risks	**1,092,119**	855,457
Valuation adjustments	**7,657**	6,602
Debt valuation adjustments in respect of derivative contracts	**2,101**	1,884
Total regulatory deductions to CET1 capital	**2,090,376**	2,090,280
CET1 capital	**35,484,890**	33,354,626
Additional Tier 1 ("AT1") capital		
Total Additional Tier 1 capital	**7,772,060**	10,085,527
Tier 1 capital	**43,256,950**	43,440,153
Tier 2 capital instruments and provisions		
Qualifying Tier 2 capital instruments plus any related share premium	**4,378,227**	3,915,898
Reserve attributable to fair value gains on revaluation of holdings of land and buildings	**71,085**	72,346
Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	**2,949,853**	2,957,962
Tier 2 capital base before deductions	**7,399,165**	6,946,206
Tier 2 capital: regulatory deductions		
Total regulatory deductions to Tier 2 capital	**–**	–
Tier 2 capital	**7,399,165**	6,946,206
Total capital	**50,656,115**	50,386,359

(ii) Risk-weighted amount

– Credit risk	**239,014,334**	239,247,171
– Market risk	**12,194,638**	7,337,525
– Operational risk	**15,055,013**	14,184,325
	266,263,985	260,769,021

(C) CAPITAL ADEQUACY (CONTINUED)

(iii) Capital adequacy ratios

	At 30 June 2019	At 31 December 2018
– CET1 capital ratio	**13.3%**	12.8%
– Tier 1 capital ratio	**16.2%**	16.7%
– Total capital ratio	**19.0%**	19.3%

(iv) Capital conservation buffer ratio and countercyclical capital buffer ratio

The capital buffer ratios are applicable to the Group on a consolidated basis are as follows:

	At 30 June 2019	At 31 December 2018
Capital conservation buffer ratio	**2.500%**	1.875%
Countercyclical capital buffer ("CCyB") ratio	**1.393%**	1.071%
	3.893%	2.946%

The detailed relevant disclosure of the CCyB ratio for each jurisdiction and the geographical breakdown of risk-weighted assets in relation to private sector credit exposures using the standard templates as specified by the HKMA can be viewed in the Regulatory Disclosure section of our Bank's website.

(v) Capital instruments

The following is a summary of the Group's CET1, AT1 capital securities and Tier 2 capital instruments.

	At 30 June 2019 *HK$'000*	At 31 December 2018 *HK$'000*
CET1 capital instruments issued by the Bank		
Ordinary shares:		
12,111,121,568 issued and fully paid ordinary shares	18,404,013	18,404,013

	At 30 June 2019 *HK$'000*	At 31 December 2018 *HK$'000*
Additional Tier 1 Capital Securities		
Undated non-cumulative subordinated capital securities with US$300 million	**–**	2,310,168
Undated non-cumulative subordinated capital securities with US$500 million	**3,863,084**	3,863,084
Undated non-cumulative subordinated capital securities with US$500 million	**3,907,328**	3,907,328
	7,770,412	10,080,580

	At 30 June 2019 *HK$'000*	At 31 December 2018 *HK$'000*
Tier 2 capital instruments		
Issued by the Bank		
– US$500 million Subordinated Fixed Rate Notes at 6.875%, due 2020	**2,402,862**	3,943,791
– US$300 million Subordinated Fixed Rate Notes at 6.000%, due 2024	**–**	2,339,751
– US$500 million Subordinated Fixed Rate Notes at 4.625%, due 2029	**3,872,397**	–
	6,275,259	6,283,542

(C) CAPITAL ADEQUACY (CONTINUED)

(vi) Leverage ratio

The Bank is required to disclose its leverage ratio calculated on a consolidated basis covering the Bank and some of its subsidiaries.

	At 30 June 2019	At 31 December 2018
Leverage ratio	**11.6%**	11.4%

The detailed relevant disclosure of the leverage ratio using the standard templates as specified by the HKMA can be viewed in the Regulatory Disclosure section of our Bank's website.

(vii) Basis of consolidation

Unless otherwise stated, all financial information contained in the interim financial report is prepared on the consolidation basis for accounting purposes. The main difference between the consolidation basis for accounting and regulatory purposes is that the former includes the Bank and all its subsidiaries whereas the latter includes the Bank and only some of the Group's subsidiaries, which are discussed below:

The HKMA has granted approval under section 28(2)(a) of the Banking (Capital) Rules for the Bank to calculate its CAR on a solo-consolidated basis instead of on a solo basis in respect of the following subsidiary:

		At 30 June 2019	
Names of subsidiary	**Principal activities**	**Total assets** ***HK$'000***	**Total equity** ***HK$'000***
Viewcon Hong Kong Limited	Mortgage financing	**1,333**	**1,322**

On the other hand, the Bank is required under section 3C(1) of the Banking (Capital) Rules to calculate its total capital on a consolidated basis in respect of the following subsidiaries:

		At 30 June 2019	
Names of subsidiaries	**Principal activities**	**Total assets** ***HK$'000***	**Total equity** ***HK$'000***
Carford International Limited	Property holding	**39,148**	**15,997**
CITIC Bank International (China) Limited	Banking	**10,974,339**	**1,506,953**
CITIC Insurance Brokers Limited	Insurance broker	**286,146**	**254,893**
CKWB-SN Limited	Issue of structured notes and investments	**–**	**–**
CKWH-UT2 Limited	Issue of subordinated notes	**–**	**–**
HKCB Finance Limited	Consumer financing	**5,987,275**	**546,287**
Ka Wah International Merchant Finance Limited	Inactive	**3,904**	**3,857**
The Ka Wah Bank (Trustee) Limited	Trustee services	**5,467**	**5,452**
Viewcon Hong Kong Limited	Mortgage financing	**1,333**	**1,322**

Subsidiaries not included in consolidation for regulatory purposes are nominee services companies and assets management companies which authorised and supervised by regulators and are subject to supervisory arrangements regarding the maintenance of adequate capital to support business activities comparable to those prescribed for authorised institutions under the Banking (Capital) Rules and the Banking Ordinance. The following subsidiaries are deducted from the Bank's capital base under Part 3 of the Banking (Capital) Rules:

(C) CAPITAL ADEQUACY (CONTINUED)

(vii) Basis of consolidation (continued)

Names of subsidiaries	Principal activities	At 30 June 2019 Total assets *HK$'000*	Total equity *HK$'000*
The Hongkong Chinese Bank (Nominees) Limited	Nominee services	**4**	**4**
The Ka Wah Bank (Nominees) Limited	Nominee services	**3,566**	**75**
Security Nominees Limited	Nominee services	**–**	**–**
Sino-Allied Development Limited	Inactive	**10**	**10**
CNCBI Investment Holdings Limited	Investment holding	**497,391**	**496,291**
CNCBI Asset Management Limited	Asset management	**15,119**	**16,054**
CNCBI Financial Consultant Limited	Not yet commenced business	**1,474**	**(1,995)**
Prosperous Century Global Investment Fund SPC	Investment fund	**430,609**	**430,609**

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

There is also no subsidiary which is included in the regulatory scope of consolidation but not in the accounting scope of consolidation.

(D) SEGMENTAL INFORMATION ON LOANS AND ADVANCES TO CUSTOMERS – BY GEOGRAPHICAL AREAS

	At 30 June 2019 Loans and advances to customers *HK$'000*	Overdue loans and advances to customers *HK$'000*	Impaired loans and advances to customers *HK$'000*	Stage 1 ECL allowances *HK$'000*	Stage 2 ECL allowances *HK$'000*	Stage 3 ECL allowances *HK$'000*
Hong Kong	**114,420,549**	**613,165**	**821,207**	**264,386**	**1,126,171**	**195,419**
Mainland China	**59,579,199**	**559,998**	**1,618,385**	**157,562**	**132,278**	**921,177**
United States	**6,768,994**	**12,847**	**176,157**	**25,432**	**16,641**	**5,931**
Singapore	**4,958,426**	**71,311**	**71,311**	**4,358**	**–**	**1,203**
Others	**11,800,067**	**46,835**	**46,835**	**74,349**	**8,240**	**11,861**
	197,527,235	**1,304,156**	**2,733,895**	**526,087**	**1,283,330**	**1,135,591**

	At 31 December 2018 Loans and advances to customers *HK$'000*	Overdue loans and advances to customers *HK$'000*	Impaired loans and advances to customers *HK$'000*	Stage 1 ECL allowances *HK$'000*	Stage 2 ECL allowances *HK$'000*	Stage 3 ECL allowances *HK$'000*
Hong Kong	114,341,202	123,082	753,215	282,575	776,875	216,898
Mainland China	55,148,825	1,035	648,527	209,139	817,621	56,697
United States	7,303,786	19,345	19,345	27,470	25,753	12,363
Singapore	5,625,789	256,362	256,362	6,040	–	88,618
Others	19,400,280	38,689	38,689	106,146	7,977	24,726
	201,819,882	438,513	1,716,138	631,370	1,628,226	399,302

The above geographical analysis is classified by the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor.

Overdue loans and advances are loans that have been overdue for more than three months.

(E) OVERDUE LOANS AND ADVANCES TO CUSTOMERS

	At 30 June 2019		At 31 December 2018	
	HK$'000	**% of total loans and advances to customers**	*HK$'000*	% of total loans and advances to customers
The gross amount of loans and advances has been overdue for periods of:				
– 6 months or less but over 3 months	**71,726**	**0.04**	92,265	0.05
– 1 year or less but over 6 months	**1,109,726**	**0.56**	174	–
– over 1 year	**122,704**	**0.06**	346,074	0.17
	1,304,156	**0.66**	438,513	0.22
Secured overdue loans and advances	**1,228,938**		257,944	
Unsecured overdue loans and advances	**75,218**		180,569	
	1,304,156		438,513	
Market value of collateral held against the secured overdue loans and advances	**1,579,421**		341,501	
Expected credit losses allowances made	**322,467**		160,224	

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid at the period end. Loans repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the demand notice, and/or when the loans have remained continuously outside the approved limit advised to the borrower for more than the overdue period in question.

Eligible collateral held in respect of the overdue loans and advances, is "Eligible Physical Collateral" which mainly comprises real estate properties. The eligible collateral should generally satisfy the following:

(a) The market value of the asset should be readily determinable or can be reasonably established and verified.

(b) The asset is marketable and there exists a readily available secondary market for disposing of the asset.

(c) The Bank's right to repossess the asset is legally enforceable and without impediment.

(d) The Bank is able to secure control over the asset if necessary.

There were no advances to banks and other financial institutions and other assets which were overdue for over three months at 30 June 2019 and 31 December 2018 respectively.

(F) RESCHEDULED LOANS

	At 30 June 2019		At 31 December 2018	
	HK$'000	**% of total loans and advances to customers**	*HK$'000*	% of total loans and advances to customers
Rescheduled loans	**185,009**	**0.094**	5,588	0.003

Rescheduled loans are those advances which have been restructured or renegotiated because of a deterioration in the financial position of the borrower, or the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms are non-commercial to the Group. Rescheduled loans to customers are stated net of any advances that have subsequently become overdue for over three months and are reported as overdue advances in note (E).

There were no advances to banks and other financial institutions which were rescheduled at 30 June 2019 and 31 December 2018 respectively.

(G) REPOSSESSED ASSETS

	At 30 June 2019	At 31 December 2018
	HK$'000	*HK$'000*
Included in loans and advances to customers and other accounts	**13,936**	166,617

The amount represented the estimated market value of the repossessed assets at 30 June 2019 and 31 December 2018 respectively.

(H) INTERNATIONAL CLAIMS

International claim refers to the sum of cross-border claims in all currencies and local claims in foreign currencies determined as based on the calculation methodology specified in the HKMA's Return of International Banking Statistics. International claims are on-balance sheet exposures of counterparties which attributable to the country or segment, after taking into account risk recognised transfer, constitute to not less than 10% of the aggregate claims are shown as follows:

	At 30 June 2019				
			Non-bank private sector		
	Banks	**Official Sector**	**Non-bank financial institutions**	**Non-financial private sector**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Developed countries	**27,280,910**	**1,584,951**	**1,679,077**	**4,154,800**	**34,699,738**
Offshore centres	**11,997,465**	**32,557**	**7,953,394**	**44,004,872**	**63,988,288**
of which Hong Kong	**3,652,794**	**31,967**	**7,374,187**	**31,217,016**	**42,275,964**
Developing Asia-Pacific	**52,143,350**	**1,937,359**	**10,312,641**	**52,444,493**	**116,837,843**
of which Mainland China	**49,216,042**	**1,936,481**	**10,312,641**	**50,982,869**	**112,448,033**

	At 31 December 2018				
			Non-bank private sector		
	Banks	Official Sector	Non-bank financial institutions	Non-financial private sector	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Developed countries	22,881,847	30,452	1,787,729	5,265,326	29,965,354
Offshore centres	14,938,225	792	17,107,420	46,162,347	78,208,784
of which Hong Kong	11,879,024	116	10,418,174	32,477,257	54,774,571
Developing Asia-Pacific	65,752,116	512,056	6,628,107	47,932,710	120,824,989
of which Mainland China	65,577,390	511,443	6,628,107	47,021,182	119,738,122

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(I) MAINLAND ACTIVITIES

Mainland Activities are Mainland China exposures to non-bank counterparties and their categories and the type of direct exposures defined by the HKMA's Return of Mainland Activities.

		At 30 June 2019		
		On-statement of financial position exposure *HK$'000*	**Off-statement of financial position exposure** *HK$'000*	**Total** *HK$'000*
(1)	Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	**39,082,872**	**1,859,467**	**40,942,339**
(2)	Local governments, local government-owned entities and their subsidiaries and JVs	**11,856,532**	**268,056**	**12,124,588**
(3)	PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	**70,477,117**	**4,263,564**	**74,740,681**
(4)	Other entities of central government not reported in item 1 above	**11,333,834**	**275,808**	**11,609,642**
(5)	Other entities of local governments not reported in item 2 above	**856,575**	**177,284**	**1,033,859**
(6)	PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	**16,991,687**	**2,370,683**	**19,362,370**
(7)	Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	**10,153,909**	**26,258**	**10,180,167**
Total		**160,752,526**	**9,241,120**	**169,993,646**
Total assets after provision		**350,618,746**		
On-balance sheet exposures as percentage of total assets		**45.8%**		

		At 31 December 2018		
		On-statement of financial position exposure HK$' 000	Off-statement of financial position exposure HK$' 000	Total HK$' 000
(1)	Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	31,479,387	472,197	31,951,584
(2)	Local governments, local government-owned entities and their subsidiaries and JVs	12,284,640	549,357	12,833,997
(3)	PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	67,756,250	3,906,080	71,662,330
(4)	Other entities of central government not reported in item 1 above	15,222,043	162,342	15,384,385
(5)	Other entities of local governments not reported in item 2 above	756,526	137,980	894,506
(6)	PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	17,432,219	2,365,071	19,797,290
(7)	Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	13,992,493	57,433	14,049,926
Total		158,923,558	7,650,460	166,574,018
Total assets after provision		362,944,791		
On-balance sheet exposures as percentage of total assets		43.8%		

(J) RISK MANAGEMENT

The Group manages its risks under the oversight of the Board of Directors and its delegated committees. The Risk Management Group has been entrusted with the ongoing responsibilities of driving and implementing the Group's risk management framework and governance encompassing the identification, quantification, monitoring, reporting, and mitigation of the risks to which the Group is exposed.

The Group adopts the Standardised Approach for credit and market risk measurement, and the Basic Indicator Approach for operational risk measurement. The Group has established policies, procedures and processes to identify and set appropriate risk limits, as well as to analyse, control and monitor these risks. The Group continually strives to enhance its risk management framework and infrastructure in keeping with the market, product offerings and international best practices. The Group's internal auditor performs regular independent audits to ensure due compliance with internal policies and regulatory requirements.

The Group manages the following main types of risk:

(a) Credit risk management

Credit risk is the risk of financial loss due to the failure of a customer or counterparty to fulfill its contractual obligations. Credit exposure principally arises in loans and advances, debt securities, treasury bills and trading derivatives, as well as in the credit risk from financial arrangements in off-balance sheet financial positions such as loan commitments. The Group has developed standards, policies and procedures to measure, monitor and mitigate the risk of its lending business. The policies and procedures are reviewed as required, to respond quickly to the changing market environment and to better reflect the risk factors for the Group's credit considerations.

To proactively strengthening the risk infrastructure and combat the ever-increasing and complex regulatory environment, the Group has implemented a number of risk management projects and initiatives. The Group has fortified its risk management structure, tools and capabilities as well as implemented various regulatory projects to achieve full compliance with the new rules and regulatory standards, including Banking (Exposure Limits) Rules, Initial Margin Standard, and Standardized Approach to Counterparty Credit Risk. Furthermore, the Group continues to enhance the governance, control process, reporting, disclosure and variance analysis for expected credit losses (ECL) calculation.

Credit risk is controlled and managed by the Risk Management Group ("RMG") under the oversight of the Credit Committee, and is reported to the Credit & Risk Management Committee ("CRMC") at the board level on a quarterly basis. These committees provide appropriate oversight of the Group's risk management practices by defining the Group's policies and risk appetite, and providing the RMG with the means to implement measures to mitigate credit risk arising from the Group's adopted strategy.

Credit risk embedded in products is identified and measured in product programmes. Credit risk pertaining to individual customers is identified and measured by credit officers utilising internal risk rating models. Credit applications are approved by credit officers under delegated authorities or by the Credit Committee.

The Group mitigates credit risk by taking collateral and entering into offsetting or netting agreements with borrowers and counterparties, as the case may be, should such clauses and agreements be legally established and enforceable.

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Group's total exposures. The Group's portfolio of financial instruments is scattered across various geographic, industry and product sectors.

Credit risk for treasury transactions is managed in the same way as the Group manages its corporate lending risk. Risk grading is applied to the debt issuers, with individual credit limits set.

Credit and counterparty risks related to countries and financial institutions are assessed and monitored regularly according to the Group's Country Risks and Financial Institution Risks policies. The policies are implemented together to effectively assess and control credit limits and tenors made available to the respective financial institutions under an umbrella country risk limit for each country.

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

The Group applies the same credit policy in respect of contingent liabilities as in respect of financial instruments recorded on the statement of financial position, based on loan approval procedures, use of limits to reduce risk and monitoring. Credit risk is also mitigated by obtaining collateral in the form of pledged assets and guarantees from borrowers and third parties.

(i) Credit quality

The Group has a 24-grade internal risk rating system (Grades G01-G21 for performing financial assets and Grades G22-G24 for non-performing financial assets) that maps to external credit rating agencies' rating scales. This framework facilitates more granular credit risk reporting, thus enhancing the internal management. The risk rating are assigned according to differing customer segments (manufacturing, trading, property development/investment, etc.) which enables the ranking of the credit quality of each customer and the governing of the credit exposure for individual customers or counterparties.

Customers' risk ratings are reviewed regularly and amendments, where necessary, are implemented promptly, particularly in times of fluctuating market conditions. The Group also maintains a committee to regularly oversee weaker credits (which have lower risk ratings of G19-G21) to preserve the Group's quality portfolio. The table below outlines the Group's rating scale benchmarked against external credit agencies:

	Reference ECAI Rating			
Obligor Grade	Moody's	S&P	Fitch	Rating Description
G01	Aaa	AAA	AAA	Obligations are judged to have the highest intrinsic, or standalone, financial strength, and thus subject to the lowest level of credit risk absent any possibility of extraordinary support from an affiliate or government.
G02 – G04	Aa1/Aa2/Aa3	AA+/AA/AA-	AA+/AA/AA-	Obligations are judged to have high intrinsic, or standalone, financial strength, and thus subject to very low credit risk absent any possibility of extraordinary support from an affiliate or government.
G05 – G07	A1/A2/A3	A+/A/A-	A+/A/A-	Obligations are judged to have upper-medium-grade intrinsic, or standalone, financial strength, and thus subject to low credit risk absent any possibility of extraordinary support from an affiliate or government.
G08 – G10	Baa1/Baa2/Baa3	BBB+/BBB/BBB-	BBB+/BBB/BBB-	Obligations are judged to have medium-grade intrinsic, or standalone, financial strength, and thus subject to moderate credit risk and, as such, may possess certain speculative credit elements absent any possibility of extraordinary support from an affiliate or government.
G11 – G13	Ba1/Ba2/Ba3	BB+/BB/BB-	BB+/BB/BB-	Obligations are judged to have speculative intrinsic, or standalone, financial strength, and are subject to substantial credit risk absent any possibility of extraordinary support from an affiliate or government.
G14 – G16	B1/B2/B3	B+/B/B-	B+/B/B-	Obligations are judged to have speculative intrinsic, or standalone, financial strength, and are subject to high credit risk absent any possibility of extraordinary support from an affiliate or government.
G17 – G18	Caa1/Caa2	CCC+/CCC	CCC+/CCC	Obligations are judged to have speculative intrinsic, or standalone, financial strength, and are subject to very high credit risk absent any possibility of extraordinary support from an affiliate or government.
G19 Special Mention	Caa3	CCC-	CCC-	Obligations are judged to have highly speculative intrinsic, and are likely in, or near, default, with some prospect of recovery of principal and interest.
G20 Special Mention	Ca	CC	CC	Obligations are judged to have highly speculative intrinsic, and are likely in, or very near, default, with some prospect of recovery of principal and interest.
G21 Special Mention	C	C	C	Obligations are the lowest rated and are typically in default, with little prospect for recovery of principal or interest.
G22 Substandard	D	D	D	Substandard. In accordance with the Asset Classification Policy.
G23 Doubtful	D	D	D	Doubtful. In accordance with the Asset Classification Policy.
G24 Loss	D	D	D	Loss. In accordance with the Asset Classification Policy.

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(ii) Exposure of credit risk

The maximum exposure to credit risk at the end of the reporting period, without considering any collateral held or other credit enhancements, is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowances. A summary of the maximum exposure is as follows:

	At 30 June 2019 HK$'000	At 31 December 2018 HK$'000
Cash and balances with banks, central banks and other financial institutions	**20,969,197**	29,622,486
Placements with and advances to banks, central banks and other financial institutions	**52,621,210**	52,886,380
Financial assets at fair value through profit or loss	**2,756,147**	1,440,019
Derivative financial instruments	**4,582,402**	6,027,833
Loans and advances to customers and other accounts	**200,355,268**	203,501,746
Financial assets at fair value through other comprehensive income	**66,439,102**	66,881,606
Financial guarantees and other credit-related contingent liabilities	**12,636,564**	7,721,683
Loan commitments and other credit-related commitments	**84,880,137**	81,724,083
	445,240,027	449,805,836

Further detailed analyses of the credit quality of financial assets by credit quality and stage distribution are provided in the note (J)(a)(vii) of the Unaudited Supplementary Financial Information.

(iii) Master netting arrangement

The Group enters into enforceable master netting arrangements with counterparties. If an event of default occurs, all outstanding transactions with the counterparty are terminated and all amounts outstanding are settled on a net basis. Except for the event of default, all outstanding transactions with the counterparty are settled on a gross basis and generally do not result in offsetting the assets and liabilities in the statement of financial position. The Group discloses information for financial statement users to evaluate the effect or potential effect of netting arrangements, including the rights of set-off associated with the Group's recognised financial assets and recognised financial liabilities, on the Group's financial position.

	At 30 June 2019			
		Related amounts that are not offset in the statement of financial position		
	Derivative financial instruments presented in the statement of financial position HK$'000	Financial instruments HK$'000	Cash collateral received HK$'000	Net amount HK$'000
Financial assets				
– Derivative financial instruments *(note 16)*	4,582,402	(2,466,968)	(955,732)	1,159,702
Financial liabilities				
– Derivative financial instruments *(note 16)*	4,834,254	(2,466,968)	–	2,367,286

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(iii) Master netting arrangement (continued)

	At 31 December 2018			
		Related amounts that are not offset in the statement of financial position		
	Derivative financial instruments presented in the statement of financial position *HK$'000*	Financial instruments *HK$'000*	Cash collateral received *HK$'000*	Net amount *HK$'000*
Financial assets				
– Derivative financial instruments *(note 16)*	6,027,833	(3,046,261)	(1,828,798)	1,152,774
Financial liabilities				
– Derivative financial instruments *(note 16)*	6,543,351	(3,046,261)	–	3,497,090

(iv) Mitigation of credit risk – Collateral and other credit enhancements

The Group is dedicated to mitigating credit risk, and this takes many forms. In general, risk to the Group's ultimate credit exposure is mitigated by recognised collateral and credit risk enhancement. The Group continuously seeks to enhance its level of credit risk mitigation.

The principal collateral received to secure loans and advances includes mortgages, cash collateral, equities, accounts receivable assignments, standby letters of credit and listed debt securities acceptable to the Group. In some cases, depending on the customer's position and the types of credit products, some loans may be granted and backed by corporate or personal guarantees only.

The Group has guidelines on the acceptability of specific classes of collateral or credit risk enhancements accompanied by the determination of valuation parameters. Such parameters are expected to be conservative and reviewed regularly. Security structures and covenants (financial and non-financial) are subject to regular review to ensure they comply with the stipulated conditions. The collateral is important to mitigate credit risk, but it is the Group's policy to assess the repayment ability of individual customers or counterparties rather than just solely relying on securities.

The Group's collateralised credit risk at 30 June 2019 and 31 December 2018, excluding impaired exposure, is broken down as follows:

	At 30 June 2019 ***HK$'000***	At 31 December 2018 *HK$'000*
Lower of gross loans and advances and fair value of collateral and other credit enhancements held against financial assets that are:		
– neither past due nor impaired	**86,719,646**	85,998,378
– past due but not impaired	**1,155,497**	1,472,429
	87,875,143	87,470,807

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(v) Portfolio management and risk concentration

Portfolio management

As part of the Group's portfolio management practices, a Risk-based Pricing Model has been adopted with the aim of improving the overall return for the Group, after taking into account the risks of the customers and facilities, and thus the capital required to support the loan exposure and other costs. Stress tests on the Group's credit risk are conducted regularly. The result is approved by the relevant committees and is endorsed by the Board through the CRMC.

Risk concentration

A Credit Risk Concentration Policy is in place and the Group constantly reviews its loan exposure to monitor the concentration of credit risk relating to customers, countries, market segments and products.

Concentration of credit risk exists when changes in geographic, economic or industry factors affect groups of linked counterparties whose aggregate credit exposure is material in relation to the Group's total exposures. The Group's portfolio of financial instrument is diversified along geographical, industry and product sectors.

(vi) Expected credit losses measurement

Expected credit losses allowances are recognised on all financial assets that are debt instruments classified either as amortised or fair value through other comprehensive income and for loan commitments and financial guarantees that are not measured at fair value through profit and loss. The ECL allowances represents an unbiased scenario that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and future economic conditions. Forward-looking information is explicitly incorporated into the estimation of ECL allowances and expert judgement on economic forecasts becomes one of the important factors to the ECL.

Measurement of ECL

ECL allowances are measured at amounts equal to either: (i) 12-month ECL; or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk ('SICR') since initial recognition. The calculation of ECL allowances is based on the expected value of probability-weighted scenarios with a combination of upside, base and downside scenario(s) to measure the expected cash shortfalls, discounted at the effective interest rate. A cash shortfall is the difference between the contractual cash flows that are due and the cash flows that the Group expects to receive. The calculation of ECL allowances for Stage 3 is based on probability-weighted recovery amount from an impaired financial asset that is determined by evaluating a range of possible outcomes and time value of money.

The key inputs in the measurement of ECL allowances for Stage 1 and Stage 2 are as follows:

– The probability of default ("PD") is an estimate of the likelihood of default over a given time horizon;

– The loss given default ("LGD") is an estimate of the loss arising in the case where a default occurs at a given time; and

– The exposure at default ("EAD") is an estimate of the exposure at a future default date.

Stage transfer

Stage 1 is comprised of all non-impaired financial assets which have not triggered a SICR since initial recognition. Their credit risk continuously monitored by the Group and in assessing whether credit risk has increased significantly, the Group compares the risk of a default occurring on the financial instruments as at the reporting date, with the risk of a default occurring on the financial instrument as at the date of its initial recognition.

Stage 2 is comprised of all non-impaired financial assets which have triggered a SICR since initial recognition. The Group recognises lifetime ECL for stage 2 financial assets. In subsequent reporting periods, if the credit risk of the financial assets improves such that there is no longer a SICR since initial recognition, then the Group reverts to recognising 12 months of ECL as the financial assets have transferred back stage 1.

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(vi) Expected credit losses measurement (continued)

Stage transfer (continued)

Stage 3 financial assets are those that the Group has classified as credit-impaired. The Group recognises lifetime ECL for all stage 3 financial assets. The Group classifies financial assets as impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial assets have occurred after its initial recognition. Evidence of impairment includes indications that the borrower is experiencing significant financial difficulties, or a default or delinquency has occurred.

For purchased or originated credit-impaired financial assets that are credit-impaired on initial recognition, their ECL allowances are always measured on a lifetime basis.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the remaining life of the financial instrument, even if, for risk management purposes, the Group has the right to consider a longer period.

Significant increase in credit risk

An assessment of whether the financial instruments have experienced SICR since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment is rule-based, unbiased and forward-looking, and considers all reasonable and supportable information, including information about past events, current conditions and future economic conditions.

The financial instruments will be considered to have significant increase in credit risk when:

a) The contractual payments of the instruments are with more than 30 days past due; or

b) The credit rating of the financial instrument has been went down by 5 notches since initial recognition; or

c) The financial instruments have been classified as special mention.

Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgement has also been applied in this process. Forecasts of these economic variables (the 'base economic scenario') are provided by the Group's economic experts and include consideration of a variety of actual and forecast information. The Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios such as 1 upside and 3 downside forecast scenarios.

In particular, the base scenario carrying weighting of 65% represents the most likely scenario of continuing the current economic situation; the upside scenario, carrying 7% weighting, represents likelihood of further improving the current economic prospect; and the three downside scenarios, namely, mild, medium and severe, carrying weighting of 28% in total, represents the likelihood of economic downturn of different severities. The economic forecasts will be reviewed regularly to reflect the latest economic conditions. The ECL recognised in the financial statements reflect the probability weighted outcomes of a range of possible scenarios above and the management has continuously assessed the appropriateness of the provision made against the borrowers concerned taking these information into consideration. If any adjustment in provision is deemed necessary, management overlay(s) would be applied to ensure conservativeness.

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(vi) Expected credit losses measurement (continued)

Forward-looking information incorporated in the ECL models (continued)

The Base scenario

The Group's Base Scenario is characterised by a slower growth over the forecast period 2019-2024. The slower growth reflects that the global economy has entered into a new round of growth slowdown.

Mainland China GDP growth is forecast to slow down over the forecast period, as a joint result of a continued while gradual slowdown amid sustained economic rebalancing and reforms from a development stage point of view, and the negative impacts of the China-US trade war. Hong Kong growth is also expected to weaken during the period.

Inflation is expected to remain below the central banks' target of 2% in major developed economic over the forecast period. Central banks' monetary policy normalization in US, Eurozone and Japan has terminated, and in stead most central banks have started a round of monetary easing.

Unemployment rates have experienced significant improvements in advanced economies and been near historical lows in Mainland China and Hong Kong. The unemployment rates are expected to stabilise with an upside risk over the forecast period, in both advanced economies and Mainland China and Hong Kong.

The Severe Scenario

Under the Severe Scenario, the global economy falls into recession hit by China–US and global trade wars, a fast cyclical downturn in the US and China economies, policy failures by governments in major economies, or geopolitical tensions. GDP growth is forecast to become negative in most of the advanced economies and see a significant slowdown in Mainland China. Consequently, property markets see significant falls, equity markets experience sharp corrections, commodity prices and hence inflation witness deep declines, and unemployment rates show considerable rises.

The Benign, Mild and Medium Scenarios

The Benign Scenario is a slight deviation from the Base Scenario in the positive direction, with the global economy expanding at a slightly faster than- expected-pace and other key economic indicators displaying slightly better-than-expected improvements.

The Mild Scenario is a slight deviation from the Base Scenario in the negative direction, with the global economy expanding at a slightly slower-than- expected pace and other key economic indicators displaying slightly worse-than-expected improvements.

The Medium Scenario is in the middle position between the Base Scenario and the Severe Scenario, with the global GDP growth rate and other key economic indicators standing at the medium points between those of the two scenarios.

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(vi) Expected credit losses measurement (continued)

Definition of default and credit-impaired assets

The Group defines a financial asset as in default when contractual repayment of principal or payment of interest is past due more than 90 days, which is fully aligned with the definition of credit-impaired under HKFRS 9.

Moreover, in assessing whether a borrower is in default, the Group considers various indicators comprising: (i) qualitative – such as in breach of financial covenant(s), deceased, insolvent or in long-term forbearance; (ii) quantitative – such as overdue status and non-payment on another obligation of the same issuer to the Group. These criteria have been applied to all financial assets held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the PD, EAD and LGD throughout the Group's expected loss calculations. The Group considers a financial asset to be in default when contractual repayment of principal or payment of interest is past due more than 90 days.

A financial asset is no longer considered in default when all past due amounts, including interest, have been recovered, and it is determined that the principal and interest are fully collectible in accordance with the original or revised contractual terms of the financial assets with all criteria for the impaired classification having been remedied.

Write-off

The Group writes off a financial asset in whole or in part, when it has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof. Indicators that there is no reasonable expectation of recovery include: (i) ceasing enforcement activity and (ii) where the Group's recovery method is enforcing collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(vii) Credit quality of financial assets

The Group manages and monitors its risks, and has an Asset Quality Classification Policy and Impairment Assessment Policy in place to govern this aspect. The Group has a professional team dedicated to handling recovery of non-performing loans, which include loan restructuring, taking legal action, repossession and disposal of collateral, etc.

Distribution of financial instruments to which the impairment requirements in HKFRS 9 are applied, by credit quality and stage distribution.

	30 June 2019						
	Gross carrying/notional amount						
	Strong *HK$'000*	Satisfactory *HK$'000*	Higher risk *HK$'000*	Credit impaired *HK$'000*	Total *HK$'000*	ECL allowances *HK$'000*	Net carrying amount *HK$'000*
Balances with banks, central banks and other financial institutions at amortised cost	20,755,388	–	–	–	20,755,388	(10,097)	20,745,291
– Stage 1	20,755,388	–	–	–	20,755,388	(10,097)	20,745,291
– Stage 2	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–
Placements with and advances to banks, central banks and other financial institutions at amortised cost	52,615,296	9,134	–	–	52,624,430	(3,220)	52,621,210
– Stage 1	52,615,296	9,134	–	–	52,624,430	(3,220)	52,621,210
– Stage 2	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–
Loans and advances to customers at amortised cost	111,782,483	70,680,487	12,330,370	2,733,895	197,527,235	(2,945,008)	194,582,227
– Stage 1	110,218,343	69,761,444	1,974,586	–	181,954,373	(526,087)	181,428,286
– Stage 2	1,564,140	919,043	10,355,784	–	12,838,967	(1,283,330)	11,555,637
– Stage 3	–	–	–	2,733,895	2,733,895	(1,135,591)	1,598,304
Other financial assets at amortised cost	5,225,177	916,124	–	41,719	6,183,020	(38,553)	6,144,467
– Stage 1	5,225,177	916,124	–	–	6,141,301	(673)	6,140,628
– Stage 2	–	–	–	–	–	–	–
– Stage 3	–	–	–	41,719	41,719	(37,880)	3,839
Loan commitments and financial guarantee contracts *(Note 1)*	4,127,428	5,903,302	294,155	–	10,324,885	(43,039)	10,281,846
– Stage 1	4,127,428	5,903,302	294,155	–	10,324,885	(43,039)	10,281,846
– Stage 2	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–
Total	194,505,772	77,509,047	12,624,525	2,775,614	287,414,958	(3,039,917)	284,375,041
Financial assets at fair value through other comprehensive income – Debt securities *(Note 2)*	64,500,387	1,863,269	–	75,446	66,439,102	(128,455)	
– Stage 1	64,500,387	1,863,269	–	–	66,363,656	(38,563)	
– Stage 2	–	–	–	–	–	–	
– Stage 3	–	–	–	75,446	75,446	(89,892)	
Total	64,500,387	1,863,269	–	75,446	66,439,102	(128,455)	

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(vii) Credit quality of financial assets (continued)

	31 December 2018						
	Gross carrying/notional amount						
	Strong *HK$'000*	Satisfactory *HK$'000*	Higher risk *HK$'000*	Credit impaired *HK$'000*	Total *HK$'000*	ECL allowances *HK$'000*	Net carrying amount *HK$'000*
Balances with banks, central banks and other financial institutions at amortised cost	29,420,376	–	–	–	29,420,376	(22,613)	29,397,763
– Stage 1	29,420,376	–	–	–	29,420,376	(22,613)	29,397,763
– Stage 2	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–
Placements with and advances to banks, central banks and other financial institutions at amortised cost	52,666,841	226,366	–	–	52,893,207	(6,827)	52,886,380
– Stage 1	52,666,841	226,366	–	–	52,893,207	(6,827)	52,886,380
– Stage 2	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–
Loans and advances to customers at amortised cost	118,834,507	63,654,648	17,614,589	1,716,138	201,819,882	(2,658,898)	199,160,984
– Stage 1	118,453,578	62,904,179	3,495,938	–	184,853,695	(631,370)	184,222,325
– Stage 2	380,929	750,469	14,118,651	–	15,250,049	(1,628,226)	13,621,823
– Stage 3	–	–	–	1,716,138	1,716,138	(399,302)	1,316,836
Other financial assets at amortised cost	4,148,532	444,219	–	41,719	4,634,470	(39,036)	4,595,434
– Stage 1	4,148,532	442,705	–	–	4,591,237	(1,156)	4,590,081
– Stage 2	–	1,514	–	–	1,514	–	1,514
– Stage 3	–	–	–	41,719	41,719	(37,880)	3,839
Loan commitments and financial guarantee contracts *(Note 1)*	4,094,819	4,147,434	312,374	–	8,554,627	(40,151)	8,514,476
– Stage 1	4,094,819	4,147,434	312,374	–	8,554,627	(40,151)	8,514,476
– Stage 2	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–
Total	209,165,075	68,472,667	17,926,963	1,757,857	297,322,562	(2,767,525)	294,555,037
Financial assets at fair value through other comprehensive income – Debt securities *(Note 2)*	65,603,773	1,154,344	–	123,489	66,881,606	(212,861)	
– Stage 1	65,603,773	1,154,344	–	–	66,758,117	(28,552)	
– Stage 2	–	–	–	–	–	–	
– Stage 3	–	–	–	123,489	123,489	(184,309)	
Total	65,603,773	1,154,344	–	123,489	66,881,606	(212,861)	

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(vii) Credit quality of financial assets (continued)

Note:

(1) The notional amount of commitments and financial guarantee contracts refer to those commitments and financial guarantees which subject to impairment requirements under HKFRS 9. Figures disclosed in the above do not agree with the figures disclosed in note 36(a) of the interim financial report.

(2) Debt securities measured at fair value through other comprehensive income ("FVOCI") are held at fair value at 30 June 2019. The expected credit losses allowances in respect of debt securities measured at FVOCI are held within the reserves.

(3) Classification of credit quality

The Group adopts the following internal risk ratings to determine the credit quality for financial assets.

Credit quality description	**Internal ratings**
Strong	G01-G12
Satisfactory	G13-G16
Higher risk	G17-G21
Credit impaired	G22-G24

(viii) Credit quality of financial assets at debt securities measured at FVPL and FVOCI

For the application of credit rating to debt securities, primarily the issue specific rating would be taken as reference for credit risk rating assignment. Where this is not available, the issuer rating would be adopted. When the issuer rating is not available, the rating of the guarantor of that debt securities (if applicable) would be adopted, otherwise it would be treated as unrated. The following table presents an analysis of the credit quality of investments in debt securities at the end of the reporting period.

	At 30 June 2019		
	Debt securities measured at FVPL *HK$'000*	**Debt securities measured at FVOCI** *HK$'000*	**Total** *HK$'000*
Aaa	**–**	**2,786,619**	**2,786,619**
Aa3 to Aa1	**907,440**	**17,499,593**	**18,407,033**
A3 to A1	**725,203**	**34,693,312**	**35,418,515**
Lower than A3	**1,027,275**	**9,991,709**	**11,018,984**
	2,659,918	**64,971,233**	**67,631,151**
Unrated	**96,229**	**1,467,869**	**1,564,098**
Total	**2,756,147**	**66,439,102**	**69,195,249**

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(viii) Credit quality of financial assets at debt securities measured at FVPL and FVOCI (continued)

	At 31 December 2018		
	Debt securities measured at FVPL *HK$'000*	Debt securities measured at FVOCI *HK$'000*	Total *HK$'000*
Aaa	–	2,704,655	2,704,655
Aa3 to Aa1	495,953	16,731,740	17,227,693
A3 to A1	115,544	35,774,385	35,889,929
Lower than A3	785,625	9,400,360	10,185,985
	1,397,122	64,611,140	66,008,262
Unrated	42,897	2,270,466	2,313,363
Total	1,440,019	66,881,606	68,321,625

(b) Market risk management

Market risk is the risk of loss caused by an adverse change in valuation associated with holding either long or short market positions. The risk arises as a result of market making, underwriting, principal position taking and asset/liability management in interest rate, foreign exchange, equity, credit and commodity markets and their associated derivatives instruments. The Group manages its market risk exposures mainly through its trading and treasury business. The trading business is to facilitate customer activities, but as a result, takes on principal positions. The treasury business performs asset/liability management function including liquidity risk management, with securities positions intended for liquidity management and investment purposes under non-trading portfolio (debt securities measured at fair value through other comprehensive income).

The objective of market risk management is to consistently measure and monitor market risk on a timely and unbiased basis in order to better manage the portfolios and, by doing so, optimise financial performance. The business is responsible for managing market risks to meet corporate performance objectives within the market risk limit parameters. The Risk Management Group ("RMG") is responsible to independently monitor and report all market risks.

Market risk framework

The Board of the Group allocates capital or risk appetite through the limit process. The Board delegates Credit & Risk Management Committee ("CRMC") to establish limits for the different businesses. CRMC further delegates market risk limit establishment to the Market Risk Committee ("MRC") and then to RMG. RMG is responsibility for designing and drafting the market risk limits and framework and reviewing and updating the limits on a regular basis. The market risk limits are to be approved by MRC and endorsed by CRMC. In addition, the Board also establishes a set of risk indicators under the risk appetite statement ("RAS") in measuring different types of risks including market risk.

RMG is an independent function reporting to the Chief Risk Officer ("CRO"). RMG uses both quantitative and qualitative measures in analysing market risk. The analysis includes, but not limited to, Value-at-Risk ("VaR"), stress testing, risk sensitivities, market events, product liquidity and volatility, underlying quality, hedging strategy, performance including profit and loss, accuracy of valuations and balance sheet and capital consumptions. The results are regularly reported to senior management and CRO and to MRC and CRMC.

(J) RISK MANAGEMENT (CONTINUED)

(b) Market risk management (continued)

Methodology and characteristics of market risk model

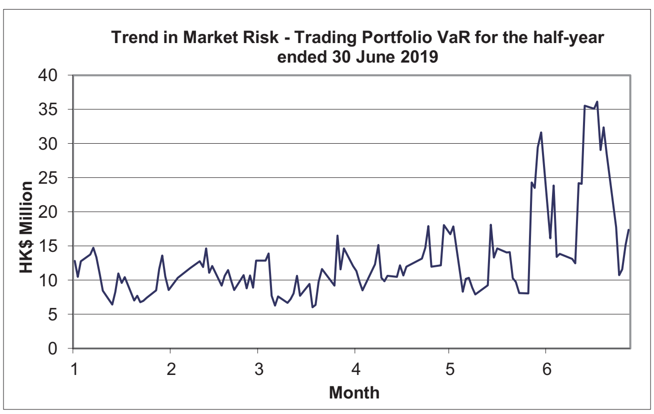
Value-at-risk ("VaR")

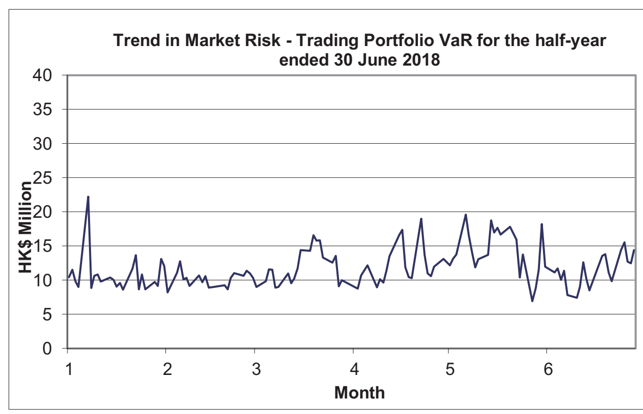
VaR is a technique in estimating the potential losses that could occur on market risk-taking positions due to market rates and prices movement under normal market conditions over a specified time horizon. The model is designed to capture different types of risk including interest rate risk, foreign exchange risk, credit spread risk, equity risk, commodity risk and volatility risk.

The VaR model used by the Group is based on the historical simulation technique. The technique predicts the value at risk by simulating or constructing position returns over time arise from the historical changes in rates and prices in the interest rate, foreign exchange, equity, credit and commodity markets.

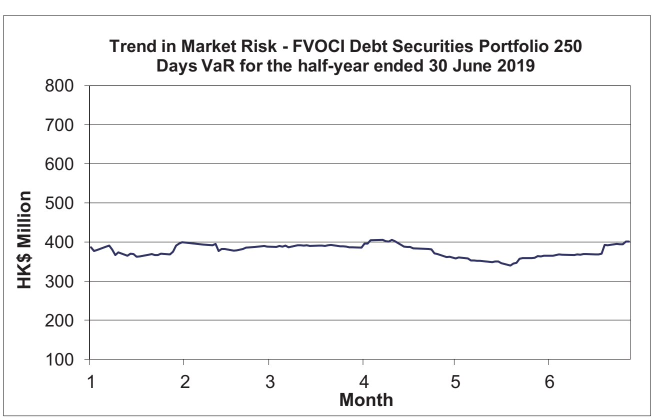
For the calculation of VaR, the Group uses the most recent two years of historical market rates, prices and volatilities.

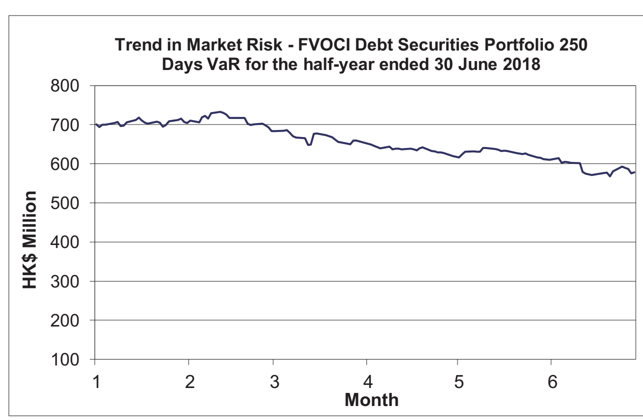
– For the trading positions, the VaR is calculated for one-day holding period.





– For the FVOCI debt securities and related positions, VaR is calculated for 250-day holding period.





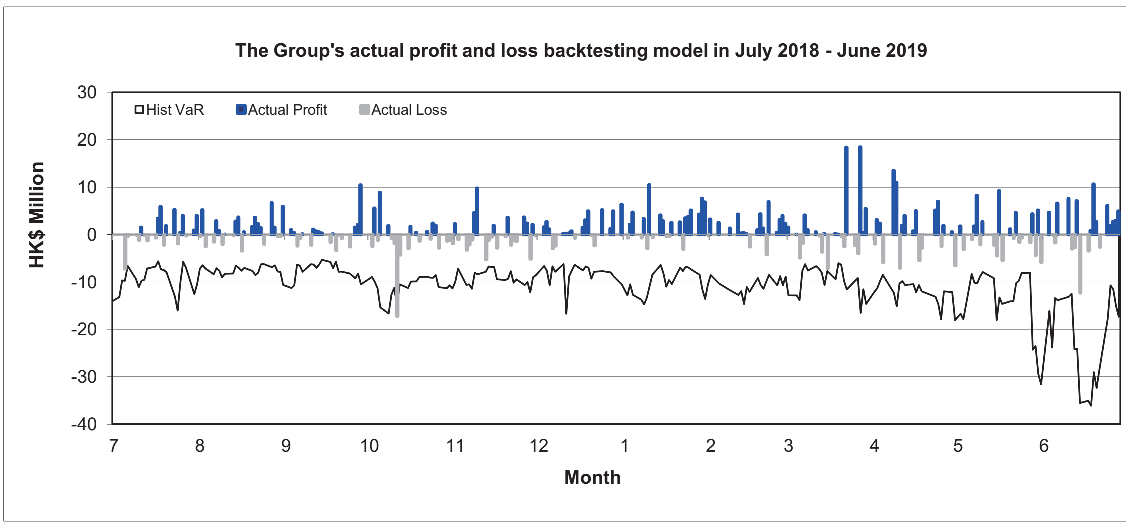
(J) RISK MANAGEMENT (CONTINUED)

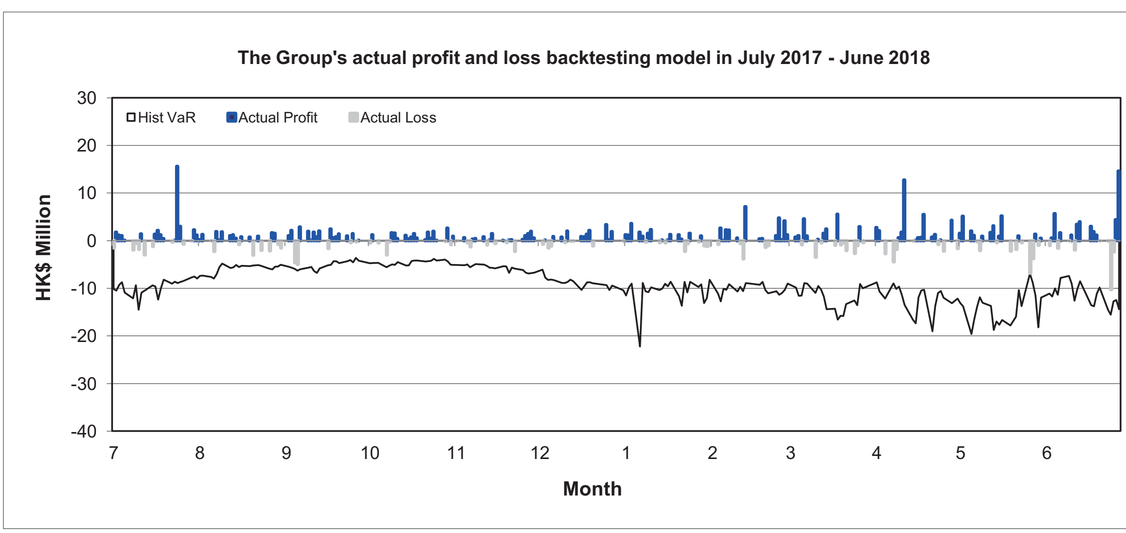
(b) Market risk management (continued)

Methodology and characteristics of market risk model (continued)

Value-at-risk ("VaR") (continued)

– The Group back-tests the accuracy of its VaR model by comparing the actual and hypothetical daily profit and loss, adjusted for items including fees and commissions, against the corresponding VaR figures. For the period from 1 July 2018 to 30 June 2019, there was 1 exception in the back-testing results (for the period of 1 July 2017 to 30 June 2018, there were 2 exceptions), which corresponds to the green zone specified by the HKMA and the international Basel principles.





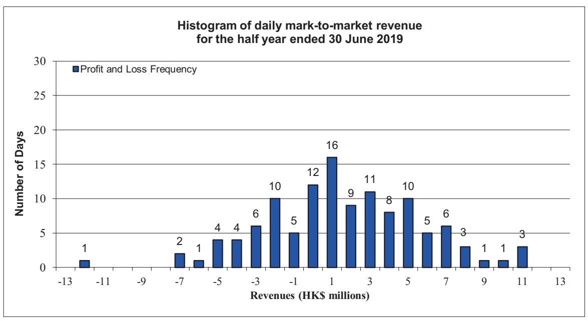
(J) RISK MANAGEMENT (CONTINUED)

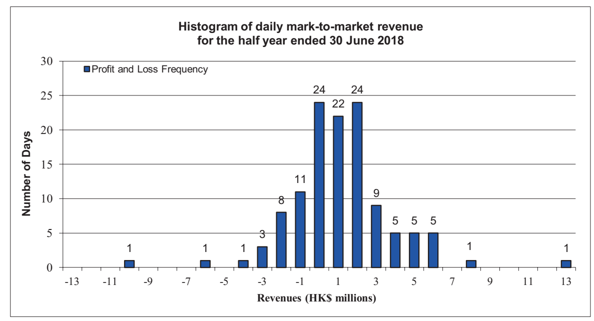
(b) Market risk management (continued)

Methodology and characteristics of market risk model (continued)

Value-at-risk ("VaR") (continued)

For the six months ended 30 June 2019, the average daily mark-to-market revenue from the Group's trading portfolio was a gain of HK$1,426,000 (30 June 2018: gain of HK$611,000). The standard deviation of the daily revenue was HK$4,786,000 (30 June 2018: HK$2,686,000). The graphs below show the histograms of the Group's daily mark-to-market revenue for the period ended 30 June 2019 and 2018, respectively.





The tables below decomposes VaR by risk factors for the trading positions and the FVOCI debt securities-related positions.

1-day VaR for the trading positions

	Six months ended 30 June 2019				Six months ended 30 June 2018			
	Approximate			**At 30 June 2019**	Approximate			At 30 June 2018
	maximum	**minimum**	**mean**		maximum	minimum	mean	
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Foreign exchange risk	**15,432**	**2,494**	**7,389**	**14,128**	21,153	1,949	5,325	3,167
Interest rate risk and credit spread risk	**36,081**	**4,462**	**10,990**	**10,004**	19,368	7,166	10,506	13,548
Total VaR	**36,124**	**6,036**	**13,138**	**17,359**	22,224	6,913	11,831	14,577

250-day VaR for the debt securities measured at FVOCI related positions

	Six months ended 30 June 2019				Six months ended 30 June 2018			
	Approximate			**At 30 June 2019**	Approximate			At 30 June 2018
	maximum	**minimum**	**mean**		maximum	minimum	mean	
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Interest rate risk	**612,771**	**410,965**	**506,768**	**505,459**	760,890	628,118	701,746	634,917
Credit spread risk	**555,271**	**423,341**	**486,397**	**554,866**	703,407	595,238	672,672	604,498
Total 250-day VaR	**405,912**	**340,157**	**378,133**	**400,835**	732,689	567,893	656,106	582,308

Stress testing

Stress testing is implemented as a compliment of the VaR model in order to capture remote, but plausible events. The Group uses both sensitivity-based and historical-based scenarios for market risk stress testing. The results are reported to senior management, MRC and CRMC.

(J) RISK MANAGEMENT (CONTINUED)

(b) Market risk management (continued)

Currency risk

The Group's foreign exchange risk stems from taking foreign exchange positions from commercial dealings, investments in foreign currency securities, and operations of the Group and its overseas branches and subsidiaries. The Group's foreign exchange positions are subject to exposure limits approved by the MRC. Methods adopted to measure foreign currency risk exposure against corresponding limits include individual currency positions, overall foreign exchange positions and sensitivities such as Greeks (for foreign exchange options). For the period ended 30 June 2019, the Group's average daily trading profit and loss from foreign exchange positions was a profit of HK$1,135,000 (six months ended 30 June 2018: a gain of HK$1,246,000) with a standard deviation of HK$5,094,000 (six months ended 30 June 2018: HK$6,843,000).

Significant foreign currency exposures at the end of the reporting period were as follows:

	At 30 June 2019				At 31 December 2018			
Equivalent in HK$'000	**USD**	**RMB**	**Others**	**Total**	USD	RMB	Others	Total
Spot assets	**143,175,296**	**21,702,504**	**25,424,213**	**190,302,013**	163,317,203	18,729,493	24,865,103	206,911,799
Spot liabilities	**(113,850,437)**	**(22,630,399)**	**(15,989,791)**	**(152,470,627)**	(125,601,331)	(23,488,739)	(16,142,278)	(165,232,348)
Forward purchases	**427,595,271**	**162,374,280**	**47,370,629**	**637,340,180**	427,931,000	208,884,284	44,451,537	681,266,821
Forward sales	**(454,812,355)**	**(160,942,051)**	**(56,866,187)**	**(672,620,593)**	(462,883,922)	(203,302,636)	(53,567,017)	(719,753,575)
Net options position	**(1,442,943)**	**1,519,388**	**(68,546)**	**7,899**	(1,177,930)	793,289	382,033	(2,608)
Net long/(short) position	**664,832**	**2,023,722**	**(129,682)**	**2,558,872**	1,585,020	1,615,691	(10,622)	3,190,089
Net structural position	**–**	**681,374**	**48,518**	**729,892**	–	675,965	48,549	724,514

The net option position is calculated using the Model User Approach, which has been approved by the HKMA.

Interest rate risk

The Group's interest rate risk arise from its banking and trading book. For the banking book, ALCO and RMG are responsible in overseeing the interest rate exposure arised from its assets and liabilities management. The function of central treasury units is responsible in managing the interest rate risk using different financial products including interest rate derivatives, under which hedge accounting treatment is adopted. The interest rate risk includes repricing risks, basis risks, yield curve risks and embedded option risks, and are governed by the Interest Rate Risk Management Policy for the Banking Book.

For the trading book, MRC and RMG are responsible in overseeing the interest rate exposure from its trading portfolio. Global Markets is responsible in managing the interest rate risk using different financial products including derivatives, under which mark-to-market treatment is adopted. The interest rate risk includes basis risks, yield curve risks and embedded option risks, and are governed by the Market Risk Policy.

For the six months ended 30 June 2019, the Group's average daily trading profit and loss related to interest rate and fixed income trading strategy was a profit of HK$290,000 (30 June 2018: a loss of HK$635,000), with a standard deviation of HK$4,483,000 (30 June 2018: HK$6,303,000).

(J) RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk management

Liquidity risk is the risk that the Group may not be able to fund an increase in assets or meet obligations as they fall due without incurring unacceptable losses. Such funding liquidity risk arises from the maturity mismatch of the assets and liabilities that the Group manages. Market liquidity risk is a risk that occurs when additional costs are involved in disposing of a position in the market under abnormal or stressed market conditions. Under these conditions, the bid-ask spreads for the position are much wider than usual or there could even be an extreme lack of buyers. As a result, the Bank will incur extra costs to dispose of the position.

The liquidity risk management framework is as follows:

– The management of the Group's liquidity risk is governed by the Liquidity Management Policy, concurred by the Asset and Liability Committee ("ALCO") and the CRMC, and approved by the Board of Directors.

– The CRMC is delegated by the Board of Directors to oversee the Group's liquidity risk management. Its main responsibilities are to review and approve policies, set strategies, and define risk appetite and tolerance limits.

– The ALCO is established by the Chief Executive Officer and ratified by the CRMC as the governing body responsible for formulating and implementing policies, strategies, guidelines and limit structures. It also identifies, measures and monitors the Group's liquidity risk profile to ensure current and future funding requirements are met. In addition, the ALCO monitors a set of risk indicators for liquidity risk. Daily liquidity stress testing, which includes market general, bank-specific and combined (market general and bank-specific) stress scenarios, is conducted by the Risk Management Group, and the stress results are regularly reviewed by the ALCO to assess the current risk tolerance level and the level of the liquidity cushion. A Contingency Funding Plan is established which sets out the strategies for addressing liquidity stress situations. The plan contains a set of policies, procedures and action plans, with clearly established lines of responsibility, as well as invocation and escalation procedures. This plan is reviewed and approved by the ALCO on a regular basis.

– Daily liquidity management is managed by the Central Treasury Unit to monitor funding requirements. This unit is supported by other functional departments including the Financial Management Group and Risk Management Group, which monitor the liquidity risk and provide regular reports to the management, committees and local regulatory bodies. Limits for net cash flow per different time bucket under stress scenarios have been set to ensure that adequate funding and liquid assets are available to meet liquidity needs. Moreover, limits, triggers or alerts are set for other liquidity risk indicators such as the statutory liquidity ratios, the loan-to-deposit ratio, the currency mismatch ratio and the maturity mismatch ratio. Both quantitative and qualitative measures are employed to identify and measure market liquidity risk. Limits and alert levels related to market and funding liquidity risk are monitored and reported by the Financial Management Group or Risk Management Group to the ALCO to review and approve on a regular basis. The Audit Department performs periodic reviews to ensure liquidity risk management functions are carried out effectively.

Liquidity management is conducted at the Group and the Bank levels, and at individual overseas branches and subsidiaries. Financial subsidiaries and overseas branches are responsible for implementing their own liquidity management policies under the framework established by the ALCO and local regulatory requirements, taking into account their different liquidity risk characteristics. The liquidity situation of overseas branches and subsidiaries falls under the overall supervision of the ALCO. Policy and respective counterparty limits are set for overseas branches and subsidiaries in respect of the funding support extended from the head office. The Group expects all business units to contribute to the success of managing liquidity under normal and contingency situations by maintaining a rapport with depositors, customers, interbank counterparties, related companies and the HKMA.

(J) RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk management (continued)

The objective of liquidity management is to meet obligations payable under normal and emergency circumstances, to fund asset growth and to comply with the statutory liquidity requirements. To achieve this, the following liquidity management processes are in place:

– Projecting cash flows in normal and various stress scenarios, using the net mismatch gap between assets and liabilities to estimate the prospective net funding requirement;

– Factoring potential drawdown on irrevocable committed facilities into our normal and stress scenarios to cater for contingent liquidity risk;

– Monitoring the statutory liquidity ratios, the loan-to-deposit ratio, the currency mismatch ratio and the maturity mismatch ratio against internal and/or regulatory requirements;

– Ensuring a sound and diversified range of funding sources, through monitoring the structure and the stability of the deposit portfolio;

– Projecting the statutory liquidity ratios regularly for the short to medium term to permit early detection of liquidity issues and to ensure the ratios are within statutory requirements and internal triggers;

– Projecting a high-level funding requirement and funding structure during the annual budget process to ensure sufficient funding and an appropriate funding mix;

– Conducting liquidity risk assessment before launching a new product;

– Maintaining High Quality Liquid Assets ("HQLA") comprising cash and investment grade securities as a cushion against unexpected funding needs. The amount of HQLA that the Group maintains is determined with reference to the statutory requirement and the results of the liquidity stress tests;

– Maintaining access to the interbank money market;

– Maintaining a funding programme to tap debt funding on a regular basis;

– Monitoring the Group's collateral requirement. Periodically assess and review the additional collateral required under derivative contracts and credit downgrade events. Based on the positions at 30 June 2019, in the event of a 2-notch downgrade, the impact on the Group's additional collateral requirement is minimal; and

– Maintaining a Contingency Funding Plan, which integrates with the results of the scenarios and assumptions used in the stress test, including setting early warning indicators (including internal and market indicators), and describing actions to be taken in the event of a stress crisis, so as to minimise adverse long-term implications for business.

The Group funds its operations through a diversified funding source, primarily from the retail and corporate customer deposits. At the same time, it also participates in the wholesale funding market through the issuance of certificates of deposit ("CDs") to secure another source of term funding and to enable diversification of funding sources. Deposit tenor mix and debt maturities are regularly monitored to ensure there is an appropriate funding maturity mix.

The Group was designated by the HKMA as Category 1 institution with effect from 1 October 2017. Under the Banking (Liquidity) Rules, the Group being a Category 1 institution is required to maintain a Liquidity Coverage Ratio ("LCR") and Net Stable Funding Ratio ("NSFR") above the statutory minimum requirements.

An appropriate level and currency mix of HQLA has been maintained to ensure that the Group could handle sudden drains in market liquidity due to adverse or unexpected economic events under the HKMA's regulatory framework. Besides, the Group also monitors and reports the LCR for each individual significant currency to ALCO regularly to control the currency mismatch in the LCR. The decrease in average LCR in first half of 2019 was mainly driven by the decrease in Level 1 HQLA, partly offset by the reduced cash outflow pressure.

(J) RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk management (continued)

	Weighted amount (average value)				
	For quarter ended 30 June 2019	**For quarter ended 31 March 2019**	For quarter ended 31 December 2018	For quarter ended 30 September 2018	For quarter ended 30 June 2018
Average LCR	**224.0%**	**249.4%**	258.5%	213.5%	213.1%

The Group always maintains sufficient cash and liquid positions as well as a pool of HQLA as a liquidity cushion that can be liquidated in stress scenarios. The majority of HQLA included in the LCR is Level 1 assets as defined in Banking (Liquidity) Rules. The below table shows the composition of the Group's HQLA in the LCR framework:

	Weighted amount (average value)				
	For quarter ended 30 June 2019	**For quarter ended 31 March 2019**	For quarter ended 31 December 2018	For quarter ended 30 September 2018	For quarter ended 30 June 2018
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Level 1 assets	**27,902,986**	**30,060,128**	37,966,142	29,850,675	32,666,235
Level 2 assets	**6,648,674**	**7,694,360**	7,504,428	7,870,732	7,489,966
Total	**34,551,660**	**37,754,488**	45,470,570	37,721,407	40,156,201

The Group also maintains sufficient available stable funding in support of its longer-term assets to meet the statutory NSFR requirements. The increase in the NSFR in the first half of 2019 was mainly driven by the decrease in the weighted amount of the loans and funds provided to customers. There is no interdependent asset and liability as defined in the Banking (Liquidity) Rules in the Group.

	Quarter ended 30 June 2019	**Quarter ended 31 March 2019**	Quarter ended 31 December 2018	Quarter ended 30 September 2018	Quarter ended 30 June 2018
NSFR	**143.1%**	**141.1%**	141.5%	136.7%	132.5%

For the purposes of compliance with Banking (Disclosure) Rules, information relating to the Group's liquidity are published by using standard disclosure templates as specified by the HKMA and they can be viewed in the Regulatory Disclosures section of our Bank's corporate website at www.cncbinternational.com.

(J) RISK MANAGEMENT (CONTINUED)

(d) Capital management

The Group's primary objectives when managing capital are:

– to comply with the capital requirements set by the banking regulators in the markets where the entities within the Group operate;

– to maintain a strong capital base to support the development of its business; and

– to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The HKMA sets and monitors capital requirements for the Group as a whole. An individual banking subsidiary is directly regulated by its local banking supervisor. The HKMA requires that the Group maintain three prescribed minimum risk-weighted capital ratios: Common Equity Tier 1 ("CET1") capital ratio, Tier 1 capital ratio and total capital ratio. In accordance with the Banking (Capital) (Amendment) Rules 2014 which came into effect on 1 January 2015, the Basel III capital buffers, namely capital conservation buffer ("CCB") which is designed to ensure that banks build up capital outside periods of stress of 2.5% of risk-weighted amounts and countercyclical capital buffer ("CCyB") which is set on an individual country basis and is built up during periods of excessive credit growth, came into operation. Both have been fully implemented on 1 January 2019. The HKMA announced a CCyB ratio for Hong Kong of 2.5% of risk-weighted amounts from 1 January 2019. Basel III framework also introduced a leverage ratio as a non-risk-based backstop limit, to supplement risk-based capital requirements. On 1 January 2018, the Banking (Capital) (Amendment) Rules 2017 came into operation and prescribed the statutory minimum leverage ratio of 3%.

The Group adopts the standardised approach of calculating market risk in its trading portfolios and risk weightings for credit risk, and the basic indicator approach for operational risk. Banking operations are categorised as either trading or banking book, and risk-weighted amounts are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might otherwise be possible with greater gearing, and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions. In order to comply with the risk-based supervisory framework of capital adequacy stipulated by the HKMA, the Group conducts the Internal Capital Adequacy Assessment Process, which assesses the capital requirement for Pillar 2 risks and hence the capital requirement for Pillar 1 and 2 is derived. Moreover, as part of the capital management policy and to ensure capital adequacy, the Group conducts capital planning annually, which takes into account the strategic focus, future business growth, risk appetite and regulatory requirement. The plan covers the issuance of capital instruments, if required, to ensure the Group's capital ratios are well above their respective internal monitoring levels and regulatory requirement. Regular stress testing is performed to ensure that the impact of extreme but plausible scenarios on the risk profile and capital position is considered. Stress testing also gives an insight into the potential impact of significant adverse events and how these could be mitigated.

Consistent with industry practice, the Group monitors its capital structure on the basis of the capital adequacy ratio. There have been no material changes in the Group's policy on the management of capital during the year.

The capital adequacy ratios at 30 June 2019 were computed on the consolidated basis of the Group and some subsidiaries as specified by the HKMA for its regulatory purposes, and are in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the period ended 30 June 2019 and year ended 31 December 2018, and the Group's capital ratios are well above the minimum required ratios set by the HKMA.

(J) RISK MANAGEMENT (CONTINUED)

(e) Operational risk management

Definition of operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Governance framework

The Group has established an Operational Risk Governance Framework ("ORGF") to identify, assess, mitigate, control, monitor and report operational risk. The ORGF encompasses every member within the Group and is governed by policies and guidelines which define the minimum requirements to ensure a consistent approach to manage operational risks. The Operational Risk Management Committee ("ORMC") and the Fraud Risk Management Committee ("FRMC") are established by the Chief Executive Officer ("CEO") and ratified by the Credit & Risk Management Committee ("CRMC"), which is a Board delegated Committee to oversight Operational Risk Management ("ORM") and Fraud Risk Management ("FRM") relevant matters. Implementation of ORM plans and tools is driven by a Group-level ORM team with the support from other key participants in ORM including subject matter experts on specific operational risk areas including Controls and Compliance Group, Financial Management Group, Information Technology Department, Human Resources Department, Fraud Risk Management Team and Technology Risk Management Team.

Management of operational risk

Day-to-day operational risk management lies with our business units, support units and the Operational Risk and Control Head ("ORCH") of each unit assists the respective unit heads in this regard.

ORM team assists management in meeting their responsibility of understanding and managing operational risk and ensures the development and consistent application of operational risk policies, processes and procedures throughout the Group. Business and support units are responsible for identifying, assessing, managing and monitoring operational risks and tracking Key Risk Indicators in their areas. The ORM team monitors the Group's overall operational risk exposures and ensures that all material risks are promptly and appropriately escalated to the ORMC, CRMC and senior management of the Group for their attention.

The Internal Audit Group examines and evaluates the adequacy and control effectiveness of the ORGF on an ongoing basis.

A web-based learning programme on operational risks is required for all new joiners and an annual refresher training on ORGF is compulsory for all staff. Training workshops led by the ORM team are offered to business and support units with the objectives to raise operational risk awareness among staff, familiarize them with the ORM tools and enhance understanding of the ORGF along with their roles, responsibilities and accountabilities. This is further reinforced by strong management support which encourages staff to embrace and pursue operational excellence.

Risk assessments are conducted on all outsourced activities, new products and large projects.

(J) RISK MANAGEMENT (CONTINUED)

(e) Operational risk management (continued)

Tools and methodologies

The Group identifies, assesses, monitors and reports on operational risk through the ORM tools and systems as set out below:

– Operational Risk & Control Self-Assessment ("RCSA") is a tool to identify and assess the level of operational risk and effectiveness of control. RCSA has been rolled out across the business and support units under the guidance of the ORM team. RCSA leaders are nominated by the management of each business and support unit to conduct self-assessments and identify key risk factors in their daily business and support functions. Each key risk factor is assessed and quantified for financial impact, in terms of the estimated loss impact of each occurrence and estimated number of occurrences. In addition to the financial impact assessment, non-financial impacts including customer, regulatory and reputation impacts are also assessed taking into considerations of both likelihood of risk materializing and severity of impact.

– Key Risk Indicators ("KRIs") are statistical metrics that take various risk factors into consideration and serve to provide early warning signals for management's monitoring and action. Through regular monitoring of these KRIs, areas of potential operational control weaknesses can be identified at an early stage and addressed promptly. KRIs are developed at two levels, namely the group and the unit level. Unit level KRIs are developed by the respective units, and are monitored and tracked for progress towards completion of applicable mitigation plans. Thresholds are established for each business unit and support unit with reference to the risk appetite of the Group or the acceptable risk level for the unit under each risk factor.

– Operational risk incidents are reported into a centralized operational loss database. The ORM team ensures all material operational risk incidents are registered in the database, and are properly investigated, with corrective and preventive actions promptly executed according to agreed timelines. The loss data serves as a centralized database to produce regular reports for senior management, ORMC and CRMC review on the impact of significant incidents and monitoring of the operational risk loss trends. An escalation protocol is in place to ensure that operational risk incidents with significant impact are reported to the regulatory authorities, if deemed necessary. Lower impact operational risk events are also collected to assist trend analysis and provide a more forward looking perspective of potential risk issues that warrant for closer attention.

– Operational Risk Dashboard ("ORD") provides management with an overview of the key operational risk issues including but not limited to the progress of the RCSA reviews and KRI evaluation results. This information is submitted to the ORMC monthly and relevant summarized information is submitted to the CRMC quarterly as part of the Group-wide Risk Status Update Report. The Group-wide Risk Status Update Report captures the implementation status of ORM initiatives, contains analyses on the trend of operational losses, highlights operational risk incidents that have a material impact on the Group.

The Group will continuously fine-tune and enhance its operational risk management framework to progress with industrial developments.

The Group's long-term goal is to cultivate a proactive, responsible and accountable culture on ORM, and achieve operational excellence through robust and continuous operational risk management.

(J) RISK MANAGEMENT (CONTINUED)

(f) Legal risk management

The Group remains abreast of all legal and regulatory requirements applicable to its governance and operations, and continuously seeks to develop its people, enhance its systems and processes, and implement changes as necessary to meet the demands and create awareness of such requirements. Regular reviews are conducted with respect to the Group's policies and procedures to ensure the same reflect the latest legal and regulatory requirements. Issuance of new or substantially revised policies and procedures are often accompanied by relevant training. There is a strong process in place to ensure legal and regulatory risks are identified, monitored and mitigated. Any significant matters that arise relating to such risks are reported as appropriate by the Legal and Compliance function to the Group's CRMC or senior management.

The Legal and Compliance Department has been one of the key partners in the business, providing legal and compliance advice and support to all parts of the Group and working with business and support units to ensure relevant controls are in place. In the first half of 2019, the Legal and Compliance Department had actively involved in new product launches and new business initiatives, strategically important transactions and commercial agreements, outsourcing arrangements as well as day-to-day matters arising from the Group's business. The Legal and Compliance Department will remain heavily involved in monitoring and ensuring compliance with changing regulatory requirements in various areas impacting the Group, and will continue to advise and support the Group in meeting the legal and regulatory challenges that lay ahead.

(g) Strategic and reputation risk management

Strategic risk management refers to the Group's efforts to develop, uphold and implement strategic decisions related to its long-term growth and development. Reputation risk management refers to the Group's efforts to protect its brand name and business franchise from any potential damages arising from negative publicity and information about its business practices, conduct or financial condition.

The CRMC of the Group meets regularly to monitor and oversee the Group's strategic and reputation risks. Senior management places high priority on ensuring that the Group's business and operational strategies are appropriately defined and are executed professionally and promptly. Such strategies are reviewed regularly to enable the Group to respond efficiently to changes in its operating and regulatory environment. Business priorities, set on a bank-wide basis, as well as for individual business and functional units, are aligned to support the Group's strategies, and measurable targets are assigned to ensure execution excellence. Great care is also taken to protect the Group's reputation and to maximise its brand equity. This includes ongoing efforts to monitor and ensure high standards of customer satisfaction, operational efficiency, legal and regulatory compliance, public communication and issues management.

(h) New Product Risk Governance

Definition of New Product Risk

– New Product Risk comprise the risks associated with launch of new products and services (including changes to existing products and services), encompassing credit, market, interest rate, liquidity, operational, reputation, strategic, legal and compliance risks.

Governance Framework

– The Group has established an enhanced product governance framework to instill more stringent and comprehensive assessment and approval processes prior to launch. The framework is governed by the New Product Approval Policy, which is approved by the Board and under the oversight of the New Product Committee ("NPC") and the CRMC. The effective implementation of the controls and monitoring measures is driven by the dedicated New Product Governance team under the Risk Management Group, with the support from other risk management functions and subject matter experts on specific risk areas, including the Controls & Compliance Group, Financial Management Group, Operations & Technology Group and CEO Office.

REPORT OF THE CHIEF EXECUTIVE OFFICER

Macroeconomic conditions in the first six months of 2019 remained volatile, especially because escalating Sino-US trade conflicts gave rise to more uncertainties. In the face of a challenging operating environment and intense market competition, China CITIC Bank International Limited ("CNCBI") and its subsidiaries (together "the Group") fine-tuned its business development strategy in a timely manner, steadfastly stepping up the collaboration with the CITIC Group and parent bank China CITIC Bank Corporation Limited ("CNCB"), and capitalizing on the geographical advantage afforded by China's Greater Bay Area development strategy to capture cross-border business opportunities. At the same time, the Group pressed ahead with fintech transformation and continued to enhance risk management, laying a firm foundation for future sustainable development.

OPERATING ENVIRONMENT

During the period under review, global economies slowed down in tandem, with major central banks shifting towards a more accommodating stance on monetary policies. As the benefits of tax cuts had tapered off, the US economy expanded more slowly in the second quarter, with the Federal Reserve Board starting to reduce interest rates immediately after ending the tightening cycle. Persistent weakness of the Eurozone's economies and still beleaguered economic conditions in Japan despite pockets of improvement have prompted both the European and Japanese central banks to signal the possibility of lower interest rates ahead. For China, notwithstanding a positive growth trend in the first quarter, downward pressure on the economy emerged in the second quarter owing to the headwind of a sudden escalation of the Sino-US trade war, impelling the People's Bank of China to resume monetary easing. Emerging economies came under pressure because of deceleration in the expansion of developed economies and the Chinese economy, although market expectations of lower US interest rates allayed the threat of capital outflows to a certain extent.

The Sino-US trade war is currently the principal risk to the global economy and financial markets. The capricious stance of the US towards the trade war and its confrontation with other trading partners have directly undermined the global outlook, especially the trade flows between China and the US and their respective economic growth, resulting in further fluctuations in the two countries' and global financial markets. Although the shift of major central banks towards easier monetary policies can help bring some stability, it may precipitate volatilities in FX and money markets, becoming potential pitfalls for economic development in the longer term.

As a highly open service-oriented economy, Hong Kong was buffeted by the Sino-US trade war and slowdown of the two economies to see decelerated growth momentum, with first-half 2019 GDP increasing merely 0.5% year on year. While this was in part attributed to high base effect, it also reflected the severe consequences of a worsening external environment. The aggregate pre-tax operating profit of retail banks decreased by 5.2% year on year in the first quarter of 2019, while this indicator was an increase of 32.9% last year, illustrating the deterioration of the operating conditions of the banking industry in Hong Kong.

FINANCIAL REVIEW

The Group posted operating income of HK$4.25 billion for the first half of the year, down 2.6% from the same period last year. Profit attributable to shareholders decreased by 7.7% year on year to HK$1.50 billion. Return on average assets was 0.87%, 3 basis points higher than the 0.84% reported for the full year of 2018. Return on average shareholders' equity was down 9 basis points from last year's level to 8.28%.

During the period under review, net interest margin widened by 4 basis points versus FY2018 level to 1.86%, courtesy of an increase in asset yields that exceeded the rise in funding costs. However, as a result of lower outstanding loans, net interest income fell by 3.5% year on year to HK$3.19 billion. Non-interest income saw a slight year-on-year increase to HK$1.06 billion, with a noticeable surge of 73.4% in insurance fee income as the key driving force.

Operating expenses increased by 11.3% year on year to HK$1.80 billion, and cost-to-income ratio was 42.4%. In view of increasingly fierce competition, the Group continued to invest in fintech transformation and human resources, providing a solid foundation for future growth in revenue.

Impairment for the first half of the year at HK$621 million was down 19.7% from the HK$773 million recorded for the corresponding period last year. Due to the downgrade of a loan asset, impaired loan balance as at 30 June 2019 increased, resulting in a rise in impaired loan ratio to 1.38%, while non-performing loan coverage ratio dropped to 107.7%. For the remainder of the year, the Group will step up collection efforts to maintain impaired loan balance at a manageable level.

Given the vagaries of market conditions and increasing corporate credit risk, the Group was prudent in granting credit facilities and proactively adjusted the mix of assets to enhance capital efficiency. As at 30 June 2019, total assets at HK$350.62 billion was 3.4% below the end-2018 level. Owing to lower corporate loan balance, customer loans (including trade bills) dropped by 2.1% from the end of 2018 to HK$197.53 billion. Meanwhile, customer deposits (including certificates of deposit issued) amounted to HK$276.71 billion, down 4.1% from six months ago. Since the end of 2014, local retail deposits have grown steadily at a compound annual rate of 14.2%, reaching a record high of 159.99 billion as at the end of the period under review, with its share of CNCBI's total deposits continuing to increase to 57.8%, contributing to a more stable deposit base and further improvement in the deposit structure.

In February 2019, CNCBI successfully issued US$500 million Tier 2 Subordinated Notes for capital replenishment to support business growth. As at 30 June 2019, the Group's total capital adequacy ratio stood at 19.0%, while tier 1 capital ratio and common equity tier 1 capital ratio were 16.2% and 13.3% respectively, meeting regulatory requirements. Moreover, CNCBI maintained ample liquidity to cope with increasingly frequent market fluctuations, with the average liquidity coverage ratio for the first six months of 2019 amounting to 236.9%.

BUSINESS REVIEW

Wholesale Banking Group ("WBG")

In the first half of 2019, WBG showed perseverance in the face of an adverse operating environment, striving to sustain its market position and customers' confidence. The key strategies are mainly manifested in the following three areas:

First, a greater emphasis was laid on the collaboration with the CITIC Group and various branches of CNCB. During the period under review, the number of corporate clients referred to WBG by the CITIC Group and CNCB reached 1,189, up 1.5% year on year, underpinning a continued expansion of the customer base. In the meantime, the Group Co-operation Office has been established to serve the subsidiaries of the CITIC Group as well as their upstream and downstream business partners, endeavouring to capture the customers and business opportunities within the group.

Second, the organization structure is enhanced to help acquire new customers via joint marketing and cross-selling. In the first six months of 2019, WBG completed a series of structural adjustments to adopt a flatter management model and make full use of available resources to expand its market. On top of this, geographical and business segmentation was fine-tuned. Moreover, a joint marketing mechanism has been established with CNCB's branches and CITIC Bank International (China) Limited ("CBI (China)") to keep deepening existing customer relationships and adding new customers, as well as creating more cross-selling opportunities.

Finally, trade finance business has been actively developed. Initial efforts began to bear fruit, with total bills turnover amounting to HK$13.60 billion in the first half this year, of which HK$7.82 billion was recorded in the second quarter, a sharp increase of 35.2% from the previous quarter, illustrating strong growth momentum.

In the second half of 2019, uncertainties and fierce competition are expected to persist. WBG will stay the course to implement its core strategies. While continuing to strengthen the collaboration with the CITIC Group and CNCB, it will put in place a management model that is driven by various teams of relationship managers, enlarging the customer base through joint marketing schemes and products cross-selling. Meanwhile, WBG is committed to growing M&A finance, real estate finance and trade finance businesses, etc., which can ensure long-term stable development while fostering stronger relationships with customers.

Personal and Business Banking Group ("PBG")

PBG posted a 12.6% year-on-year growth in total operating income to HK$1.43 billion for the first half of 2019, attaining a new half-year record. As at the end of June, customer deposits reached HK$159.99 billion, representing a 4.6% increase over end-2018. Meanwhile, propelled by strong loan growth of business banking, total retail lending balance also increased to a record high of HK$56.80 billion, up 10.2% compared with end-2018. During the period under review, all three major business lines, namely retail banking, business banking and private banking were firing on all cylinders and contributed to a strong 31.9% year-on-year growth in non-interest income.

As a result of continued investments in fintech, marketing and human resources, total operating expenses increased by 8.9% year on year to HK$717 million. Asset quality remained healthy, with credit cost of HK$14 million for the first half of 2019. Profit before taxation rose 18.0% from the same period last year to HK$694 million.

On the back of an increasingly diversified product portfolio and continuous strengthening of sales and service channels, PBG has deepened existing customer relationships while actively acquiring new customers. As at 30 June 2019, the total number of high net worth customers including CITIC*first* and private banking customers grew by 3.2% from end-2018 to around 40,000. Total customer assets under management increased to around HK$159.52 billion, up 4.1% from end-2018. Moreover, the collaboration with CNCB continued to be enhanced, with the number of cross-border referral customers and related assets under management increasing by 11.3% and 23.7% respectively from end-2018.

After formally launching the flagship mobile banking platform "inMotion" in March 2018 as a pioneering innovation in Hong Kong, in February this year PBG introduced the first truly virtual credit card in Hong Kong, i.e. "Motion Virtual Credit Card", and full-function securities trading service "inVest" via the platform. PBG customers can also purchase life insurance policies through it, making "inMotion" a genuinely comprehensive virtual banking platform that enables customers to manage account opening, spending, investing and purchasing of insurance anytime and anywhere.

As a result of PBG's good performance in private banking business and application of fintech, it was awarded several accolades, including Hong Kong Leaders' Choice Award 2019 – "Excellent Brand of Private Banking Service" and "Excellent Brand of Mobile Banking" offered by Metro Finance, Quamnet Outstanding Enterprise Awards 2018 – "Outstanding Private Banking Services" and "Outstanding E Business Service" offered by Quamnet, The 19th Capital Outstanding Enterprises Awards – "Outstanding Deposit Service", "Outstanding Private Banking Service" and "Outstanding New Generation Banking Service" offered by Capital Weekly, and etnet Fintech Awards 2018 – "Outstanding Innovative Mobile Banking Service" offered by etnet.

Looking ahead, PBG will strive to become a customer-centric digital savvy bank in Hong Kong and of the Greater Bay Area and, by means of continued investments in fintech, further improve customer experience and enhance efficiency.

Treasury and Markets Group ("TMG")

In the first six months of 2019, various teams in TMG collaborated actively in light of a highly competitive market environment and managed to achieve steady growth in both scale and efficiency. Total operating income for the period amounted to HK$631 million, representing a 7.8% increase year on year. Global Markets posted a 15.8% increase in total operating income to HK$430 million.

The trading team focused on building out market-making business on RMB and HKD products, and managed to maintain a relatively stable competitive position in the market. For the period under review, according to Thomson Reuters, CNCBI was ranked top two among all Chinese banks for HKD FX spot trading volume in Asia and top three among banks in Asia for RMB FX spot trading volume. The overall trading volume doubled from the same period last year, with trading revenue totaling HK$140.4 million, an increase of 112.7% year on year.

With the objective of mitigating trade settlement risk and liquidity risk as well as reducing the consumption of the Bank's risk capital, TMG has been actively participating in the central clearing system of the Stock Exchange of Hong Kong ("HKEx"). In March, the trading team completed the first HKEx centrally cleared CNH FX swap transaction in Hong Kong. In recognition of its contribution to the development of the offshore RMB market, HKEx presented CNCBI with the "Key Business Partner in FIC Market" award. In addition, CNCBI has successfully joined the Continuous Linked Settlement ("CLS") system to achieve multi-currency, multilateral and real-time global FX trade settlement capabilities.

For client business, the newly formed institutional marketing team has been focusing on establishing a customer base on multiple directions and at multiple levels, while the products available range from FX, interest rate derivatives to structured products, contributing to a diversification of revenue sources. Meanwhile, the PBG Business Banking marketing team's FX and fixed income business related revenues increased by 67.4% year on year.

Moreover, total income from fixed income products at HK$230 million represented a year-on-year growth of 57.6%. The Debt Capital Markets ("DCM") team completed 75 deals with an aggregate issuance size of US$33.05 billion, of which CNCBI acted as global coordinator for 44 transactions. The volume of secondary market trading volume also multiplied over the last six months, bringing in considerable revenues.

The Central Treasury Unit ("CTU") carefully managed the mismatch in the Group's liquidity gapping positions, FX funding swaps and debt securities portfolio, delivering satisfactory financial performance. Starting from October this year, CNCBI will become a CNH HIBOR contributing bank as appointed by the Treasury Markets Association, which is an acknowledgement of CNCBI's increasing presence in the CNH market.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Group has always emphasized risk culture, infrastructure implementation and internal controls, while stressing the importance of the three lines of defence. Throughout the first half of 2019, the Group further enhanced its risk management framework and raised the level of internal controls by focusing on a sense of ownership in the first line of defence, promoting a robust governance culture and implementing effective measures at various business levels. Moreover, anti-money laundering controls continued to be strictly enforced to ensure that all of the Group's domestic and overseas businesses could satisfy the regulatory requirements in Hong Kong and other relevant jurisdictions.

Meanwhile, substantial resources have been deployed to increase the risk management capabilities of the Group to ensure that it will keep abreast of new regulatory requirements and best practices, including various risk management enhancement projects and initiatives to adapt to an evolving regulatory landscape and increasingly stringent regulatory requirements. On the credit risk front, the Group is committed to adopting strict credit policies, conducting intensive in-depth credit assessments and strengthening post-lending monitoring, as well as proactively performing portfolio reviews and stress testing.

OUTLOOK

The global economy is expected to remain largely stable in the second half of 2019, as major central banks' initiation of an easing cycle will boost market liquidity and sustain the trend of economic growth. Nevertheless, the swings in Sino-US trade negotiations should not be underestimated, while the default risk of mainland private enterprises and banks also warrants closer attention.

In the face of many uncertainties both internally and externally, the Group will always stay vigilant, continuing to strengthen core management capabilities and enhance risk management, internal controls and compliance. The focus of future development will be on promoting a corporate culture that stresses accountability and integrity, firmly adhering to our core value of customer-centricity with deepening customer relationships, strengthening internal and external collaboration with promotion of cross-selling, and implementing fintech transformation to boost core competitiveness.

On business strategy, the emphasis will be on capital efficiency, with a view to achieving balanced development between quality and scale. WBG is committed to adjusting its focus of business development and restoring stable growth momentum, while PBG will continue to leverage the "inMotion" mobile banking platform to enlarge its customer base and provide more innovative and quality products and services to create a new growth engine. TMG will extend the favourable development of DCM and trading businesses, as well as carefully building up the asset management and custodian businesses to diversify sources of income.

Despite multiple challenges and mounting stress, the staff of CNCBI will maintain strategic focus and, under the leadership of the management team, steadily press ahead with business transformation and keep riding on the first-mover advantage in fintech development among local banks, in order to achieve long-term sustainable development.

Bi Mingqiang
President & Chief Executive Officer

Hong Kong, 26 August 2019