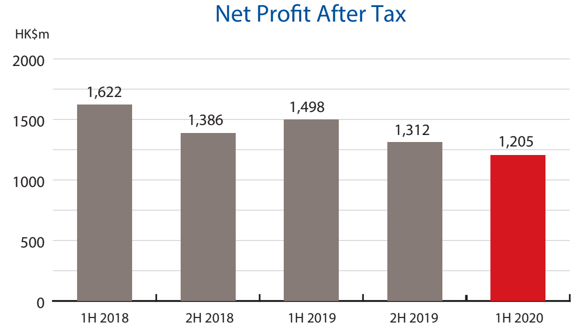
中信银行(国际)
CHINA CITIC BANK INTERNATIONAL

2020 Interim Results Highlights

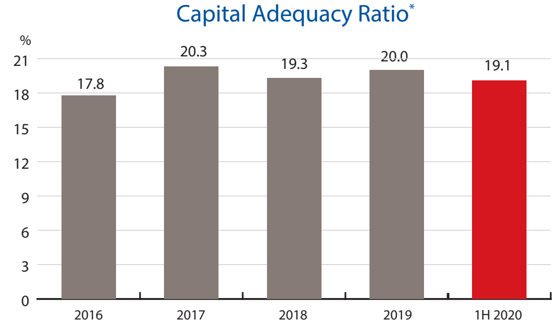
Financial Performance

- Operating environment during 1H2020 was extremely challenging largely due to the widespread outbreak of COVID-19, intensifying Sino-US conflicts and increasingly fierce market competition.
- **Net profit after tax** was HK$1.21 billion, down 19.5% year on year.
- **Operating profit after impairment** decreased by 19.6% to HK$1.47 billion, with HK$499.01 million of impairment loss recorded.
- **Operating income** dropped by 10.2% to HK$3.82 billion. **Net interest income** decreased by 21.2% to HK$2.51 billion on the back of a 37 basis points decrease in **net interest margin** to 1.48% versus FY2019 level as the decrease in asset yields exceeded the drop in funding costs. **Non-interest income** was up significantly by 22.9% to reach HK$1.30 billion partly driven by a notable increase in treasury-related income.
- **Total assets** increased by 1.3% versus end-2019 to HK$365.85 billion. **Customer deposits (including certificates of deposits issued)** dropped by 1.6% to HK$275.50 billion while **customer loans (including trade bills)** were up 1.7% to HK$192.68 billion.
- **Impaired loan ratio** as at end-June 2020 was 2.61%, representing a 1.41 percentage points increase versus that of end-2019, largely due to the downgrading of isolated large-size loan exposures.
- **Capital adequacy ratio** and **CET1 ratio** met regulatory requirements at 19.1% and 13.8% respectively.

Net Profit After Tax



Capital Adequacy Ratio*



* End-of-period figures

Core Businesses

Wholesale Banking business continued to spearhead business transformation, proactively expanded its customer base and enhanced product and service offerings in the face of an adverse operating environment. Collaboration with Treasury and Markets business was strengthened so that business referrals and customer penetration rates increased while non-interest income rose by 15.7% year on year. The ratio of non-interest income to total income reached 27.9%, representing an increase of 6.7 percentage points versus the same period last year. Syndication business was a major focus and CNCBI's ranking in syndicated loans jumped from 41st at the end of 2019 to 22nd at the end of the first quarter of 2020 and further to 8th at the end of the first half of 2020. Meanwhile, collaboration with the CITIC Group and parent bank China CITIC Bank Corporation Limited ("CNCB") remained a key priority. In order to provide customers with global services and enhanced customer experience, the collaboration model between the Hong Kong headquarters and overseas branches was fine-tuned so that internal collaboration can be strengthened.

Treasury and Markets business achieved steady growth in scale and efficiency with total operating income up 17.3% year on year. Active participation of the trading team resulted in awards from the Bond Connect company as "Outstanding commercial bank" for 2019-2020, as well as from China Foreign Exchange Trade System as the "Best Overseas Participant member". The Debt Capital Markets team completed 60 deals for Chinese issuers with an aggregate issuance size of US$24.85 billion. According to Bloomberg, CNCBI ranked third among all Chinese financial institutions in Offshore China USD Bonds issuance volume. The new custodian business was launched in March with 9 financial institutions and corporate clients onboarded, accumulating close to US$500 million of assets under custody. Meanwhile, the Central Treasury Unit enjoyed satisfactory gains in the bond investment portfolio and recorded a 54.6% increase in total operating income.

Personal and Business Banking business proactively enhanced its digital capabilities amidst challenges that arose from the COVID-19 outbreak and recorded a 11% increase in the number of customers registered via digital channels. Deposits at HK$155.26 billion was marginally lower than that as of end-2019. Loan balance was up 9.3% to HK$66.81 billion which was mainly driven by the increase in Business Banking and secured retail loans. Investment income increased significantly by 32.8% year on year, driven by CNCBI's digital strategy and the ability to timely capture market opportunities for high-net-worth customers. CNCBI proactively supported various debt relief measures rolled out by the Hong Kong Government including business banking loans, mortgages, credit cards and personal loans. Fintech transformation remained a top priority and CNCBI launched money market fund via inMotion which required a very low minimum entry amount, giving customers access to flexible and convenient investment experiences. In March, CNCBI also announced the launch of iChatBot and became the first bank in Hong Kong to provide 24-hour artificial intelligence voicebot phone enquiry services.

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 2020 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 2020. 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 2020 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2020 HK$'000	2019 HK$'000
Interest income	4(a)	**4,980,331**	6,121,530
Interest expense	4(b)	**(2,467,475)**	(2,933,016)
Net interest income		**2,512,856**	3,188,514
Fee and commission income		**788,451**	841,329
Fee and commission expense		**(60,198)**	(57,317)
Net fee and commission income	5	**728,253**	784,012
Net trading income	6	**542,819**	227,053
Net hedging loss	7	**(1,486)**	(3,007)
Net gain on disposal of financial assets at fair value through other comprehensive income	8	**16,734**	35,866
Other operating income	9	**17,212**	16,969
Operating income		**3,816,388**	4,249,407
Operating expenses	10	**(1,847,691)**	(1,800,781)
Operating profit before impairment		**1,968,697**	2,448,626
Expected credit losses on financial assets	11	**(503,191)**	(546,533)
Impairment losses reversed/(charged) on other assets		**4,176**	(74,029)
Impairment losses		**(499,015)**	(620,562)
Operating profit		**1,469,682**	1,828,064
Net loss on disposal of property and equipment		**(343)**	(2,630)
Revaluation (loss)/gain on investment properties	20	**(22,744)**	7,073
Share of profit of associates		**–**	841
Gain on disposal of interest in associates		**–**	9,226
Loss on partial redemption of loan capital		**–**	(58,995)
Profit before taxation		**1,446,595**	1,783,579
Income tax	12	**(241,386)**	(285,713)
Profit for the period		**1,205,209**	1,497,866
Profit attributable to shareholders		**1,205,209**	1,497,866

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2020 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Profit for the period	**1,205,209**	1,497,866
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	**(29,905)**	(3,102)
Financial assets at fair value through other comprehensive income		
– change in the fair value of debt instruments	**227,844**	667,964
– transfer to income statement on disposal	**(16,734)**	(35,866)
– deferred tax related to the above	**(32,893)**	(109,191)
– transfer to income statement on impairment	**45,413**	(50,819)
	223,630	472,088
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	**5,334**	33,328
– deferred tax related to the above	**(880)**	(5,484)
	4,454	27,844
Property revaluation reserve		
– surplus on revaluation of other premises upon reclassification to investment properties	**58,686**	–
– transfer to deferred tax on disposal	**–**	10
	58,686	10
Other comprehensive income for the period	**256,865**	496,840
Total comprehensive income for the period	**1,462,074**	1,994,706
Total comprehensive income attributable to shareholders	**1,462,074**	1,994,706

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2020 – unaudited
(Expressed in Hong Kong dollars)

	Note	At 30 June 2020 HK$'000	At 31 December 2019 HK$'000
ASSETS			
Cash and balances with banks, central banks and other financial institutions	13	**18,215,283**	26,005,564
Placements with and advances to banks, central banks and other financial institutions	14	**52,317,786**	54,468,897
Financial assets at fair value through profit or loss	15(a)	**5,070,340**	1,908,370
Derivative financial instruments	16(b)	**10,285,832**	6,283,608
Loans and advances to customers and other accounts	17	**200,359,205**	194,251,733
Financial assets at fair value through other comprehensive income	18	**78,092,672**	76,668,300
Amortised cost investments	19	**54,283**	–
Property and equipment	20		
– Investment properties		**266,386**	229,130
– Other premises and equipment		**497,778**	499,033
Intangible assets	21	**590,874**	584,809
Tax recoverable	26(a)	**28,141**	6,842
Deferred tax assets	26(b)	**73,349**	315,216
Total Assets		**365,851,929**	361,221,502
LIABILITIES AND EQUITY			
Liabilities			
Deposits and balances of banks and other financial institutions	22	**16,005,933**	7,121,633
Deposits from customers	23	**275,304,962**	276,872,680
Financial liabilities at fair value through profit or loss	15(b)	**209,108**	146,500
Derivative financial instruments	16(b)	**10,805,484**	6,363,156
Certificates of deposit issued	24	**193,755**	3,112,919
Debt securities issued	25	**–**	3,346,067
Current tax liabilities	26(a)	**65,078**	705,837
Deferred tax liabilities	26(b)	**1,379**	2,191
Other liabilities	27	**11,723,474**	10,851,163
Loan capital	28	**3,850,478**	6,249,182
Total Liabilities		**318,159,651**	314,771,328
Equity			
Share capital	29(a)	**18,404,013**	18,404,013
Reserves		**21,517,853**	20,275,749
Total shareholders' equity		**39,921,866**	38,679,762
Additional equity instruments	30	**7,770,412**	7,770,412
Total Equity		**47,692,278**	46,450,174
Total Equity and Liabilities		**365,851,929**	361,221,502

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2020 – 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	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 2020	**18,404,013**	**6,589**	**100,000**	**(95,558)**	**76,245**	**348,922**	**59,162**	**149,500**	**19,630,889**	**20,275,749**	**7,770,412**	**46,450,174**
Changes in equity for the six months ended 30 June 2020:												
Profit for the period	–	–	–	–	–	–	–	–	1,205,209	1,205,209	–	1,205,209
Other comprehensive income for the period	–	–	–	(29,905)	58,686	228,084	–	–	–	256,865	–	256,865
Total comprehensive income for the period	–	–	–	(29,905)	58,686	228,084	–	–	1,205,209	1,462,074	–	1,462,074
Transfer from retained profits	–	–	–	–	–	–	–	–	(219,970)	(219,970)	219,970	–
Distribution payment for Additional Tier 1 Capital Securities ("AT1 Capital Securities")	–	–	–	–	–	–	–	–	–	–	(219,970)	(219,970)
At 30 June 2020	**18,404,013**	**6,589**	**100,000**	**(125,463)**	**134,931**	**577,006**	**59,162**	**149,500**	**20,616,128**	**21,517,853**	**7,770,412**	**47,692,278**
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 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 July 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
Changes in equity for the six months ended 31 December 2019:												
Profit for the period	–	–	–	–	–	–	–	–	1,312,435	1,312,435	–	1,312,435
Other comprehensive income for the period	–	–	–	(28,971)	–	74,256	–	–	–	45,285	–	45,285
Total comprehensive income for the period	–	–	–	(28,971)	–	74,256	–	–	1,312,435	1,357,720	–	1,357,720
Transfer from retained profits	–	–	–	–	–	–	1,089	–	(223,567)	(222,478)	222,478	–
Distribution payment for AT1 Capital Securities	–	–	–	–	–	–	–	–	–	–	(222,478)	(222,478)
At 31 December 2019	18,404,013	6,589	100,000	(95,558)	76,245	348,922	59,162	149,500	19,630,889	20,275,749	7,770,412	46,450,174

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 30 June 2020 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2020	2019
	Note	***HK$'000***	*HK$'000*
Net cash flows used in operating activities	*31(a)*	**(4,820,470)**	(4,926,553)
Cash flows (used in)/generated from investing activities			
Dividends received from equity instruments		**2,890**	2,910
Purchase of property and equipment and intangible assets		**(160,605)**	(119,243)
Proceeds from disposal of interest in associates		**–**	362,218
Net cash flows (used in)/generated from investing activities		**(157,715)**	245,885
Cash flows (used in)/generated from financing activities			
Proceeds from loan capital issued		**–**	3,908,552
Payment for redemption of loan capital		**(2,359,017)**	(3,960,618)
Payment for redemption of debt securities		**(3,252,833)**	–
Payment for redemption of AT1 Capital Securities		**–**	(2,358,567)
Distribution paid on AT1 Capital Securities		**(219,970)**	(308,022)
Payment of lease liability		**(152,784)**	(155,973)
Interest paid on debt securities issued		**(143,125)**	(149,655)
Interest paid on loan capital		**(171,217)**	(171,145)
Net cash flows used in financing activities		**(6,298,946)**	(3,195,428)
Net decrease in cash and cash equivalents		**(11,277,131)**	(7,876,096)
Cash and cash equivalents at 1 January		**90,903,199**	92,228,603
Cash and cash equivalents at 30 June	*31(b)*	**79,626,068**	84,352,507

NOTES TO THE INTERIM FINANCIAL REPORT – UNAUDITED

(Expressed in Hong Kong dollars unless otherwise indicated)

(1) BASIS OF PREPARATION

The interim financial report of China CITIC Bank International Limited ("the Bank") and all its subsidiaries ("the Group") has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants ("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 2019 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 2019.

The financial information relating to the year ended 31 December 2019 that is included in the interim financial report for the six months ended 30 June 2020 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 2019 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 2019 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) NEW AND AMENDED ACCOUNTING STANDARDS ADOPTED BY THE GROUP

The HKICPA issued "*COVID-19-Related Rent Concessions Amendment to HKFRS 16 Leases*" (the "Amendment to HKFRS 16") in June 2020 and a lessee shall apply that amendment for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. The Amendment to HKFRS 16 provides leasees with a practical expedient for COVID-19 related rent concessions which can only be applied if such concessions occurring as a direct consequence of the COVID-19 pandemic and also certain conditions must be met. The Group has made an assessment on the impact of the Amendment to HKFRS 16, and so far concluded that we do not expect to have any material impact on the Group's financial performance in the current or future reporting periods.

(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. 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.

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, and China banking which mainly includes a subsidiary bank in China.

(3) SEGMENT REPORTING (CONTINUED)

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.

During the second-half year of 2019, the Group has revised its segment allocation and certain cost allocation methods among different operating units and unallocated unit in preparing the information reported to the Group's senior executive management for the purposes of performance assessment. China banking business is also included in unallocated unit which has been reallocated from wholesale banking business.

During the period ended 30 June 2020, the Group had further 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 provided on a basis consistent with the revised segment information.

(a) Reportable segments

	Six months ended 30 June 2020				
	Wholesale banking *HK\$'000*	Personal and business banking *HK\$'000*	Treasury and markets *HK\$'000*	Others *HK\$'000*	Consolidated *HK\$'000*
Net interest income	**1,437,228**	**751,654**	**114,413**	**209,561**	**2,512,856**
Other operating income/(losses)	**539,500**	**458,045**	**630,844**	**(341,591)**	**1,286,798**
Net gain/(loss) on disposal of financial assets at fair value through other comprehensive income	**17,285**	**–**	**(8,464)**	**7,913**	**16,734**
Operating income/(losses)	**1,994,013**	**1,209,699**	**736,793**	**(124,117)**	**3,816,388**
Operating expenses	**(197,755)**	**(454,470)**	**(87,747)**	**(1,107,719)**	**(1,847,691)**
Inter-segment (expenses)/income	**(6,560)**	**(59,746)**	**(8,282)**	**74,588**	**–**
Operating profit/(loss) before impairment	**1,789,698**	**695,483**	**640,764**	**(1,157,248)**	**1,968,697**
Expected credit losses on financial assets	**(413,613)**	**(37,886)**	**(46,510)**	**(5,182)**	**(503,191)**
Impairment losses reversed on other assets	**–**	**–**	**–**	**4,176**	**4,176**
Operating profit/(loss)	**1,376,085**	**657,597**	**594,254**	**(1,158,254)**	**1,469,682**
Net loss on disposal of property and equipment	**–**	**(343)**	**–**	**–**	**(343)**
Revaluation loss on investment properties	**–**	**–**	**–**	**(22,744)**	**(22,744)**
Profit/(loss) before taxation	**1,376,085**	**657,254**	**594,254**	**(1,180,998)**	**1,446,595**
Income tax					**(241,386)**
Profit for the period					**1,205,209**
Other segment items:					
Depreciation and amortisation	**15,469**	**9,938**	**1,349**	**271,947**	**298,703**

	At 30 June 2020				
Other segment items:					
Segment assets	**129,868,396**	**67,634,590**	**179,008,741**	**(10,659,798)**	**365,851,929**
Segment liabilities	**141,128,483**	**161,366,687**	**29,415,224**	**(13,750,743)**	**318,159,651**
Capital expenditure during the period	**5,651**	**62,808**	**1,322**	**90,824**	**160,605**

(3) SEGMENT REPORTING (CONTINUED)

(a) Reportable segments (continued)

	Six months ended 30 June 2019 (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	1,785,787	899,703	275,380	227,644	3,188,514
Other operating income/(losses)	481,315	525,880	324,208	(306,376)	1,025,027
Net gain on disposal of financial assets at fair value through other comprehensive income	–	–	28,714	7,152	35,866
Operating income/(losses)	2,267,102	1,425,583	628,302	(71,580)	4,249,407
Operating expenses	(194,037)	(412,880)	(74,884)	(1,118,980)	(1,800,781)
Inter-segment income/(expenses)	(10,094)	(72,319)	(10,997)	93,410	–
Operating profit/(loss) before impairment	2,062,971	940,384	542,421	(1,097,150)	2,448,626
Expected credit losses (charged)/reversed on financial assets	(554,995)	(14,048)	67,588	(45,078)	(546,533)
Impairment losses reversed on other assets	–	–	–	(74,029)	(74,029)
Operating profit/(loss)	1,507,976	926,336	610,009	(1,216,257)	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	1,507,957	926,211	610,009	(1,260,598)	1,783,579
Income tax					(285,713)
Profit for the period					1,497,866
Other segment items:					
Depreciation and amortisation	14,613	10,428	384	263,768	289,193
	At 31 December 2019				
Other segment items:					
Segment assets	135,992,312	62,151,038	179,629,553	(16,551,401)	361,221,502
Segment liabilities	141,281,253	167,175,470	18,756,866	(12,442,261)	314,771,328
Capital expenditure during the year	21,769	52,459	5,817	142,639	222,684

(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			
	2020	2019	**2020**	2019
	Profit/(loss) before taxation	Profit/(loss) before taxation	**Operating income/(expense)**	Operating income/(expense)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**1,495,861**	1,839,336	**3,513,373**	3,905,261
Mainland China	**22,441**	(119,363)	**94,759**	75,324
United States	**36,777**	85,147	**108,470**	128,366
Singapore	**(123,412)**	(43,262)	**71,557**	105,608
Others	**14,897**	21,737	**28,474**	34,864
Inter-segment items	**31**	(16)	**(245)**	(16)
	1,446,595	1,783,579	**3,816,388**	4,249,407

	At 30 June 2020	At 31 December 2019	**At 30 June 2020**	At 31 December 2019
	Total assets	Total assets	**Total liabilities**	Total liabilities
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**347,447,301**	343,007,576	**300,143,523**	296,942,701
Mainland China	**10,538,865**	10,947,855	**9,164,531**	9,558,607
United States	**13,967,800**	15,820,276	**13,931,194**	15,609,316
Singapore	**14,074,618**	14,365,643	**14,172,039**	14,384,483
Others	**2,245,028**	2,407,534	**2,231,074**	2,371,791
Inter-segment items	**(22,421,683)**	(25,327,382)	**(21,482,710)**	(24,095,570)
	365,851,929	361,221,502	**318,159,651**	314,771,328

(4) INTEREST INCOME AND INTEREST EXPENSE

(a) Interest income

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Listed securities	**720,799**	583,445
Unlisted securities	**268,811**	322,321
Balances and placements with banks and other financial institutions	**405,589**	710,840
Advances and other accounts *(Note)*	**3,585,132**	4,504,924
Interest income on financial assets that are not at fair value through profit or loss	**4,980,331**	6,121,530

Note:

For the period ended 30 June 2020, interest income from impaired financial assets was HK$50,233,000 (six months ended 30 June 2019: HK$22,165,000).

(4) INTEREST INCOME AND INTEREST EXPENSE (CONTINUED)

(b) Interest expense

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Deposits from customers, banks and other financial institutions and others	**2,232,608**	2,598,072
Certificates of deposit issued	**13,007**	45,401
Debt securities issued	**59,195**	77,689
Loan capital issued	**162,665**	211,854
Interest expense on financial liabilities that are not at fair value through profit or loss	**2,467,475**	2,933,016

(5) NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Fee and commission income		
Bills commission	**36,199**	37,811
Card-related income	**15,181**	20,067
Banking services	**272,429**	254,289
Insurance	**225,221**	327,332
Investment and structured investment products	**117,826**	81,571
Loans, overdrafts and facilities fees	**117,143**	120,064
Others	**4,452**	195
	788,451	841,329
Fee and commission expense	**(60,198)**	(57,317)
	728,253	784,012
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	**168,523**	177,942
– Fee and commission expense	**(11,813)**	(18,144)
	156,710	159,798

(6) NET TRADING INCOME

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Net gains from dealing in foreign currencies	**363,311**	146,944
Net (losses)/gains from financial assets at fair value through profit or loss	**(14,058)**	54,917
Net (losses)/gains from other dealing activities	**(27,569)**	2,740
Net interest income/(expense) on trading activities		
– Listed	**57,179**	25,333
– Unlisted	**163,956**	(2,881)
	542,819	227,053

(7) NET HEDGING LOSS

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Net hedging loss on fair value hedges		
– Net gain on hedged items attributable to the hedged risk	**59,611**	107,771
– Net loss on hedging instruments	**(61,097)**	(110,778)
	(1,486)	(3,007)

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

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Net gain on disposal of financial assets at fair value through other comprehensive income	**16,734**	35,866

(9) OTHER OPERATING INCOME

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Dividend income		
– Unlisted investments	**2,890**	2,910
Rental income from investment properties less direct outgoings of HK$110,000 (six months ended 30 June 2019: HK$49,000)	**1,509**	3,051
Other bank service income	**7,456**	9,107
Others	**5,357**	1,901
	17,212	16,969

(10) OPERATING EXPENSES

	Six months ended 30 June **2020** *HK$'000*	2019 *HK$'000*
(a) Staff costs		
Salaries and other staff costs	**1,044,425**	1,077,078
Retirement costs	**62,164**	57,426
	1,106,589	1,134,504
(b) Depreciation and amortisation		
Depreciation – property and equipment *(note 20)*	**56,173**	50,638
Depreciation – right-of-use assets	**145,053**	149,515
Amortisation – intangible assets *(note 21)*	**97,477**	89,040
	298,703	289,193
(c) Other operating expenses		
Property and equipment expenses (excluding depreciation)	**196,981**	155,096
Auditors' remuneration	**3,536**	4,945
Advertising	**22,982**	29,310
Communication, printing and stationery	**68,799**	57,729
Electronic data processing	**78,933**	54,249
Legal and professional fees	**25,963**	33,255
Others	**45,205**	42,500
	442,399	377,084
Total operating expenses	**1,847,691**	1,800,781

(11) EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS

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

	Six months ended 30 June 2020			
	Stage 1 *HK$'000*	**Stage 2** *HK$'000*	**Stage 3** *HK$'000*	**Total** *HK$'000*
Balances with banks, central banks and other financial institutions	**(488)**	**–**	**–**	**(488)**
Placements with and advances to banks, central banks and other financial institutions	**(2,522)**	**–**	**–**	**(2,522)**
Loans and advances to customers	**(140,307)**	**(1,182,700)**	**1,806,380**	**483,373**
Other accounts	**(85)**	**–**	**–**	**(85)**
Financial assets at fair value through other comprehensive income	**3,318**	**–**	**42,095**	**45,413**
Amortised cost investments	**34**	**–**	**–**	**34**
Loan commitments and guarantees (included in contingent liabilities and commitments)	**(132)**	**–**	**–**	**(132)**
	(140,182)	**(1,182,700)**	**1,848,475**	**525,593**
Recoveries				**(22,402)**
				503,191

(11) EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS (CONTINUED)

Expected credit losses ("ECL") charged/(reversed) on financial assets (continued)

	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

(12) INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

	Six months ended 30 June	
	2020 ***HK$'000***	2019 *HK$'000*
Current tax – Hong Kong Profits Tax		
(Reversal)/Provision for the period	**(6,809)**	189,567
Current tax – Overseas		
Provision for the period	**42,189**	31,674
Over-provision in respect of prior periods	**(1,081)**	(11,715)
	41,108	19,959
Deferred tax		
Origination of temporary differences *(note 26(b))*	**207,087**	76,187
	241,386	285,713

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 2019: 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 2020 *HK$'000*	At 31 December 2019 *HK$'000*
Cash in hand	**221,043**	472,127
Balances with central banks	**1,280,369**	8,090,649
Balances with banks	**16,033,300**	15,827,346
Balances with other financial institutions	**683,659**	1,619,018
	18,218,371	26,009,140
Expected credit losses allowances – Stage 1	**(3,088)**	(3,576)
	18,215,283	26,005,564

Included in the balances with central banks are balances subject to exchange control or regulatory restrictions, amounting to HK$422,626,000 at 30 June 2020 (31 December 2019: HK$436,310,000).

There were no impaired balances with banks and other financial institutions at 30 June 2020 and at 31 December 2019.

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

	At 30 June 2020 *HK$'000*	At 31 December 2019 *HK$'000*
Placements with banks	**51,068,238**	54,322,011
Advances to banks	**1,258,298**	158,158
	52,326,536	54,480,169
Expected credit losses allowances – Stage 1	**(8,750)**	(11,272)
	52,317,786	54,468,897
Maturing:		
– Within 1 month	**49,315,674**	48,321,816
– Between 1 month and 1 year	**3,002,112**	6,147,081
	52,317,786	54,468,897

There were no impaired advances to banks and other financial institutions at 30 June 2020 and at 31 December 2019.

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

(a) Financial assets at fair value through profit or loss

	At 30 June 2020 *HK$'000*	At 31 December 2019 *HK$'000*
Debt securities	**4,522,022**	1,908,370
Treasury bills	**548,318**	–
	5,070,340	1,908,370
Issued by:		
Sovereigns	**2,700,695**	341,717
Banks and other financial institutions	**1,475,387**	690,114
Corporate entities	**832,985**	824,619
Public entities	**61,273**	51,920
	5,070,340	1,908,370
Listed	**4,514,089**	1,907,604
Unlisted	**556,251**	766
	5,070,340	1,908,370

(b) Financial liabilities at fair value through profit or loss

	At 30 June 2020 *HK$'000*	At 31 December 2019 *HK$'000*
Short sale of debt securities	**209,108**	146,500

(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 2020			At 31 December 2019		
	Held for hedging	**Others (including held for trading)**	**Total**	Held for hedging	Others (including held for trading)	Total
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Currency derivatives						
Forwards	**–**	**81,392,669**	**81,392,669**	–	84,167,658	84,167,658
Swaps	**–**	**875,824,071**	**875,824,071**	–	696,539,371	696,539,371
Options purchased	**–**	**31,373,862**	**31,373,862**	–	34,547,603	34,547,603
Options written	**–**	**31,016,108**	**31,016,108**	–	34,563,815	34,563,815
Interest rate derivatives						
Forwards/Futures	**–**	**666,517**	**666,517**	–	3,858,214	3,858,214
Swaps	**857,482**	**712,022,577**	**712,880,059**	3,230,287	687,402,549	690,632,836
	857,482	**1,732,295,804**	**1,733,153,286**	3,230,287	1,541,079,210	1,544,309,497

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 2020			At 31 December 2019		
	Fair value assets	**Fair value liabilities**	**Credit risk-weighted amount**	Fair value assets	Fair value liabilities	Credit risk-weighted amount
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Currency derivatives	**6,012,252**	**6,623,045**	**8,353,703**	5,271,339	5,365,547	6,333,303
Interest rate derivatives	**4,273,580**	**4,182,439**	**668,907**	1,012,269	997,609	200,143
	10,285,832	**10,805,484**	**9,022,610**	6,283,608	6,363,156	6,533,446

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 2019: 0% to 150%) for exchange rate, interest rate and other derivatives contracts. Both of the fair values and credit risk-weighted amounts of derivative financial instruments are shown on a gross basis and do not take into account the effect of any bilateral netting arrangements.

(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 2020		At 31 December 2019	
	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	**–**	**70,176**	16,280	18,475

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 2020			
	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	**1,019,606,710**	**976,070,284**	**37,941,997**	**5,594,429**
Interest rate derivatives	**713,546,576**	**442,190,447**	**250,224,490**	**21,131,639**
	1,733,153,286	**1,418,260,731**	**288,166,487**	**26,726,068**

	At 31 December 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	849,818,447	814,521,315	35,218,927	78,205
Interest rate derivatives	694,491,050	477,501,287	202,708,717	14,281,046
	1,544,309,497	1,292,022,602	237,927,644	14,359,251

(17) LOANS AND ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS

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

	At 30 June 2020 ***HK$'000***	At 31 December 2019 *HK$'000*
Gross loans and advances to customers	**192,679,964**	189,377,329
– Expected credit losses allowances	**(1,530,763)**	(3,596,987)
	191,149,201	185,780,342
Other accounts	**8,562,843**	7,831,244
– Expected credit losses allowances	**(39,275)**	(39,360)
	8,523,568	7,791,884
Right-of-use assets	**686,436**	679,507
	200,359,205	194,251,733

(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 2020		At 31 December 2019	
	Gross loans and advances to customers ***HK$'000***	**% of gross loans and advances to customers covered by collateral**	Gross loans and advances to customers *HK$'000*	% of gross loans and advances to customers covered by collateral
Industrial, commercial and financial				
– Property development	**5,193,190**	**24**	2,892,578	31
– Property investment	**17,575,724**	**95**	17,394,845	94
– Financial concerns	**13,035,007**	**29**	16,997,699	40
– Stockbrokers	**4,839,364**	**17**	1,929,344	26
– Wholesale and retail trade	**10,713,240**	**76**	9,427,728	77
– Manufacturing	**10,000,919**	**28**	9,940,067	32
– Transport and transport equipment	**740,931**	**62**	1,379,288	32
– Recreational activities	**2,307,771**	**8**	2,858,389	6
– Information technology	**6,630,350**	**6**	6,678,785	6
– Others	**9,224,162**	**74**	7,154,646	81
Individuals				
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**26,513**	**100**	27,410	100
– Loans for the purchase of other residential properties	**20,311,613**	**100**	17,848,823	100
– Credit card advances	**425,673**	**–**	452,680	–
– Others	**15,243,235**	**94**	14,725,757	93
Gross loans and advances for use in Hong Kong	**116,267,692**	**65**	109,708,039	67
Trade finance	**6,100,174**	**25**	5,442,284	28
Gross loans and advances for use outside Hong Kong	**70,312,098**	**29**	74,227,006	20
Gross loans and advances to customers	**192,679,964**	**51**	189,377,329	47

(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

	2020							
	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 2020	**175,081,473**	**761,692**	**12,025,091**	**1,749,793**	**2,270,765**	**1,085,502**	**189,377,329**	**3,596,987**
Movements with income statement impact								
Transfer:								
– Transfer to Stage 1	**4,213,817**	**19,519**	**(4,213,780)**	**(19,482)**	**(37)**	**(37)**	**–**	**–**
– Transfer to Stage 2	**(10,547,041)**	**(152,241)**	**10,547,327**	**152,527**	**(286)**	**(286)**	**–**	**–**
– Transfer to Stage 3	**(38,508)**	**(112)**	**(5,417,664)**	**(1,506,928)**	**5,456,172**	**1,507,040**	**–**	**–**
Net remeasurement of ECL allowances arising from transfer between stage	**–**	**(14,318)**	**–**	**360,004**	**–**	**149,377**	**–**	**495,063**
Net financial assets originated/ (derecognised or repaid)	**6,979,262**	**146,924**	**(980,847)**	**(191,027)**	**(193,930)**	**(36,530)**	**5,804,485**	**(80,633)**
Changes in risk parameters and model inputs	**–**	**(140,079)**	**–**	**22,206**	**–**	**186,816**	**–**	**68,943**
Unwinding of discount on ECL	**–**	**–**	**–**	**–**	**–**	**(47,747)**	**–**	**(47,747)**
Amounts written-off	**–**	**–**	**–**	**–**	**(2,501,850)**	**(2,501,850)**	**(2,501,850)**	**(2,501,850)**
At 30 June 2020	**175,689,003**	**621,385**	**11,960,127**	**567,093**	**5,030,834**	**342,285**	**192,679,964**	**1,530,763**

	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
Movements with income statement impact								
Transfer:								
– Transfer to Stage 1	4,271,544	18,996	(4,271,517)	(18,969)	(27)	(27)	–	–
– Transfer to Stage 2	(12,958,957)	(90,799)	12,959,477	90,980	(520)	(181)	–	–
– Transfer to Stage 3	(265,526)	(936)	(1,977,967)	(756,476)	2,243,493	757,412	–	–
Net remeasurement of ECL allowances arising from transfer between stage	–	(14,989)	–	258,139	–	142,250	–	385,400
Net financial assets originated/ (derecognised or repaid)	(819,283)	200,086	(9,934,951)	3,370	(1,359,013)	(124,206)	(12,113,247)	79,250
Changes in risk parameters and model inputs	–	17,964	–	544,523	–	286,656	–	849,143
Unwinding of discount on ECL	–	–	–	–	–	(46,398)	–	(46,398)
Amounts written-off	–	–	–	–	(329,306)	(329,306)	(329,306)	(329,306)
At 31 December 2019	175,081,473	761,692	12,025,091	1,749,793	2,270,765	1,085,502	189,377,329	3,596,987

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

(d) Impaired loans and advances to customers

	At 30 June 2020 *HK$'000*	At 31 December 2019 *HK$'000*
Gross impaired loans and advances to customers	**5,030,834**	2,270,765
Expected credit losses allowances – Stage 3	**(342,285)**	(1,085,502)
	4,688,549	1,185,263
Gross impaired loans and advances as a % of total loans and advances to customers	**2.61%**	1.20%

Collateral amounts of HK$3,493,293,000 (31 December 2019: HK$1,296,240,000) 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 2020			
	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*
Loan for the purchase of other residential properties	**264**	**453**	**–**	**14,373**
Gross loans and advances for use outside Hong Kong	**294,258**	**430,938**	**134,069**	**3,469,626**
	294,522	**431,391**	**134,069**	**3,483,999**

	At 31 December 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	422,424	1,520,150	145,667	845,373

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

	At 30 June 2020 ***HK$'000***	At 31 December 2019 *HK$'000*
Debt securities		
– Certificates of deposit held	**4,851,855**	5,438,918
– Treasury bills	**20,108,119**	21,767,173
– Other debt securities	**53,019,032**	49,353,873
	77,979,006	76,559,964
Equity securities	**113,666**	108,336
	78,092,672	76,668,300
Issued by:		
Sovereigns	**21,648,630**	23,516,040
Banks and other financial institutions	**43,030,060**	41,724,151
Corporate entities	**12,347,349**	11,048,234
Public entities	**1,066,633**	379,875
	78,092,672	76,668,300
Listed	**46,653,871**	43,990,382
Unlisted	**31,438,801**	32,677,918
	78,092,672	76,668,300

(19) AMORTISED COST INVESTMENTS

	At 30 June 2020 ***HK$'000***	At 31 December 2019 *HK$'000*
Debt securities		
Treasury bills	**54,317**	–
– Expected credit losses allowances	**(34)**	–
	54,283	–
Issued by:		
Sovereigns	**54,283**	–
Unlisted	**54,283**	–

(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 2020	**229,130**	**666,008**	**1,038,240**	**1,933,378**
Additions	**–**	**–**	**56,948**	**56,948**
Reclassification	**60,000**	**(60,000)**	**–**	**–**
Disposals	**–**	**–**	**(38,187)**	**(38,187)**
Surplus/(Deficit) on revaluation	**(22,744)**	**58,686**	**–**	**35,942**
Elimination of accumulated depreciation on revaluation	**–**	**(3,023)**	**–**	**(3,023)**
Exchange adjustments	**–**	**–**	**(2,241)**	**(2,241)**
At 30 June 2020	**266,386**	**661,671**	**1,054,760**	**1,982,817**
At 1 January 2019	241,970	666,008	946,708	1,854,686
Additions	–	–	107,376	107,376
Disposals	(11,381)	–	(19,106)	(30,487)
Deficit on revaluation	(1,459)	–	–	(1,459)
Exchange adjustments	–	–	3,262	3,262
At 31 December 2019	229,130	666,008	1,038,240	1,933,378
Accumulated depreciation:				
At 1 January 2020	**–**	**358,085**	**847,130**	**1,205,215**
Charge for the period *(note 10(b))*	**–**	**7,891**	**48,282**	**56,173**
Elimination of accumulated depreciation on revaluation	**–**	**(3,023)**	**–**	**(3,023)**
Written back on disposals	**–**	**–**	**(37,844)**	**(37,844)**
Exchange adjustments	**–**	**–**	**(1,868)**	**(1,868)**
At 30 June 2020	**–**	**362,953**	**855,700**	**1,218,653**
At 1 January 2019	–	342,298	777,564	1,119,862
Charge for the year	–	15,787	85,706	101,493
Written back on disposals	–	–	(18,508)	(18,508)
Exchange adjustments	–	–	2,368	2,368
At 31 December 2019	–	358,085	847,130	1,205,215
Net book value:				
At 30 June 2020	**266,386**	**298,718**	**199,060**	**764,164**
At 31 December 2019	229,130	307,923	191,110	728,163

(20) PROPERTY AND EQUIPMENT (CONTINUED)

Investment properties

All investment properties of the Group were revalued and assessed by the management of the Group at 30 June 2020 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 deficit of HK$22,744,000 (year ended 31 December 2019: a revaluation deficit of HK$1,459,000; and period ended 30 June 2019: a revaluation surplus of HK$7,073,000) was recognised by the Group and has been charged to the income statement for the period ended 30 June 2020.

During the period ended 30 June 2020, one bank premises with a net book value of approximately HK$1,314,000 was required to transfer to investment properties for the purpose of change in use. Accordingly, the fair value of the said bank premises before the transfer has been assessed by the Group with reference to a property valuation which conducted by an independent firm of surveyors. As a result, a surplus on revaluation of approximately HK$58,686,000 was recognised in the property revaluation reserve, which represented the difference at the date of transfer between the carrying amounts of the said bank premises and its fair value.

During the period ended 30 June 2020, a loss on disposal of investment properties of HK$Nil (30 June 2019: HK$2,600,000) was recognised to the income statement.

(21) INTANGIBLE ASSETS

	Software ***HK$'000***
Cost:	
At 1 January 2020	**1,380,991**
Additions	**103,657**
Disposals	**(1,749)**
Exchange adjustments	**(1,617)**
At 30 June 2020	**1,481,282**
At 1 January 2019	1,270,593
Additions	115,308
Disposals	(100)
Exchange adjustments	(4,810)
At 31 December 2019	1,380,991
Accumulated amortisation:	
At 1 January 2020	**796,182**
Charge for the period *(note 10(b))*	**97,477**
Disposals	**(1,749)**
Exchange adjustments	**(1,502)**
At 30 June 2020	**890,408**
At 1 January 2019	618,383
Charge for the year	181,354
Disposals	(100)
Exchange adjustments	(3,455)
At 31 December 2019	796,182
Net book value:	
At 30 June 2020	**590,874**
At 31 December 2019	584,809

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

	At 30 June 2020 *HK$'000*	At 31 December 2019 *HK$'000*
Deposits and balances from banks	**16,005,933**	7,121,633

(23) DEPOSITS FROM CUSTOMERS

	At 30 June 2020 *HK$'000*	At 31 December 2019 *HK$'000*
Demand deposits and current deposits	**31,798,351**	24,280,861
Savings deposits	**54,900,297**	52,480,417
Time, call and notice deposits	**188,606,314**	200,111,402
	275,304,962	276,872,680

(24) CERTIFICATES OF DEPOSIT ISSUED

	At 30 June 2020 *HK$'000*	At 31 December 2019 *HK$'000*
At amortised cost	**193,755**	3,112,919

(25) DEBT SECURITIES ISSUED

	At 30 June 2020 *HK$'000*	At 31 December 2019 *HK$'000*
At amortised cost	**–**	3,346,067

The debt securities was issued by the Bank in 2017 and bore a coupon interest rate at 4.4% per annum. The debt securities was matured during the period ended 30 June 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 2020 *HK$'000*	At 31 December 2019 *HK$'000*
Hong Kong Profits Tax	**827**	698,549
Overseas Taxation	**36,110**	446
	36,937	698,995
Of which:		
Tax recoverable	**(28,141)**	(6,842)
Current tax liabilities	**65,078**	705,837
	36,937	698,995

(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 *HK$'000*	Impairment allowances for loans and advances *HK$'000*	Revaluation adjustments for properties *HK$'000*	Revaluation adjustments for FVOCI *HK$'000*	Others *HK$'000*	Total *HK$'000*
Deferred tax arising from:						
At 1 January 2020	**107,026**	**(454,177)**	**1,965**	**43,755**	**(11,594)**	**(313,025)**
Charged/(credited) to consolidated income statement *(note 12)*	**3,201**	**218,987**	**(586)**	**–**	**(14,515)**	**207,087**
Charged to reserves	**–**	**–**	**–**	**33,773**	**–**	**33,773**
Exchange and other adjustments	**8**	**153**	**(1)**	**–**	**35**	**195**
At 30 June 2020	**110,235**	**(235,037)**	**1,378**	**77,528**	**(26,074)**	**(71,970)**
At 1 January 2019	118,357	(438,235)	7,951	(84,688)	(8,804)	(405,419)
Credited to consolidated income statement	(11,525)	(16,168)	(5,976)	–	(2,790)	(36,459)
Charged/(credited) to reserves	–	–	(10)	128,443	–	128,433
Exchange and other adjustments	194	226	–	–	–	420
At 31 December 2019	107,026	(454,177)	1,965	43,755	(11,594)	(313,025)

	At 30 June 2020 *HK$'000*	At 31 December 2019 *HK$'000*
Net deferred tax assets recognised in the consolidated statement of financial position	**(73,349)**	(315,216)
Net deferred tax liabilities recognised in the consolidated statement of financial position	**1,379**	2,191
	(71,970)	(313,025)

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

(c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$636,000 as at 30 June 2020 (31 December 2019: HK$761,000), 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 2020 *HK$'000*	At 31 December 2019 *HK$'000*
Accruals and other payables and provisions	**11,016,026**	10,155,293
Lease liabilities	**707,448**	695,870
	11,723,474	10,851,163

At 30 June 2020, included above is the provision for expected credit losses (Stage 1) on loan commitments and guarantees amounted to HK$70,531,000 (31 December 2019: HK$70,663,000).

(28) LOAN CAPITAL

	At 30 June 2020 *HK$'000*	At 31 December 2019 *HK$'000*
Subordinated notes, at amortised cost with fair value hedge adjustments:		
US$500 million Subordinated Fixed Rate Notes at 6.875%, due 2020*	**–**	2,384,710
US$500 million Subordinated Fixed Rate Notes at 4.625%, due 2029**	**3,850,478**	3,864,472
	3,850,478	6,249,182

* Under a US$2 billion Medium Term Note Programme ("the Programme") issued in December 2007 and the 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 beared an interest rate of 6.875% per annum, payable semi-annually. The notes were listed on the Singapore Exchange Securities Trading Limited. 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), 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. The notes were matured on 24 June 2020.

** 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 2020		At 31 December 2019	
	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

(29) CAPITAL AND RESERVES (CONTINUED)

(a) Share capital (continued)

(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) 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.

(vi) 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.

(vii) 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.

(viii) 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 2020, HK$1,521,729,000 (31 December 2019: HK$243,313,000) 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 2020 *HK$'000*	At 31 December 2019 *HK$'000*
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	7,770,412

* Under the Programme and the 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.

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$82,355,000) was paid during the period ended 30 June 2020 (for the year ended 31 December 2019: US$21,250,000, equivalent to HK$166,745,000).

** 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$137,615,000) was paid during the period ended 30 June 2020 (for the year ended 31 December 2019: US$35,500,000, equivalent to HK$278,390,000).

(31) NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

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

	At 30 June 2020 ***HK$'000***	At 30 June 2019 *HK$'000*
Operating activities		
Profit before taxation	**1,446,595**	1,783,579
Adjustments for non-cash items:		
Expected credit losses on financial assets	**503,191**	546,533
Impairment losses on other assets	**(4,176)**	74,029
Net gain on disposal of financial assets at fair value through other comprehensive income	**(16,734)**	(35,866)
Net loss on disposal of property and equipment	**343**	2,630
Revaluation loss/(gain) on investment properties	**22,744**	(7,073)
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	**25,617**	29,234
Amortisation of intangible assets	**97,477**	89,040
Depreciation on property and equipment	**56,173**	50,638
Depreciation on right-of-use assets	**145,053**	149,515
Dividend income from equity securities	**(2,890)**	(2,910)
Interest expense on loan capital and debt securities issued	**221,860**	289,543
Foreign exchange differences	**(167,054)**	(54,552)
Operating profit before changes in working capital	**2,328,199**	2,963,268
Net decrease/(increase) in operating assets		
Placements with and advances to banks, central banks and other financial institutions with original maturity beyond 3 months	**1,451,000**	(4,522,400)
Treasury bills with original maturity beyond 3 months	**(1,357,247)**	4,566,921
Certificates of deposit held with original maturity beyond 3 months	**765,318**	7,112,086
Financial assets at fair value through profit or loss	**(3,161,971)**	(1,315,615)
Derivative financial instruments	**(4,002,223)**	1,445,431
Loans and advances to customers and other accounts	**(6,591,696)**	2,390,058
Financial assets at fair value through other comprehensive income	**(3,436,061)**	(4,987,558)
	(16,332,880)	4,688,923
Net (decrease)/increase in operating liabilities		
Deposits and balances of banks and other financial institutions	**8,884,300**	1,104,110
Deposits from customers	**(1,572,327)**	(11,905,012)
Derivative financial instruments	**4,442,328**	(1,709,097)
Certificates of deposit issued	**(2,913,626)**	1,848
Other liabilities	**1,039,863**	343,662
	9,880,538	(12,164,489)
Cash flows used in operating activities	**(4,124,143)**	(4,512,298)
Income tax paid		
Hong Kong Profits Tax paid	**(690,913)**	(366,898)
Overseas tax paid	**(5,414)**	(47,357)
Net cash flows used in operating activities	**(4,820,470)**	(4,926,553)
Cash flows from operating activities include:		
Interest received	**4,757,683**	5,985,597
Interest paid	**(2,357,346)**	(2,643,889)

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

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

	At 30 June 2020 *HK$'000*	At 30 June 2019 *HK$'000*
Cash and balances with banks, central banks and other financial institutions	**17,795,745**	20,656,387
Placements with and advances to banks, central banks and other financial institutions with original maturity within 3 months	**49,197,532**	47,398,359
Treasury bills and certificates of deposit held with original maturity within 3 months		
– Financial assets at fair value through other comprehensive income	**12,578,474**	16,297,761
– Amortised cost investments	**54,317**	–
	79,626,068	84,352,507

(c) Changes in liabilities arising from financing activities

	2020		2019	
	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	**3,346,067**	**6,249,182**	3,408,077	6,283,542
New issue during the period	**–**	**–**	–	3,908,552
Redemption	**(3,252,833)**	**(2,359,017)**	–	(3,902,486)
Foreign exchange differences	**(94,911)**	**(24,078)**	(7,239)	(21,206)
Other non-cash adjustments	**1,677**	**(15,609)**	2,153	6,857
At 30 June	**–**	**3,850,478**	3,402,991	6,275,259

(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 2020							
	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	18,215,283	17,792,657	–	–	–	–	–	422,626
Placements with and advances to banks, central banks and other financial institutions	52,317,786	–	49,315,674	2,611,347	390,765	–	–	–
Financial assets at fair value through profit or loss	5,070,340	–	2,482	11,448	638,201	3,339,883	1,078,326	–
Derivative financial instruments	10,285,832	–	1,059,052	1,058,693	4,491,777	2,854,624	821,686	–
Loans and advances to customers and other accounts	200,359,205	5,204,778	19,516,415	18,845,978	73,961,567	48,684,915	24,775,456	9,370,096
Financial assets at fair value through other comprehensive income	78,092,672	–	5,832,846	13,957,983	20,031,779	37,818,729	337,669	113,666
Amortised cost investments	54,283	–	48,493	5,790	–	–	–	–
Tax recoverable	28,141	–	–	–	28,141	–	–	–
Undated assets	1,428,387	–	–	–	–	–	–	1,428,387
Total assets	365,851,929	22,997,435	75,774,962	36,491,239	99,542,230	92,698,151	27,013,137	11,334,775
Liabilities								
Deposits and balances of banks and other financial institutions	16,005,933	3,016,280	9,577,731	2,151,598	603,066	657,258	–	–
Deposits from customers	275,304,962	86,698,648	75,307,675	83,048,976	29,883,790	365,873	–	–
Financial liabilities at fair value through profit or loss	209,108	–	86	–	8,811	123,070	77,141	–
Derivative financial instruments	10,805,484	–	1,075,896	1,040,388	4,897,455	2,757,083	1,034,662	–
Certificates of deposit issued	193,755	–	–	193,755	–	–	–	–
Current tax liabilities	65,078	–	–	–	65,078	–	–	–
Other liabilities	11,016,026	–	1,604,764	414,241	867,771	712,031	–	7,417,219
Operating lease liabilities	707,448	–	22,612	45,113	191,567	448,156	–	–
Loan capital	3,850,478	–	–	–	–	3,850,478	–	–
Undated liabilities	1,379	–	–	–	–	–	–	1,379
Total liabilities	318,159,651	89,714,928	87,588,764	86,894,071	36,517,538	8,913,949	1,111,803	7,418,598
Asset-liability gap		(66,717,493)	(11,813,802)	(50,402,832)	63,024,692	83,784,202	25,901,334	

(32) MATURITY PROFILE (CONTINUED)

	At 31 December 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	26,005,564	25,569,254	–	–	–	–	–	436,310
Placements with and advances to banks, central banks and other financial institutions	54,468,897	–	48,321,816	2,589,985	3,557,096	–	–	–
Financial assets at fair value through profit or loss	1,908,370	–	54,447	45,635	104,364	1,285,935	417,989	–
Derivative financial instruments	6,283,608	–	1,082,916	1,155,376	2,905,078	974,180	166,058	–
Loans and advances to customers and other accounts	194,251,733	2,541,515	14,520,736	22,517,544	68,074,411	52,853,070	24,876,730	8,867,727
Financial assets at fair value through other comprehensive income	76,668,300	–	9,110,858	11,379,512	21,352,466	33,673,351	1,043,777	108,336
Tax recoverable	6,842	–	–	–	6,842	–	–	–
Undated assets	1,628,188	–	–	–	–	–	–	1,628,188
Total assets	361,221,502	28,110,769	73,090,773	37,688,052	96,000,257	88,786,536	26,504,554	11,040,561
Liabilities								
Deposits and balances of banks and other financial institutions	7,121,633	438,601	2,283,723	3,323,713	629,231	446,365	–	–
Deposits from customers	276,872,680	76,761,278	71,250,565	91,542,452	36,894,443	423,942	–	–
Financial liabilities at fair value through profit or loss	146,500	–	–	–	–	23,393	123,107	–
Derivative financial instruments	6,363,156	–	1,105,055	1,157,591	2,921,560	970,738	208,212	–
Certificates of deposit issued	3,112,919	–	–	3,112,919	–	–	–	–
Debt securities issued	3,346,067	–	–	–	3,346,067	–	–	–
Current tax liabilities	705,837	–	–	–	705,837	–	–	–
Other liabilities	10,155,293	–	1,689,963	584,638	641,529	609,294	–	6,629,869
Operating lease liabilities	695,870	–	20,315	40,042	173,201	462,312	–	–
Loan capital	6,249,182	–	–	–	2,384,710	3,864,472	–	–
Undated liabilities	2,191	–	–	–	–	–	–	2,191
Total liabilities	314,771,328	77,199,879	76,349,621	99,761,355	47,696,578	6,800,516	331,319	6,632,060
Asset-liability gap		(49,089,110)	(3,258,848)	(62,073,303)	48,303,679	81,986,020	26,173,235	

(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									
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Interest income	**36,596**	13,143	**–**	–	**14,262**	10,822	**22,314**	13,256	**38,275**	45,762
Interest expense	**(6,110)**	(21,530)	**(10,300)**	(6,239)	**(21,471)**	(45,246)	**(34,599)**	(27,422)	**(2,696)**	(2,506)
Fee and commission income/ (expenses)	**271**	(29)	**–**	–	**–**	–	**–**	–	**–**	–
Operating expenses	**(1)**	–	**–**	–	**(4,971)**	(7,483)	**–**	–	**–**	–
Net trading gain/(loss)	**11,681**	(29,494)	**–**	–	**21,967**	(2,861)	**(9,586)**	(800)	**1,046**	–
	At 30 June 2020/31 December 2019									
Assets										
Financial assets at fair value through other comprehensive income	**–**	–	**–**	–	**117,210**	119,037	**868,275**	–	**–**	–
Derivative financial instruments	**291,567**	157,696	**–**	–	**10,119**	3,416	**4,316**	11,197	**–**	–
Other receivables	**244,620**	86,401	**–**	–	**4,124**	3,897	**12,026**	2,265	**–**	311
Liabilities										
Derivative financial instruments	**361,985**	163,006	**–**	–	**65,956**	44,965	**–**	–	**–**	
Other payables	**92,043**	56,086	**1,957**	1,716	**10,335**	12,515	**4,543**	6,895	**72**	140
Lending activities:										
At 30 June/31 December	**5,242,242**	6,631,306	**–**	–	**852,522**	869,691	**121,253**	359,981	**–**	2,200,000
Average for the period/year	**6,148,736**	3,866,934	**–**	–	**858,337**	592,714	**418,799**	590,446	**1,466,667**	2,200,000
Acceptance of deposits:										
At 30 June/31 December	**410,227**	417,758	**2,288,994**	1,404,767	**4,373,016**	6,579,461	**1,692,632**	3,277,237	**550,167**	578,447
Average for the period/year	**483,407**	2,810,036	**1,699,066**	1,097,447	**5,788,399**	5,326,533	**2,973,055**	3,553,411	**544,094**	738,046
	At 30 June 2020/31 December 2019									
Off-statement of financial position items										
Acceptances, guarantees and letters of credit – contract amounts payable	**–**	–	**–**	–	**(3,000)**	(3,000)	**–**	–	**–**	–
Other commitments	**–**	–	**–**	–	**–**	311,465	**871,253**	1,167,021	**–**	–
Derivative financial instruments – notional amounts	**70,768,587**	65,959,440	**–**	–	**1,898,859**	1,892,832	**4,569,675**	192,964	**–**	–

(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	
	2020	2019
	HK$'000	*HK$'000*
Short-term employee benefits	**37,117**	47,921
Post-employment benefits	**1,751**	2,371
	38,868	50,292

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.

	2020	2019
	HK$'000	*HK$'000*
At 1 January	**12,832**	16,247
At 30 June 2020/31 December 2019	**6,548**	12,832
Maximum amount during the period/year	**12,832**	18,003

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 2020 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	**4,522,022**	**4,417,176**	**104,846**	**–**
– Treasury bills	**548,318**	**–**	**548,318**	**–**
	5,070,340	**4,417,176**	**653,164**	**–**
Derivative financial instruments				
– Positive fair value of derivatives	**10,285,832**	**159**	**10,285,673**	**–**
Financial assets at fair value through other comprehensive income				
– Certificates of deposit held	**4,851,855**	**515,422**	**4,336,433**	**–**
– Treasury bills	**20,108,119**	**18,791,843**	**1,316,276**	**–**
– Debt securities	**53,019,032**	**46,207,082**	**6,807,950**	**4,000**
– Equity securities	**113,666**	**–**	**–**	**113,666**
	78,092,672	**65,514,347**	**12,460,659**	**117,666**
	93,448,844	**69,931,682**	**23,399,496**	**117,666**
Liabilities				
Derivative financial instruments				
– Negative fair value of derivatives	**10,805,484**	**1,682**	**10,803,802**	**–**

(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 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	1,908,370	1,724,403	183,967	–
Derivative financial instruments				
– Positive fair value of derivatives	6,283,608	2,261	6,281,347	–
Financial assets at fair value through other comprehensive income				
– Certificates of deposit held	5,438,918	403,526	5,035,392	–
– Treasury bills	21,767,173	21,488,349	278,824	–
– Debt securities	49,353,873	46,012,472	3,337,401	4,000
– Equity securities	108,336	–	–	108,336
	76,668,300	67,904,347	8,651,617	112,336
	84,860,278	69,631,011	15,116,931	112,336
Liabilities				
Derivative financial instruments				
– Negative fair value of derivatives	6,363,156	152	6,363,004	–

During the period ended 30 June 2020 and year ended 31 December 2019, 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
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	Dividend growth model	Forecasted dividend and estimated risk-free rate	Refer to sensitivity analysis in note 34(a)(iv)

Note:

Both of debt and 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 common market valuation models.

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 2020		
	Financial assets at fair value through other comprehensive income		Total
Assets	**Debt securities** *HK$'000*	**Equity securities** *HK$'000*	*HK$'000*
At 1 January 2020	**4,000**	**108,336**	**112,336**
Transfer from level 2	**40,843**	**–**	**40,843**
Losses recognised in the income statement	**–**	**(4)**	**(4)**
Gains/(losses) recognised in other comprehensive income	**(40,843)**	**5,334**	**(35,509)**
At 30 June 2020	**4,000**	**113,666**	**117,666**
Total losses for the period included in the income statement for assets held at the end of the reporting period recorded in:			
– Losses from dealing in foreign currencies	**–**	**(4)**	**(4)**
Total (losses)/gains recognised in other comprehensive income	**(40,843)**	**5,334**	**(35,509)**

(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 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	–	(87,521)	–	(87,521)
Gains/(losses) recognised in the income statement	1	77,684	(16)	77,669
Changes in fair value recognised in other comprehensive income	–	–	12,551	12,551
At 31 December 2019	–	4,000	108,336	112,336
Total losses for the year included in the income statement for assets held at the end of the reporting period recorded in:				
– Losses from dealing in foreign currencies	–	–	(16)	(16)
Total gains recognised in other comprehensive income	–	–	12,551	12,551

(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 basis of 10% change in reasonably possible alternative assumptions on risk-free rate will determine the favourable and unfavourable changes on the fair value measurements.

	At 30 June 2020			
	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	**–**	**–**	**7,187**	**(6,528)**

	At 31 December 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	–	–	5,364	(4,785)

(b) Fair values of financial instruments not measured at fair value

All financial instruments are stated at fair value or carried at amounts not materially different from their fair value at 30 June 2020 and 31 December 2019 unless otherwise stated.

(i) Financial assets not measured at 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.

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

(b) Fair values of financial instruments not measured at fair value (continued)

(ii) Financial liabilities not measured at fair value

All financial liabilities are stated at fair value or carried at amounts not materially different from their fair values at 30 June 2020 and 31 December 2019, except the following:

	At 30 June 2020				
	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	**193,755**	**193,755**	**–**	**193,755**	**–**
Loan capital	**3,850,478**	**4,092,743**	**4,092,743**	**–**	**–**
	4,044,233	**4,286,498**	**4,092,743**	**193,755**	**–**

	At 31 December 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	3,112,919	3,116,629	–	3,116,629	–
Debt securities issued	3,346,067	3,366,484	–	3,366,484	–
Loan capital	6,249,182	6,469,575	6,469,575	–	–
	12,708,168	12,952,688	6,469,575	6,483,113	–

(35) ASSETS PLEDGED AS SECURITY

	At 30 June 2020 *HK$'000*	At 31 December 2019 *HK$'000*
Assets pledged as security		
Financial assets at fair value through other comprehensive income pledged as statutory deposits *(Note)*	**178,255**	202,408

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 2020 *HK$'000*	At 31 December 2019 *HK$'000*
Direct credit substitutes	**472,591**	1,972,142
Transaction-related contingencies	**751,657**	435,981
Trade-related contingencies	**5,389,333**	3,059,713
Forward forward deposits placed	**3,340,482**	12,873,035
Other commitments:		
– which are unconditionally cancellable or automatically cancellable due to deterioration in the creditworthiness of the borrower	**85,340,464**	80,912,845
– with an original maturity of not more than 1 year	**2,649,667**	1,967,519
– with an original maturity of more than 1 year	**4,407,940**	3,812,284
	102,352,134	105,033,519
Credit risk-weighted amounts	**4,890,742**	7,599,154

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 contractual 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 2019: 0% to 150%).

(b) Capital commitments

Capital commitments mainly for projects and the purchase of equipment outstanding at 30 June 2020 not provided for in the financial statements are as follows:

	At 30 June 2020 *HK$'000*	At 31 December 2019 *HK$'000*
Authorised and contracted for	**113,469**	134,027

(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 2020 and 31 December 2019.

(37) COMPARATIVE FIGURES

The Group has revised its segment allocation and certain cost allocation methods among different operating units and unallocated units for segment reporting purposes for the six months ended 30 June 2020 as explained in the Note 3. Certain comparative figures in the prior period's business segment reporting have been restated in order to conform with current period's presentation.

(38) NON-ADJUSTING POST BALANCE SHEET EVENT

The expected credit losses allowances at 30 June 2020 was estimated based on a range of forecast economic conditions as at that date. Since early July 2020, rapid evolvement of the COVID-19 pandemic with increasing number of local confirmed COVID-19 cases in Hong Kong, as well as exacerbating international diplomatic tensions were observed. These development are expected to bring negative impact to the pace of local and global economic recovery. For the second half of 2020, the COVID-19 pandemic as well as political uncertainties are likely to persist, resulting with unpredictable volatility to the global economy and challenging business environment. The economic forecast to determine the Group's expected credit loss allowances under HKFRS 9 for the second half of 2020 will incorporate the likelihood of further economic downturn, if any, as well as the different level of severity.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in Hong Kong dollars unless otherwise indicated)

(A) SUMMARY OF FINANCIAL POSITION

At period-ended/year-ended	**30 June 2020** **HK$'000**	31 December 2019 HK$'000
Loans and advances to customers	**192,679,964**	189,377,329
Expected credit losses on loans and advances to customers	**1,530,763**	3,596,987
Total assets	**365,851,929**	361,221,502
Total customers deposits	**275,498,717**	279,985,599
Total equity	**47,692,278**	46,450,174
Financial ratios		
Common Equity Tier 1 ("CET1") capital ratio	**13.8%**	14.3%
Tier 1 capital ratio	**16.6%**	17.2%
Total capital ratio	**19.1%**	20.0%
Loans to deposits	**69.9%**	67.6%
Loans to total assets	**52.7%**	52.4%
Average liquidity coverage ratio (for the half-year ended)	**248.2%**	236.9%
Cost to income (for the half-year ended)	**48.4%**	42.4%

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

The Group's regulatory disclosure information is published by using standard disclosure templates as specified by the HKMA ('Regulatory Disclosure Statement') and that can be viewed in the Regulatory Disclosures section of our Bank's corporate website www.cncbinternational.com. The Bank's Regulatory Disclosure Statement, together with the disclosures in the interim report, contained all the disclosures required by the Banking (Disclosure) Rules issued by the HKMA.

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 2020 *HK$'000*	At 31 December 2019 *HK$'000*
Common Equity Tier 1 ("CET1") capital instruments and reserves		
Directly issued qualifying CET1 capital instruments plus any related share premium	**18,404,013**	18,404,013
Retained earnings	**20,669,005**	19,681,132
Disclosed reserves	**907,815**	646,882
CET1 capital before regulatory deductions	**39,980,833**	38,732,027
CET1 capital: regulatory deductions		
Deferred tax assets net of deferred tax liabilities	**73,349**	315,216
Other intangible assets (net of related deferred tax liability)	**590,874**	584,809
Cumulative fair value gains arising from the revaluation of land and buildings (covering both own-use and investment properties)	**185,378**	149,436
Regulatory reserve for general banking risks	**1,521,729**	243,313
Valuation adjustments	**11,100**	6,409
Debt valuation adjustments in respect of derivative contracts	**2,633**	2,512
Total regulatory deductions to CET1 capital	**2,385,063**	1,301,695
CET1 capital	**37,595,770**	37,430,332
Additional Tier 1 ("AT1") capital		
Additional Tier 1 capital	**7,772,060**	7,772,060
Tier 1 capital	**45,367,830**	45,202,392
Tier 2 capital instruments and provisions		
Qualifying Tier 2 capital instruments plus any related share premium	**3,875,098**	4,365,474
Reserve attributable to fair value gains on revaluation of holdings of land and buildings	**83,420**	67,246
Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	**2,794,006**	2,841,791
Tier 2 capital base before deductions	**6,752,524**	7,274,511
Tier 2 capital: regulatory deductions		
Regulatory deductions to Tier 2 capital	**–**	–
Tier 2 capital	**6,752,524**	7,274,511
Total capital	**52,120,354**	52,476,903

(ii) Risk-weighted amount

– Credit risk	**243,541,757**	234,172,753
– Market risk	**13,771,575**	12,866,425
– Operational risk	**15,283,950**	15,393,163
	272,597,282	262,432,341

(C) CAPITAL ADEQUACY (CONTINUED)

(iii) Capital adequacy ratios

	At 30 June 2020	At 31 December 2019
– CET1 capital ratio	**13.8%**	14.3%
– Tier 1 capital ratio	**16.6%**	17.2%
– Total capital ratio	**19.1%**	20.0%

(iv) Capital instruments

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

	At 30 June 2020 *HK$'000*	At 31 December 2019 *HK$'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 2020 *HK$'000*	At 31 December 2019 *HK$'000*
Additional Tier 1 Capital Securities		
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	7,770,412

	At 30 June 2020 *HK$'000*	At 31 December 2019 *HK$'000*
Tier 2 capital instruments		
Issued by the Bank		
– US$500 million Subordinated Fixed Rate Notes at 6.875%, due 2020	**–**	2,384,710
– US$500 million Subordinated Fixed Rate Notes at 4.625%, due 2029	**3,850,478**	3,864,472
	3,850,478	6,249,182

(C) CAPITAL ADEQUACY (CONTINUED)

(v) 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 2020	
Names of subsidiary	**Principal activities**	**Total assets** *HK$'000*	**Total equity** *HK$'000*
Viewcon Hong Kong Limited	Mortgage financing	**1,324**	**1,320**

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 2020	
Names of subsidiaries	**Principal activities**	**Total assets** *HK$'000*	**Total equity** *HK$'000*
Carford International Limited	Property holding	**37,318**	**14,594**
CITIC Bank International (China) Limited	Banking	**9,621,370**	**1,474,599**
CITIC Insurance Brokers Limited	Insurance broker	**383,146**	**363,476**
CKWB-SN Limited	Issue of structured notes and investments	**–**	**–**
CKWH-UT2 Limited	Issue of subordinated notes	**–**	**–**
HKCB Finance Limited	Consumer financing	**6,137,460**	**561,192**
Ka Wah International Merchant Finance Limited	Inactive	**3,033**	**2,986**
The Ka Wah Bank (Trustee) Limited	Trustee services	**5,402**	**5,402**
Viewcon Hong Kong Limited	Mortgage financing	**1,324**	**1,320**

Subsidiaries not included in consolidation for regulatory purposes are nominee services companies and assets management companies which are 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)

(v) Basis of consolidation (continued)

Names of subsidiaries	Principal activities	At 30 June 2020 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	**3,680**	**66**
Security Nominees Limited	Nominee services	**–**	**–**
Sino-Allied Development Limited	Inactive	**10**	**10**
CNCBI Investment Holdings Limited	Investment holding	**586,076**	**484,634**
CNCBI Asset Management Limited	Asset management	**33,795**	**33,604**
CNCBI Financial Consultant Limited	Not yet commenced business	**1,165**	**(3,651)**
Prosperous Century Global Investment Fund SPC	Investment fund	**682,909**	**571,836**
China CITIC Bank International Asset Management (Shenzhen) Limited	Asset management	**14,481**	**13,886**

As at 30 June 2020, 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 2020					
	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	**124,787,968**	**3,173,241**	**3,281,350**	**340,092**	**56,891**	**120,923**
Mainland China	**42,508,195**	**1,400,851**	**1,425,772**	**154,876**	**510,193**	**119,229**
United States	**9,344,588**	**–**	**160,457**	**17,848**	**–**	**16,144**
Others	**16,039,213**	**132,124**	**163,255**	**108,569**	**9**	**85,989**
	192,679,964	**4,706,216**	**5,030,834**	**621,385**	**567,093**	**342,285**

	At 31 December 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	112,057,703	256,698	314,262	329,070	1,594,234	38,488
Mainland China	54,737,559	1,520,887	1,553,281	294,806	148,190	913,919
United States	7,812,490	164,436	323,273	11,770	299	85,989
Others	14,769,577	79,949	79,949	126,046	7,070	47,106
	189,377,329	2,021,970	2,270,765	761,692	1,749,793	1,085,502

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 2020		At 31 December 2019	
	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	**3,109,801**	**1.61**	1,273,990	0.67
– 1 year or less but over 6 months	**1,039,813**	**0.54**	113,496	0.06
– over 1 year	**556,602**	**0.29**	634,484	0.34
	4,706,216	**2.44**	2,021,970	1.07
Secured overdue loans and advances	**2,918,596**		866,415	
Unsecured overdue loans and advances	**1,787,620**		1,155,555	
	4,706,216		2,021,970	
Market value of collateral held against the secured overdue loans and advances	**3,173,657**		1,031,977	
Expected credit losses allowances	**258,296**		1,045,362	

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 which were overdue for over three months at 30 June 2020 and 31 December 2019 respectively.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(F) RESCHEDULED LOANS

	At 30 June 2020		At 31 December 2019	
	HK$'000	**% of total loans and advances to customers**	*HK$'000*	% of total loans and advances to customers
Rescheduled loans	**27,827**	**0.014**	36,160	0.019

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 2020 and 31 December 2019 respectively.

(G) REPOSSESSED ASSETS

	At 30 June 2020 ***HK$'000***	At 31 December 2019 *HK$'000*
Included in loans and advances to customers and other accounts	**126,767**	118,334

The amount represented the estimated market value of the repossessed assets at 30 June 2020 and 31 December 2019 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 2020				
			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	**36,394,367**	**88,008**	**3,083,780**	**4,446,795**	**44,012,950**
Offshore centres	**8,799,257**	**33,357**	**9,984,671**	**49,191,536**	**68,008,821**
of which Hong Kong	**2,242,564**	**33,004**	**9,112,686**	**36,841,718**	**48,229,972**
Developing Asia-Pacific	**40,138,307**	**4,271,131**	**6,099,733**	**48,750,987**	**99,260,158**
of which Mainland China	**36,600,233**	**4,258,483**	**6,099,733**	**46,947,831**	**93,906,280**

	At 31 December 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	32,246,182	33,691	2,628,932	4,531,552	39,440,357
Offshore centres	13,106,799	32,505	9,613,134	41,823,801	64,576,239
of which Hong Kong	6,293,883	32,003	9,203,500	30,860,173	46,389,559
Developing Asia-Pacific	46,644,129	2,400,773	8,683,970	53,873,468	111,602,340
of which Mainland China	42,891,517	2,400,110	8,683,970	52,313,249	106,288,846

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 2020		
		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)	**38,047,016**	**1,107,747**	**39,154,763**
(2)	Local governments, local government-owned entities and their subsidiaries and JVs	**10,308,939**	**1,710,401**	**12,019,340**
(3)	PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	**59,324,331**	**6,773,007**	**66,097,338**
(4)	Other entities of central government not reported in item 1 above	**5,687,424**	**66,258**	**5,753,682**
(5)	Other entities of local governments not reported in item 2 above	**327,107**	**40,406**	**367,513**
(6)	PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	**17,492,210**	**2,633,685**	**20,125,895**
(7)	Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	**9,926,548**	**3,159**	**9,929,707**
Total		**141,113,575**	**12,334,663**	**153,448,238**
Total assets after provision		**365,851,929**		
On-balance sheet exposures as percentage of total assets		**38.6%**		

		At 31 December 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)	38,930,094	1,047,110	39,977,204
(2)	Local governments, local government-owned entities and their subsidiaries and JVs	12,837,141	713,237	13,550,378
(3)	PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	59,852,632	3,776,776	63,629,408
(4)	Other entities of central government not reported in item 1 above	5,695,927	491,794	6,187,721
(5)	Other entities of local governments not reported in item 2 above	299,800	10,295	310,095
(6)	PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	19,289,655	2,767,733	22,057,388
(7)	Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	9,120,511	144,720	9,265,231
Total		146,025,760	8,951,665	154,977,425
Total assets after provision		361,221,502		
On-balance sheet exposures as percentage of total assets		40.4%		

(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.

Throughout the first half of 2020, the Group continues to enhance its risk management framework and internal control practices by solidifying its three lines of defence, promoting risk culture and reviewing its risk appetite and policies to ensure its compliance with regulatory requirements. Various risk management enhancement projects and initiatives are underway to keep pace with the evolving regulatory landscape and increasingly stringent regulatory requirements. These projects included Initial Margin Standard for non-centrally cleared over-the-counter derivatives, Standardized Approach to Counterparty Credit Risk, and Basel III reform on the calculation of risk-weighted assets for credit risk. Furthermore, the Group continues to enhance the existing risk governance, control process, reporting, disclosure and variance analysis on its risk framework and metrics.

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 adopted a granular 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. The integration of this framework into the Group's reporting structure has enabled 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 Quality Classification Policy.
G23 Doubtful	D	D	D	Doubtful. In accordance with the Asset Quality Classification Policy.
G24 Loss	D	D	D	Loss. In accordance with the Asset Quality 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 2020 *HK$'000*	At 31 December 2019 *HK$'000*
Cash and balances with banks, central banks and other financial institutions	**17,994,240**	25,533,437
Placements with and advances to banks, central banks and other financial institutions	**52,317,786**	54,468,897
Financial assets at fair value through profit or loss	**5,070,340**	1,908,370
Derivative financial instruments	**10,285,832**	6,283,608
Loans and advances to customers and other accounts	**199,039,654**	193,065,725
Financial assets at fair value through other comprehensive income	**77,979,006**	76,559,964
Amortised cost investment	**54,283**	–
Financial guarantees and other credit-related contingent liabilities	**9,954,063**	18,340,871
Loan commitments and other credit-related commitments	**92,398,071**	86,692,648
	465,093,275	462,853,520

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 2020			
		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(b))*	**10,285,832**	**(4,560,286)**	**(1,873,059)**	**3,852,487**
Financial liabilities				
– Derivative financial instruments *(note 16(b))*	**10,805,484**	**(4,560,286)**	**–**	**6,245,198**

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(iii) Master netting arrangement (continued)

	At 31 December 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(b))*	6,283,608	(4,103,014)	(1,644,063)	536,531
Financial liabilities				
– Derivative financial instruments *(note 16(b))*	6,363,156	(4,103,014)	–	2,260,142

(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 2020 and 31 December 2019, excluding impaired exposure, is broken down as follows:

	At 30 June 2020 ***HK$'000***	At 31 December 2019 *HK$'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	**92,476,516**	87,080,130
– past due but not impaired	**1,747,652**	1,554,412
	94,224,168	88,634,542

(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.

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(vi) Expected credit losses measurement (continued)

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.

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.

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(vi) Expected credit losses measurement (continued)

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 represents the most likely scenario of continuing the current economic situation; carrying a weight of 55%; the upside scenario represents likelihood of further improving the current economic prospect; carrying a weight of 10%; and the downside scenarios, namely, mild, medium and severe represents the likelihood of economic downturn of different severities, carrying a weight of 10%, 20% and 5% respectively. 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.

The Base scenario

The Group's Base Scenario is characterised by a slower growth over the forecast period of 2020 – 2024, which refers to the global economic growth rate will slow significantly in these five years and lower than that during 2010 – 2019, with cyclical slowdown added by a de-globalization trend and uncertain developments in the COVID-19 pandemic.

Mainland China GDP growth is forecast to soften 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 China – US conflicts, global economic slowdown, and the uncertainty on the COVID-19 pandemic.

Hong Kong economy is expected to face multiple challenges in terms of local social unrest, US sanctions and the COVID-19 pandemic, and forecast to see growth slow down further over the forecast period.

Inflation is anticipated to remain below the central banks' target in major advanced economies over the forecast period. Most central banks have resorted to an ultra-loose monetary policy this year, and as a result over-liquidity and debt problems are poised to worsen in the years ahead.

Unemployment rates have risen sharply in most economies including Mainland China and Hong Kong this year, as a result of the COVID-19 pandemic and economic downturn. The unemployment rates are expected to fall back gradually but unlikely return to normal levels any time soon over the forecast period, while the situation in Hong Kong would be more serious facing another challenge from the social unrest.

(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 Severe Scenario

Under the Severe Scenario, the global economy falls into recession hit by persisted COVID-19 pandemic, escalating China – US and global economic and trade conflicts, fast downturn in the US and China economies, policy failures by governments in major economies, or intensified geopolitical tensions. GDP growth is forecast to become deeply negative in most of the advanced economies, including Hong Kong, 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 s 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.

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 or fulfill certain assessment criteria as defined in the Asset Quality Classification Policy.

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; (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; and (iii) debtors in state of insolvency. The ECL allowances changed from HKD3,596.9 million as of 31 December 2019 to HKD1,530.7 million as of 30 June 2020. It was mainly as a result of the Group writing off certain loans that have no reasonable expectation of full recovery. The Group will continue to objectively and timely assess the ECL allowances according to HKFRS 9 to ensure its sufficiency.

(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 2020						
	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	17,997,328	–	–	–	17,997,328	(3,088)	17,994,240
– Stage 1	17,997,328	–	–	–	17,997,328	(3,088)	17,994,240
– Stage 2	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–
Placements with and advances to banks, central banks and other financial institutions at amortised cost	52,313,283	13,253	–	–	52,326,536	(8,750)	52,317,786
– Stage 1	52,313,283	13,253	–	–	52,326,536	(8,750)	52,317,786
– Stage 2	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–
Loans and advances to customers at amortised cost	110,377,880	67,280,813	9,990,437	5,030,834	192,679,964	(1,530,763)	191,149,201
– Stage 1	108,198,237	66,119,680	1,371,086	–	175,689,003	(621,385)	175,067,618
– Stage 2	2,179,643	1,161,133	8,619,351	–	11,960,127	(567,093)	11,393,034
– Stage 3	–	–	–	5,030,834	5,030,834	(342,285)	4,688,549
Other financial assets at amortised cost	569,474	537,615	–	41,719	1,148,808	(39,275)	1,109,533
– Stage 1	569,474	537,615	–	–	1,107,089	(1,395)	1,105,694
– Stage 2	–	–	–	–	–	–	–
– Stage 3	–	–	–	41,719	41,719	(37,880)	3,839
Amortised cost investments	54,317	–	–	–	54,317	(34)	54,283
– Stage 1	54,317	–	–	–	54,317	(34)	54,283
– Stage 2	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–
Loan commitments and financial guarantee contracts *(Note 1)*	98,983,652	28,000	–	–	99,011,652	(70,531)	98,941,121
– Stage 1	98,983,652	28,000	–	–	99,011,652	(70,531)	98,941,121
– Stage 2	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–
Total	280,295,934	67,859,681	9,990,437	5,072,553	363,218,605	(1,652,441)	361,566,164
Financial assets at fair value through other comprehensive income – Debt securities *(Note 2)*	72,360,078	5,618,928	–	–	77,979,006	(181,535)	
– Stage 1	72,360,078	5,618,928	–	–	77,979,006	(65,282)	
– Stage 2	–	–	–	–	–	–	
– Stage 3	–	–	–	–	–	(116,253)	
Total	72,360,078	5,618,928	–	–	77,979,006	(181,535)	

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(vii) Credit quality of financial assets (continued)

	31 December 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	25,519,378	17,635	–	–	25,537,013	(3,576)	25,533,437
– Stage 1	25,519,378	17,635	–	–	25,537,013	(3,576)	25,533,437
– Stage 2	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–
Placements with and advances to banks, central banks and other financial institutions at amortised cost	54,084,307	395,862	–	–	54,480,169	(11,272)	54,468,897
– Stage 1	54,084,307	395,862	–	–	54,480,169	(11,272)	54,468,897
– Stage 2	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–
Loans and advances to customers at amortised cost	110,205,539	66,396,611	10,504,414	2,270,765	189,377,329	(3,596,987)	185,780,342
– Stage 1	108,193,871	65,441,247	1,446,355	–	175,081,473	(761,692)	174,319,781
– Stage 2	2,011,668	955,364	9,058,059	–	12,025,091	(1,749,793)	10,275,298
– Stage 3	–	–	–	2,270,765	2,270,765	(1,085,502)	1,185,263
Other financial assets at amortised cost	425,535	1,823,186	–	41,719	2,290,440	(39,360)	2,251,080
– Stage 1	425,535	1,823,186	–	–	2,248,721	(1,480)	2,247,241
– Stage 2	–	–	–	–	–	–	–
– Stage 3	–	–	–	41,719	41,719	(37,880)	3,839
Amortised cost investments	–	–	–	–	–	–	–
– Stage 1	–	–	–	–	–	–	–
– Stage 2	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–
Loan commitments and financial guarantee contracts *(Note 1)*	92,138,084	22,400	–	–	92,160,484	(70,663)	92,089,821
– Stage 1	92,138,084	22,400	–	–	92,160,484	(70,663)	92,089,821
– Stage 2	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–
Total	282,372,843	68,655,694	10,504,414	2,312,484	363,845,435	(3,721,858)	360,123,577
Financial assets at fair value through other comprehensive income – Debt securities *(Note 2)*	74,203,301	2,300,623	–	56,040	76,559,964	(137,371)	
– Stage 1	74,203,301	2,300,623	–	–	76,503,924	(61,963)	
– Stage 2	–	–	–	–	–	–	
– Stage 3	–	–	–	56,040	56,040	(75,408)	
Total	74,203,301	2,300,623	–	56,040	76,559,964	(137,371)	

(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. Therefore, figures disclosed in the above do not agree with the figures disclosed in note 36(a) of the interim financial statements.

(2) Debt securities measured at FVOCI are held at fair value at 30 June 2020. The expected credit losses allowances in respect of debt securities measured at FVOCI are held within 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 2020			
	Debt securities measured at FVPL *HK$'000*	**Debt securities measured at FVOCI** *HK$'000*	**Debt securities measured at amortised cost investment** *HK$'000*	**Total** *HK$'000*
Aaa	**67,705**	**5,841,493**	**–**	**5,909,198**
Aa3 to Aa1	**526,033**	**19,101,446**	**54,283**	**19,681,762**
A3 to A1	**2,671,914**	**42,174,780**	**–**	**44,846,694**
Lower than A3	**1,014,193**	**8,815,398**	**–**	**9,829,591**
	4,279,845	**75,933,117**	**54,283**	**80,267,245**
Unrated	**790,495**	**2,045,889**	**–**	**2,836,384**
Total	**5,070,340**	**77,979,006**	**54,283**	**83,103,629**

(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 2019			
	Debt securities measured at FVPL *HK$'000*	Debt securities measured at FVOCI *HK$'000*	Debt securities measured at amortised cost investment *HK$'000*	Total *HK$'000*
Aaa	–	4,446,128	–	4,446,128
Aa3 to Aa1	304,817	20,691,330	–	20,996,147
A3 to A1	315,173	39,714,114	–	40,029,287
Lower than A3	936,797	10,055,043	–	10,991,840
	1,556,787	74,906,615	–	76,463,402
Unrated	351,583	1,653,349	–	2,004,932
Total	1,908,370	76,559,964	–	78,468,334

(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

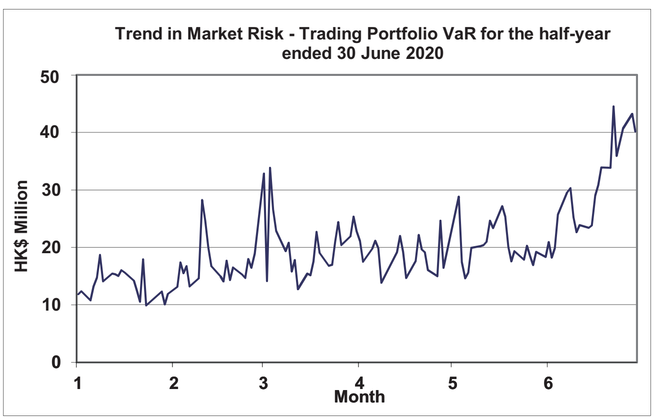
Value-at-risk ("VaR")

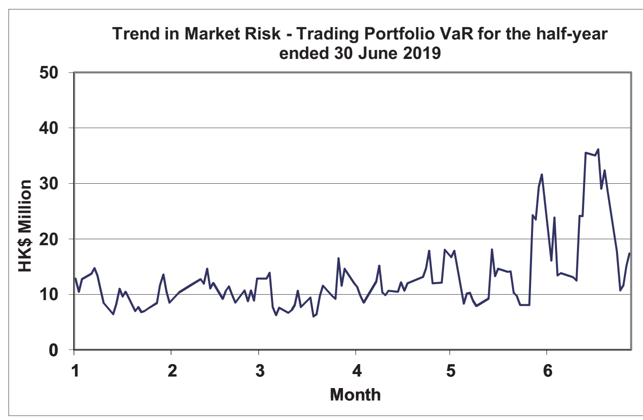
VaR is a technique in estimating the potential losses that could occur on market risk-taking positions due to market rates and prices movement under normal market conditions over a specified time horizon. The model is designed to capture different types of risk including interest rate risk, foreign exchange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

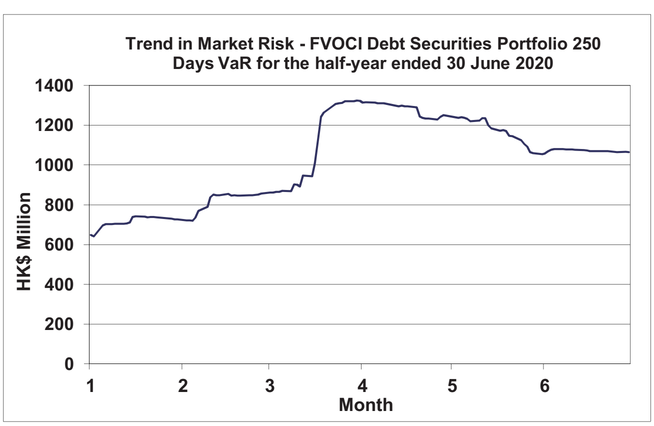
For the calculation of VaR, the Group uses the most recent two years of historical market rates, prices and volatilities.

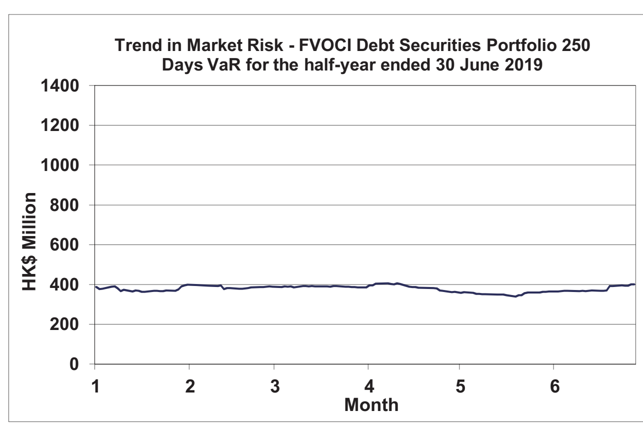
– For the trading positions, the VaR is calculated for one-day holding period.





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





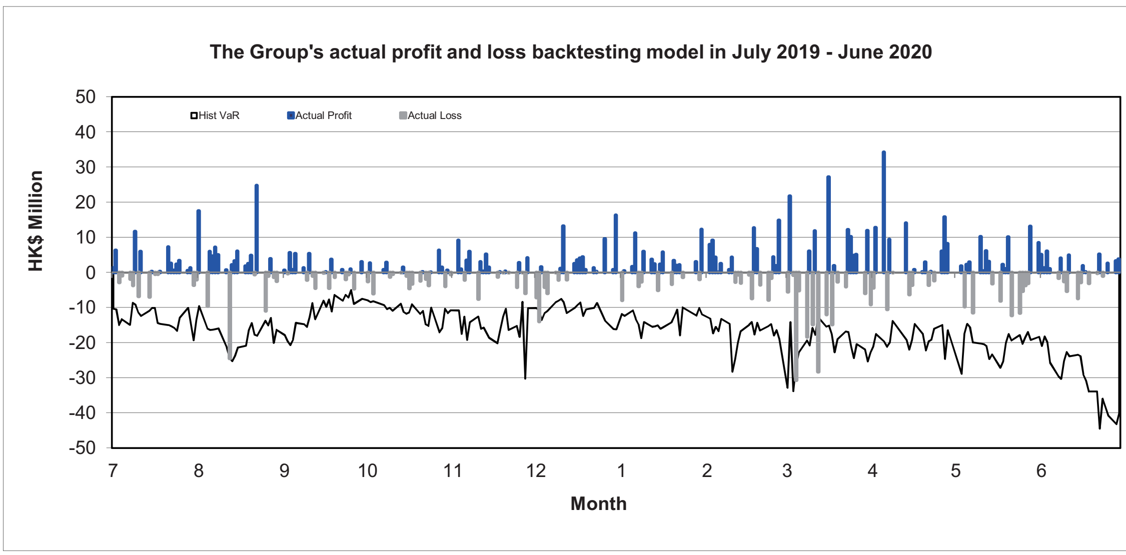
(J) RISK MANAGEMENT (CONTINUED)

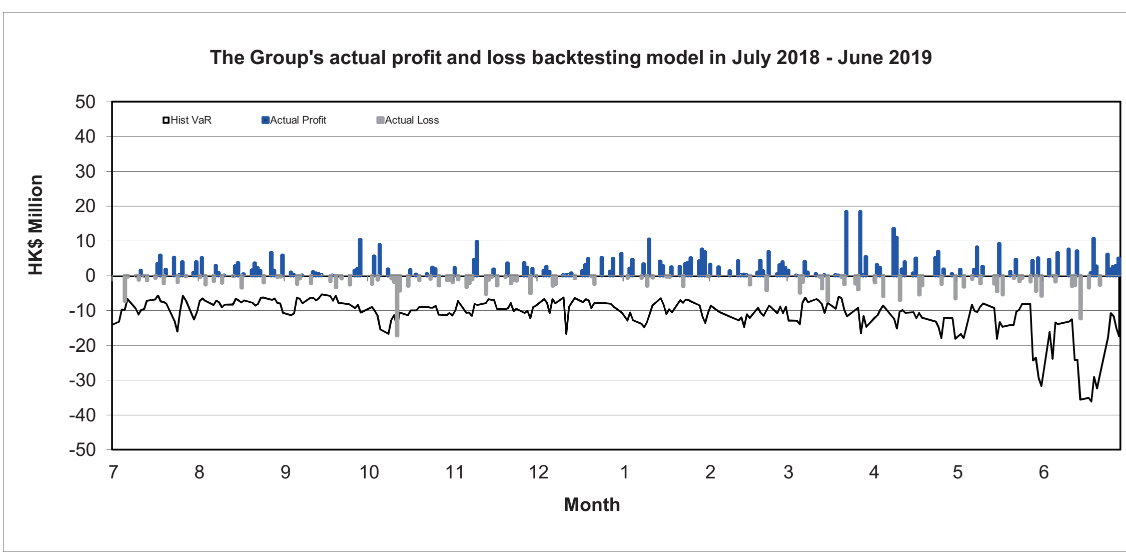
(b) Market risk management (continued)

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 2019 to 30 June 2020, there were 4 exceptions in the back-testing results (for the period of 1 July 2018 to 30 June 2019, there were 1 exception), which corresponds to the green zone specified by the HKMA and the international Basel principles.





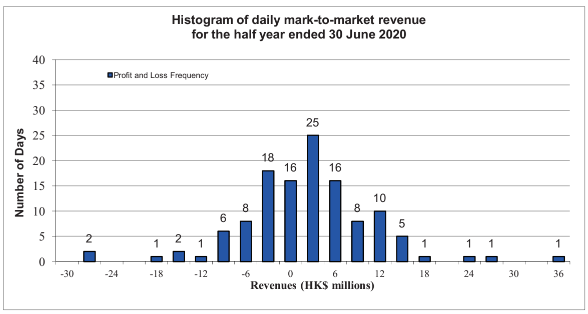
(J) RISK MANAGEMENT (CONTINUED)

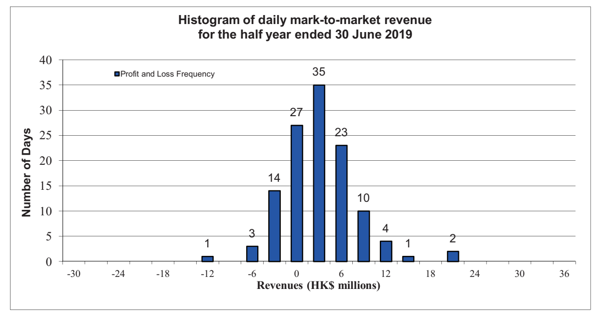
(b) Market risk management (continued)

Methodology and characteristics of market risk model (continued)

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

For the six months ended 30 June 2020, the average daily mark-to-market revenue from the Group's trading portfolio was a gain of HK$1,041,000 (30 June 2019: gain of HK$1,426,000). The standard deviation of the daily revenue was HK$8,943,000 (30 June 2019: HK$4,786,000). The graphs below show the histograms of the Group's daily mark-to-market revenue for the period ended 30 June 2020 and 2019, 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 2020				Six months ended 30 June 2019			
	Approximate			**At 30**	Approximate			At 30
	maximum	**minimum**	**mean**	**June 2020**	maximum	minimum	mean	June 2019
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Foreign exchange risk	**31,032**	**3,158**	**11,304**	**26,851**	15,432	2,494	7,389	14,128
Interest rate risk and credit spread risk	**24,171**	**8,513**	**15,291**	**21,538**	36,081	4,462	10,990	10,004
Total VaR	**44,497**	**9,909**	**20,082**	**40,166**	36,124	6,036	13,138	17,359

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

	Six months ended 30 June 2020				Six months ended 30 June 2019			
	Approximate			**At 30**	Approximate			At 30
	maximum	**minimum**	**mean**	**June 2020**	maximum	minimum	mean	June 2019
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Interest rate risk	**1,162,221**	**752,505**	**1,035,430**	**1,113,904**	612,771	410,965	506,768	505,459
Credit spread risk	**1,326,916**	**780,097**	**1,109,374**	**1,129,865**	555,271	423,341	486,397	554,866
Total 250-day VaR	**1,324,027**	**641,417**	**1,020,947**	**1,064,040**	405,912	340,157	378,133	400,835

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 2020, the Group's average daily trading profit and loss from foreign exchange positions was a profit of HK$177,000 (six months ended 30 June 2019: a profit of HK$1,135,000) with a standard deviation of HK$15,484,000 (six months ended 30 June 2019: HK$5,094,000).

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

	At 30 June 2020				At 31 December 2019			
Equivalent in HK$'000	**USD**	**RMB**	**Others**	**Total**	USD	RMB	Others	Total
Spot assets	**172,457,226**	**19,513,486**	**23,203,334**	**215,174,046**	155,397,093	21,679,191	26,317,487	203,393,771
Spot liabilities	**(121,747,870)**	**(20,987,019)**	**(15,655,770)**	**(158,390,659)**	(111,503,584)	(21,591,724)	(15,393,598)	(148,488,906)
Forward purchases	**451,758,563**	**208,980,774**	**94,628,408**	**755,367,745**	366,026,392	122,622,627	79,498,934	568,147,953
Forward sales	**(496,311,526)**	**(208,406,063)**	**(102,711,709)**	**(807,429,298)**	(406,919,637)	(122,158,607)	(89,612,241)	(618,690,485)
Net options position	**(1,701,298)**	**1,899,652**	**(195,566)**	**2,788**	(1,720,295)	1,521,451	235,996	37,152
Net long/(short) position	**4,455,095**	**1,000,830**	**(731,303)**	**4,724,622**	1,279,969	2,072,938	1,046,578	4,399,485
Net structural position	**–**	**657,258**	**48,542**	**705,800**	–	669,549	48,518	718,067

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 2020, the Group's average daily trading profit and loss related to interest rate and fixed income trading strategy was a profit of HK$864,000 (30 June 2019: a profit of HK$290,000), with a standard deviation of HK$16,111,000 (30 June 2019: HK$4,483,000).

(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 2020, 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 changes in average LCR in the first half of 2020 was mainly driven by the changes in Level 1 HQLA.

(J) RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk management (continued)

	Weighted amount (average value)				
	For quarter ended 30 June 2020	**For quarter ended 31 March 2020**	For quarter ended 31 December 2019	For quarter ended 30 September 2019	For quarter ended 30 June 2019
Average LCR	**223.8%**	**272.2%**	225.7%	207.6%	224.0%

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 2020	**For quarter ended 31 March 2020**	For quarter ended 31 December 2019	For quarter ended 30 September 2019	For quarter ended 30 June 2019
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Level 1 assets	**34,012,891**	**38,613,525**	28,625,081	25,471,958	27,902,986
Level 2 assets	**8,373,110**	**8,398,230**	6,840,970	7,596,810	6,648,674
Total	**42,386,001**	**47,011,755**	35,466,051	33,068,768	34,551,660

The Group also maintains sufficient available stable funding in support of its longer-term assets to meet the statutory NSFR requirements. The changes in the NSFR in the first half of 2020 was mainly driven by the movements in deposits from retail customers. There is no interdependent asset and liability as defined in the Banking (Liquidity) Rules in the Group.

	Quarter ended 30 June 2020	**Quarter ended 31 March 2020**	Quarter ended 31 December 2019	Quarter ended 30 September 2019	Quarter ended 30 June 2019
NSFR	**139.7%**	**138.4%**	145.0%	139.5%	143.1%

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 the CCyB ratio for Hong Kong is 2.5% of risk-weighted amounts effective from 1 January 2019, reduced to 2.0% effective from 14 October 2019 and is further reduced to 1.0% effective from 16 March 2020. 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 period.

The capital adequacy ratios at 30 June 2020 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 2020 and year ended 31 December 2019, 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") is 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 relevant matters. Implementation of ORM plans and tools is driven by a Group-level ORM department 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 Group and Human Resources Group.

Management of operational risk

To ensure effective management of operational risk across the Group, the Governance Structure presents three lines of defense as depicted below:

First line of Defence – Day-to-day operational risk management lies with our business units, support units and the Business Operational Risk Officer ("BORO") of each unit assists the respective unit heads in this regard.

Second line of Defence – ORM department 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 department 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.

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

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

(J) RISK MANAGEMENT (CONTINUED)

(e) Operational risk management (continued)

Key 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 department. 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 department 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 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 governance framework to progress with industrial developments. 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 department 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.

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 2020, 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 Management Group, Information Technology Group and CEO Office.

REPORT OF THE CHIEF EXECUTIVE OFFICER

During the first half of 2020, we experienced challenges that have never been seen before with the global outbreak of COVID-19 and intensifying tension between China and the US as conflicts extended from trade to areas such as high-tech, pandemic prevention and control as well as diplomacy. As a result, the risk of decoupling increased. As Hong Kong battled against the COVID-19 pandemic, social events have somewhat subsided but continued to linger. Hong Kong's economy was severely impacted with GDP decreasing by roughly 9.0% during the first half of the year while the unemployment rate rose to a 15-year high of 6.2%. Cross-border activities between Hong Kong and China were almost stagnant as a result of the COVID-19 outbreak.

During such challenging times, China CITIC Bank International Limited ("CNCBI") and its subsidiaries (together "the Group") remained resilient and steadfastly implemented its established strategic plans by building a more solid foundation, enhancing cost efficiency, continuously strengthening internal controls and risk management capabilities and spearheading business transformation via the adoption of Fintech, in order to empower itself to overcome significant challenges and achieve high quality and sustainable development. At the same time, the Group proactively fulfilled its corporate social responsibilities and provided support to the underprivileged affected by the COVID-19 outbreak. In addition to arranging loan facilities for its customers in support of the relief measures launched by the Hong Kong Government, the Group also encouraged its employees to participate in a donation matching program and provided support to various charity organizations.

OPERATING ENVIRONMENT

The global economy fell into recession in the first half of 2020 as it was hit severely by the COVID-19 pandemic. Though various governments launched ultra-loose monetary and fiscal policies, unprecedented pandemic-containment measures still suffocated production and consumption activities on a large scale, sending growth in major economies into negative territory. The US economy expanded mildly in the first quarter but posted a 9.5% drop in the second quarter, while the Eurozone, UK and Japan economies all reported negative growth during the first quarter with significantly deeper declines registered in the following quarter. The emerging market economies also reported sizable declines.

Mainland China's economy registered a slump of 6.8% in the first quarter, which is the worst in history, while a decline of 1.6% for the first half of the year was recorded despite a positive turnaround in the second quarter. The Hong Kong economy was even worse with a negative growth of 9.1% registered for the first quarter and a further significant drop of 9.0% registered for the second quarter. Meanwhile, the tension between China and the US intensified and extended from trade conflicts to high-tech and financial wars. The US announced sanctions on Hong Kong in the wake of the establishment of the Hong Kong National Security Law by the Central Government which did not create immediate material impact but may still lead to negative consequences in the future. Pre-tax profits of retail banks in Hong Kong decreased by 7.7% in the first quarter, indicating a noticeable deterioration of the banking environment.

FINANCIAL REVIEW

The Group posted profit attributable to shareholders of HK$1.21 billion, representing a 19.5% year-on-year decrease. Operating income for the first half of the year was HK$3.82 billion, down 10.2% from the same period last year. Net interest income fell by 21.2% year on year to HK$2.51 billion on the back of a decrease in net interest margin. Net interest margin decreased by 37 basis points versus the full year of 2019 to reach 1.48% mainly because the decrease in asset yields exceeded the drop in funding costs. Non-interest income surged by 22.9% to reach HK$1.30 billion driven by a notable increase in treasury-related income.

Operating expenses increased by 2.6% year on year to HK$1.85 billion, while the cost-to-income ratio was 48.4%. The Group was able to strengthen cost control measures and spearhead investments in technology and human capital at the same time to ensure a solid foundation for future business growth.

Impairment loss for the first half of the year was HK$499.01 million. On the other hand, impaired loan ratio was 2.61%, representing a 1.41 percentage points increase versus that of end-2019, largely due to the downgrading of isolated large-size loan exposures. The overall quality of the Group's loan portfolio remains healthy and the Group has also successfully passed the relevant stress tests. For the remainder of the year, the Group will step up its collection efforts for impaired loans and improve the quality of its loan portfolio.

Given the volatility of market conditions and increasing corporate credit risk, the Group was cautious in granting new credit facilities and proactively adjusted the mix of assets to enhance capital efficiency. As at 30 June 2020, total assets at HK$365.85 billion was 1.3% higher than the end-2019 level. Customer loans (including trade bills) increased by 1.7% from the end of 2019 to HK$192.68 billion on the back of a 9.3% rise in retail loans. Meanwhile, customer deposits (including certificates of deposit issued) amounted to HK$275.50 billion, down 1.6% from the end of 2019. The loan-to-deposit ratio remained healthy at 69.9%.

BUSINESS REVIEW

Wholesale Banking Business

During the first half of 2020, the global economic situation was volatile. Coupled with an outbreak of the COVID-19, many enterprises registered stagnant business growth while expansion plans have been temporarily suspended. There was a significant negative impact on Chinese corporates' cross-border businesses with Hong Kong, which led to corresponding adverse consequences for the Bank's Wholesale Banking business. In the face of a challenging operating environment, the Group's Wholesale Banking business continued to spearhead business transformation, proactively expanded its fundamental customer base, and enhanced product and service offerings. The key business focuses in the first six months are manifested in the following four areas:

Firstly, implemented "Relationship Manager + Product Manager" marketing strategy, built up the performance appraisal system, strengthened cooperation amongst different departments and enhanced cross-selling. In the first half of the year, the Wholesale Banking Group deepened collaboration with the Treasury and Markets Group by co-marketing and maintaining customer relationships together, so that business referrals and customer penetration rates increased, thereby improving the customers' overall profitability. As at 30 June 2020, non-interest income increased by 15.7% year on year, while the ratio of non-interest income to total income reached 27.9%, an increase of 6.7 percentage points compared to the same period last year.

Secondly, strengthened marketing of key products and continued to launch new products. Based on the development strategy of the Wholesale Banking business, there was a focus on promoting the syndication business in the first half of the year. According to the latest rankings for syndicated loans, CNCBI jumped from a ranking of 41st at the end of 2019 to 22nd at the end of the first quarter of 2020 and further to 8th at the end of the first half of 2020. At the same time, continuously optimized and developed trade finance and cash management products, such as premium time deposits, striving to provide better products and services to its customers.

Thirdly, further deepened collaboration with the CITIC Group and parent bank China CITIC Bank Corporation Limited ("CNCB"). In-line with the strategic focus of the CITIC Group and CNCB, CNCBI also emphasized collaboration as one of the key focuses this year. In the first half of the year, actively conducted online communication with the CITIC Group and CNCB to further clarify the communication channels between relationship managers and CNCB branches, strengthened information sharing and enhanced efficiency in collaboration with the CITIC Group and CNCB.

Finally, strengthened internal collaboration and improved its global setup. Leveraged on the Group's branch network in the US, Singapore and Macau and clarified the collaboration model between overseas branches and the Hong Kong headquarters in order to provide customers with global services and enhanced customer experience.

In the second half of 2020, the COVID-19 pandemic is expected to remain unpredictable while volatility in the global economy will persist, resulting in heightened uncertainties in the operating environment. Wholesale Banking business will continue to spearhead its core strategic focus by strictly enforcing compliance and regulatory requirements while actively expanding its customer base and increasing the number of core customers to achieve the goal of improving its customer structure. Meanwhile, the capabilities of its product teams will be strengthened so that new products and services can be launched steadily. Finally, internal processes will be reviewed while documentation and operational procedures will be simplified to provide better customer service and enhance customer experience.

Treasury and Markets Business

In the first six months of 2020, various teams within Treasury and Markets business collaborated actively in light of a highly volatile market environment and managed to achieve steady growth in both scale and efficiency. Total operating income for the period increased by 17.3% year on year.

The trading team continued to focus on building out market-making business and managed to maintain a relatively stable competitive position in the market. Its active participation in the market has earned awards from the Bond Connect company as "Outstanding commercial bank" for 2019-2020, as well as from China Foreign Exchange Trade System ("CFETS") as the "Best Overseas Participant member". In response to the market volatility in the Chinese dollar bond market in March, the fixed income trading team actively responded by changing the trading strategies, resulting in improved trading income in the second quarter.

For client business, the corporate marketing team provided more market intelligence and relevant advice to clients during this volatile period and resulted in more flow business from clients. Stronger collaboration with the Debt Capital Markets ("DCM") team and the fixed income trading team allowed the corporate sales team to help corporate clients capture more bond investment opportunities. Corporate marketing revenue for the period increased by 48.6% year on year.

Meanwhile, the fixed income marketing team managed to capture good trading opportunities for clients in the secondary market during the March market volatility, resulting in a 643.6% year-on-year increase in secondary market sales revenue. Strong collaboration with the DCM team in the primary market also contributed to a 118.4% year-on-year increase in primary market sales revenue. Fixed income marketing revenue for the period rose by 153.8% year on year.

In the first half of 2020, the DCM team completed 60 deals for Chinese issuers with an aggregate issuance size of US$24.85 billion, of which CNCBI acted as global coordinator for 29 transactions. According to Bloomberg, CNCBI ranked third among all Chinese financial institutions in Offshore China USD Bonds issuance volume.

Securities Services successfully launched the new custodian business in March and completed the onboarding of 9 financial institutions and corporate clients during the first half of 2020 with close to US$500 million of assets under custody.

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. CTU enjoyed significant gains in the bond investment portfolio amidst the central bank's monetary and fiscal stimulus due to earlier positioning in good credit quality investment grade bonds at lower levels. CTU's total operating income for the first six months of 2020 grew by 54.6% year on year.

Personal and Business Banking Business

Personal & Business Banking business implemented various management and control measures to cope with the challenges from the COVID-19 pandemic. The measures focus on ensuring staff and customer safety while sustaining the ability to service customers face-to-face and maintaining smooth operations across 27 branches, private banking centre and 2 Business Banking centres despite significant challenges in the market environment.

Under social distancing and cross-border traffic restrictions, CNCBI proactively enhanced its digital capabilities and increased the use of digital channels to interact with and serve its customers. With the continued enhancement of the inMotion mobile banking flagship platform and the focus on customer-centric principles, digital wealth management and investment business increased significantly. Fund investments and FX transactions improved notably with business volumes at 5 times and 1.8 times that of the same period last year. The total number of customers registered via digital channels also increased by 11%.

The customer base of the Personal and Business Banking business remained solid while growth across all customer segments remained healthy. Number of customers under Private Banking and Diamond increased 31.3% year on year, while the number of customers under both Business Banking and Retail Banking increased by 1.6% year on year. Loan balance was up 9.3% to HK$66.81 billion which was mainly propelled by the increase in Business Banking and secured loans from retail customers. Deposits at HK$155.26 billion was marginally lower than that as of end-2019. Investment income increased significantly by 32.8% year on year, driven by CNCBI's digital strategy and the ability to timely capture market opportunities for high-net-worth customers.

To complement the steady growth of Business Banking, CNCBI moved the Business Banking Centre in Central to a much better location at Infinitus Plaza in Sheung Wan. Business Banking focuses on providing financial solutions to small and medium enterprises. With solid capabilities to capture new customers and the abilities of relationship managers to deepen relationships with existing customers, Business Banking is poised to expand in scale.

Meanwhile, Personal and Business Banking Group proactively supported various debt relief measures rolled out by the Hong Kong Government including business banking loans, mortgages, credit cards and personal loans.

With the continued investments in Fintech transformation, CNCBI was able to continue to provide innovative solutions for its customers. In June this year, CNCBI was once again the first in Hong Kong to launch money market fund via inMotion which required a very low minimum entry amount, enabling customers to easily access flexible and convenient new investment experiences. In March this year, CNCBI also announced the launch of iChatBot, which is the first 24-hour artificial intelligence voicebot phone enquiry service among banks in Hong Kong incorporating speech recognition and synthesis technology into the phone enquiry scope of services, further enhancing service quality via the adoption of Fintech.

As a result of strong performance in Private Banking and the application of Fintech, Personal and Business Banking business was awarded various accolades, including Offshore China Fund Awards 2019 "Best Digital Financial Service" offered by the Chinese Asset Management Association of Hong Kong and Bloomberg, the 20th CAPITAL Outstanding Enterprise Rewards "Outstanding Robo Advisory Service" offered by CAPITAL, ET Net FinTech Awards 2019 "Outstanding Intelligent Personal Investment Service" offered by ET Net, Quamnet Outstanding Enterprise Awards "Outstanding E-Business Service 2019" and Quamnet Outstanding Enterprise Awards "Outstanding Private Banking Service 2019" offered by Quamnet.

Personal and Business Banking business will continue to strive to become a customer-centric digital savvy bank in Hong Kong and the Greater Bay Area, and will focus on improving customer experience and providing better and more innovative products and services to its customers via the adoption of Fintech. At the same time, an online/offline integrated strategy will be promoted to ensure that customers have access to the best kind of experience. Coupled with strong support from its parent bank and closer collaboration with the CITIC Group, we believe that Personal and Business Banking business can continue to grow steadily.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Group attaches great importance to rigorous risk governance and robust risk management and internal control practices. Throughout the first half of 2020, the Group further enhanced its risk management framework and internal controls by solidifying its three lines of defense, promoting risk culture and reviewing and updating its risk appetite and policies on a regular basis to ensure compliance with legal and regulatory requirements.

Meanwhile, additional resources have been deployed to enrich the risk management capabilities of the Group to ensure that it keeps abreast of new regulatory requirements and best practices. Various risk management enhancement projects and initiatives are underway to keep pace with the evolving regulatory landscape and increasingly stringent regulatory requirements. These projects included initial margining for non-centrally cleared over-the-counter derivatives, standardized approach to counterparty credit risk, central clearing of derivatives related to secured overnight financing rate in lieu of LIBOR, reform of interest rate benchmarks, Basel III reform on the calculation of risk-weighted assets for credit risk and Basel III reform on the fundamental review of the trading book in relation to minimum capital requirements for market risk. On the credit risk front, the Group adheres to stringent credit policies, conducts in-depth credit assessments and post-lending monitoring, as well as proactively performs portfolio reviews and stress tests amidst the turbulent macroeconomic environment.

OUTLOOK

The COVID-19 pandemic is expected to remain severe in the second half of 2020 and hinder economic recovery. As such, the global economy is expected to decline by 4.8% in 2020, which is the deepest recession since the Second World War, with major developed economies registering negative growth ranging from 5% to 10%.

The Mainland China economy is projected to recover quarter by quarter and grow by 2.4% in 2020, which is 3.7 percentage points lower than that in 2019. Staggered recovery is predicted for the Hong Kong economy with a deep recession of 6.7% projected for the full year. Exacerbated by the uncertainties surrounding local social events and US sanctions, the banking environment in Hong Kong may further deteriorate in the second half of the year.

Even though the operating environment is full of challenges, the Group will remain cautious and adjust business continuity plans to ensure the safety of its customers and staff. The Group will continue to spearhead business transformation and deepen collaboration with its parent bank and the CITIC Group. Wholesale Banking business will strengthen collaboration with the parent bank, expand its customer base, enrich its product offering and focus on building out its syndicated loans and transaction banking businesses. Treasury and Markets business shall continue to maintain its strong development momentum, strengthen its DCM operations, expand the offshore RMB market-making business and continue to build out its custodian business. Personal and Business Banking business shall steadily spearhead transformation via the adoption of Fintech and promote product innovation via inMotion mobile banking. At the same time, the Group shall steadfastly leverage on the business opportunities arising from the Greater Bay Area initiatives and proactively expand its Private Banking and cross-border wealth management businesses. Meanwhile, the Group will continue to fine-tune its cost control measures in order to achieve substantial results in cost control and efficiency enhancement. The Group will also focus on collection efforts of large-size non-performing loans, risk mitigation and the continuous enhancement of risk management, internal controls and compliance capabilities.

The COVID-19 pandemic caused a significant negative impact on the banking sector in Hong Kong and the Group was no exception. However, I firmly believe that this economic cycle is just like countless other economic cycles we have seen throughout history and shall reach its trough as well as its peak. The special competitive advantages of Hong Kong coupled with the strong resilience of China's economy should enable each and every industry in Hong Kong to recover more quickly! The management team and every member within the Group shall collaborate to overcome challenges and ensure long-term sustainable development of the Group.

Bi Mingqiang
President & Chief Executive Officer

Hong Kong, 25 August 2020