OCBC Wing Hang Bank Limited

2018 Interim Report

OCBC WING HANG

Contents

Unaudited Consolidated Statement of Profit or Loss

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

	Notes	**Six months ended 30th June, 2018**	Six months ended 30th June, 2017
Interest Income	4(a)	**4,507,857**	3,310,191
Interest expense	4(b)	**(1,936,731)**	(1,321,603)
Net interest income		**2,571,126**	1,988,588
Fees and commissions (net)	4(c)	**467,047**	388,088
Dividends	4(d)	**8,239**	9,204
Rental income	4(e)	**6,405**	5,577
Other income	4(f)	**28,533**	187,511
Other operating income		**510,224**	590,380
Operating income		**3,081,350**	2,578,968
Operating expenses	4(g)	**(1,518,583)**	(1,421,595)
Operating profit before expected credit loss/ impairment losses and allowances		**1,562,767**	1,157,373
Impairment losses and allowances on advances to customers		**–**	(58,388)
Change in expected credit loss and other credit impairment charges on advances to customers		**4,532**	–
Change in expected credit loss and other credit impairment charges on financial assets measured at fair value through other comprehensive income		**(1,917)**	–
Operating profit after expected credit loss/ impairment losses and allowances		**1,565,382**	1,098,985
Realised gains on subordinated liabilities		**–**	44,499
Share of net gains of associated companies		**48,173**	31,593
Profit before taxation		**1,613,555**	1,175,077
Taxation	5	**(279,116)**	(196,871)
Profit for the period attributable to equity shareholders of the Bank		**1,334,439**	978,206

The notes on pages 7 to 32 form part of the unaudited interim financial report.

Unaudited Consolidated Statement of Comprehensive Income

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

	Notes	**Six months ended 30th June, 2018**	Six months ended 30th June, 2017
Profit for the period		**1,334,439**	978,206
Other comprehensive income for the period (after tax and reclassification adjustments)			
Items that will not be reclassified to profit or loss			
– Surplus on revaluation of bank premises	10	**276,962**	382,867
– Deferred taxes		**(6,474)**	(14,177)
– Share of surplus on revaluation of bank premises of associated companies		**6,634**	1,599
		277,122	370,289
– Equity measured at fair value through other comprehensive income			
– Fair value changes		**655,427**	–
– Deferred taxes		**(93,378)**	–
		562,049	–
		839,171	370,289
Items that will be reclassified subsequently to profit or loss			
– Exchange adjustments on translation of financial statements of subsidiaries		**(97,505)**	270,193
		(97,505)	270,193
– Available-for-sale financial assets			
– Fair value changes			
– on debt securities		**–**	153,691
– on equity securities		**–**	128,830
– Transfer to consolidated statement of profit or loss			
– gains on disposal	4(f)	**–**	(19,256)
– Deferred taxes		**–**	(26,062)
– Share of fair value changes of available-for-sale financial assets of associated companies		**–**	11,931
		–	249,134

Unaudited Consolidated Statement of Comprehensive Income

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

	Notes	**Six months ended 30th June, 2018**	Six months ended 30th June, 2017
– Debt instruments measured at fair value through other comprehensive income			
– Fair value changes		**83,621**	–
– Transfer to consolidated statement of profit or loss			
– gains on disposal		**(15,491)**	–
– Deferred taxes		**(19,793)**	–
– Expected credit loss		**1,908**	–
– Share of fair value changes of financial assets of associated companies		**(19,598)**	–
		30,647	–
– Cash flow hedging reserve			
– Fair value changes taken to equity		**2,042**	(3,026)
– Deferred taxes		**(337)**	499
		1,705	(2,527)
– Unappropriated profits			
– Bank premises			
– Deferred taxes		**6,638**	6,182
		(58,515)	522,982
Other comprehensive income for the period, net of tax		**780,656**	893,271
Total comprehensive income for the period attributable to equity shareholders of the Bank		**2,115,095**	1,871,477

The notes on pages 7 to 32 form part of the unaudited interim financial report.

Unaudited Consolidated Statement of Financial Position

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

	Notes	**30th June, 2018**	31st December, 2017
ASSETS			
Cash and balances with banks, central banks and other financial institutions	6	**7,961,045**	10,950,901
Placements with banks, central banks and other financial institutions	7	**1,224,554**	7,995,727
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates		**8,080,868**	8,744,644
Trading assets		**8,003,483**	8,786,769
Financial assets designated at fair value through profit or loss		**–**	19,990
Advances to customers and other accounts	8(a)	**201,902,958**	191,142,758
Available-for-sale financial assets		**–**	85,731,033
Financial assets measured at fair value through other comprehensive income		**87,670,212**	–
Investments in associated companies		**160,418**	134,127
Tangible fixed assets	10		
– Investment properties		**263,144**	359,793
– Other properties, plants and equipment		**5,518,080**	5,305,292
Goodwill		**1,306,430**	1,306,430
Current tax recoverable		**160**	399
Deferred tax assets		**139,253**	174,936
Assets of a disposal group classified as held for sale	11	**279,104**	271,674
Total assets		**322,509,709**	320,924,473
EQUITY AND LIABILITIES			
Deposits and balances of banks, central banks and other financial institutions	12	**10,808,793**	4,457,691
Amounts due to ultimate holding company and fellow subsidiaries		**41,872,389**	44,422,137
Deposits from customers	13	**217,484,891**	222,459,498
Certificates of deposit issued	14	**5,793,746**	4,380,410
Trading liabilities		**3,143,526**	3,782,205
Current tax payable		**365,156**	341,132
Deferred tax liabilities		**253,768**	192,053
Other accounts and provisions	15	**4,184,000**	4,335,857
Total liabilities		**283,906,269**	284,370,983
Share capital		**7,307,606**	7,307,606
Reserves	16	**31,295,834**	29,245,884
Total equity		**38,603,440**	36,553,490
Total equity and liabilities		**322,509,709**	320,924,473

Approved and authorised for issue by the Board of Directors on 18th September, 2018.

Patrick Yuk Bun FUNG *Chairman*

Wu Beng NA *Executive Director and Chief Executive*

The notes on pages 7 to 32 form part of the unaudited interim financial report.

Unaudited Consolidated Statement of Changes in Equity

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

Six months ended 30th June, 2018

	At 31st December, 2017	Opening balance adjustment arising from change in accounting policies (note 3)	At 1st January, 2018 after opening balance adjustment	Transfer (from)/to reserve	Capital distribution	Profit for the period	Other comprehensive income for the period	At 30th June, 2018
Share capital	**7,307,606**	**–**	**7,307,606**	**–**	**–**	**–**	**–**	**7,307,606**
Capital reserve	**349,328**	**–**	**349,328**	**–**	**–**	**–**	**–**	**349,328**
Statutory reserve	**429,443**	**–**	**429,443**	**–**	**–**	**–**	**–**	**429,443**
General reserve	**2,154,158**	**–**	**2,154,158**	**–**	**–**	**–**	**(97,505)**	**2,056,653**
Bank premises revaluation reserve	**3,448,487**	**–**	**3,448,487**	**(23,358)**	**–**	**–**	**277,122**	**3,702,251**
Investment revaluation reserve (recycling)	**283,786**	**(417,120)**	**(133,334)**	**–**	**–**	**–**	**50,245**	**(83,089)**
Investment revaluation reserve (non-recycling)	**–**	**425,225**	**425,225**	**–**	**–**	**–**	**542,451**	**967,676**
Cash flow hedging reserve	**(442)**	**–**	**(442)**	**–**	**–**	**–**	**1,705**	**1,263**
Unappropriated profits	**22,581,124**	**(35,265)**	**22,545,859**	**23,358**	**(37,985)**	**1,334,439**	**6,638**	**23,872,309**
Total equity	**36,553,490**	**(27,160)**	**36,526,330**	**–**	**(37,985)**	**1,334,439**	**780,656**	**38,603,440**

Six months ended 31st December, 2017

	At 30th June, 2017	Transfer to /(from) reserve	Profit for the period	Other comprehensive income for the period	At 31st December, 2017
Share capital	7,307,606	–	–	–	7,307,606
Capital reserve	336,135	13,193	–	–	349,328
Statutory reserve	398,366	31,077	–	–	429,443
General reserve	1,883,498	–	–	270,660	2,154,158
Bank premises revaluation reserve	3,244,127	(16,385)	–	220,745	3,448,487
Investment revaluation reserve	584,518	–	–	(300,732)	283,786
Cash flow hedging reserve	2,795	–	–	(3,237)	(442)
Unappropriated profits	21,174,502	(27,885)	1,429,392	5,115	22,581,124
Total equity	34,931,547	–	1,429,392	192,551	36,553,490

Six months ended 30th June, 2017

	At 1st January, 2017	Transfer to /(from) reserve	Profit for the period	Other comprehensive income for the period	At 30th June, 2017
Share capital	7,307,606	–	–	–	7,307,606
Capital reserve	336,389	(254)	–	–	336,135
Statutory reserve	398,366	–	–	–	398,366
General reserve	1,613,305	–	–	270,193	1,883,498
Bank premises revaluation reserve	2,890,220	(16,382)	–	370,289	3,244,127
Investment revaluation reserve	335,384	–	–	249,134	584,518
Cash flow hedging reserve	5,322	–	–	(2,527)	2,795
Unappropriated profits	20,173,478	16,636	978,206	6,182	21,174,502
Total equity	33,060,070	–	978,206	893,271	34,931,547

The notes on pages 7 to 32 form part of the unaudited interim financial report.

Notes to Unaudited Interim Financial Report

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

1. GENERAL INFORMATION

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

The unaudited consolidated profit for the period attributable to equity shareholders of the Group for the six months ended 30th June, 2018 was HK$1,334,439,000. The results of the Group for the period ended 30th June, 2018 and the state of affairs of the Group and the Bank as at 30th June, 2018 are set out in the interim financial report on pages 2 to 32.

2. BASIS OF PREPARATION

The accounting policies and methods of computation used in the preparation of the 2018 interim consolidated financial report is consistent with those used and described in the Group's annual audited financial report for the year ended 31st December, 2017, except for the changes in accounting policies as described in note 3.

In preparing the interim consolidated financial report for 2018, the Bank has fully complied with the disclosure standards set out in the "Banking (Disclosure) Rules" and the "Guideline on the Application of the Banking (Disclosure) Rules" issued by the Hong Kong Monetary Authority ("HKMA").

Disclosures on capital and leverage required by the Banking (Disclosure) Rules will be disclosed before 30th September, 2018 under "Regulatory Disclosure" on the website of the Bank (www.ocbcwhhk.com).

The interim consolidated financial report was approved by the Board of Directors for issue on 18th September, 2018.

These interim consolidated financial report has not been audited.

3. CHANGES IN ACCOUNTING POLICIES

The Hong Kong Institute of Certified Public Accountants has issued a number of amendments, new standards and interpretations which are effective for the accounting periods beginning on or after 1st January, 2018.

The following set out information on the significant changes in accounting policies for the current and opening balances reflect in this financial report.

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) Restatement of opening balances

The following table discloses the adjustments that have been made in accordance with the transitional provisions of the respective HKFRS to each line item in the consolidated statement of financial position reported for the year ended 31st December, 2017.

	At 31st December, 2017	Opening balance adjustment on HKFRS 9	At 1st January, 2018
ASSETS			
Cash and balances with banks, central banks and other financial institutions	10,950,901	(379)	10,950,522
Placements with banks, central banks and other financial institutions	7,995,727	(5,985)	7,989,742
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	8,744,644	–	8,744,644
Trading assets	8,786,769	–	8,786,769
Financial assets designated at fair value through profit or loss	19,990	–	19,990
Advances to customers and other accounts	191,142,758	154,882	191,297,640
Available-for-sale financial assets	85,731,033	(85,731,033)	–
Financial assets measured at fair value through other comprehensive income	–	85,731,033	85,731,033
Investments in associated companies	134,127	–	134,127
Tangible fixed assets			
– Investment properties	359,793	–	359,793
– Other properties, plants and equipment	5,305,292	–	5,305,292
Goodwill	1,306,430	–	1,306,430
Current tax recoverable	399	–	399
Deferred tax assets	174,936	(45,493)	129,443
Assets of a disposal group classified as held for sale	271,674	–	271,674
Total assets	320,924,473	103,025	321,027,498
EQUITY AND LIABILITIES			
Deposits and balances of banks, central banks and other financial institutions	4,457,691	–	4,457,691
Amounts due to ultimate holding company and fellow subsidiaries	44,422,137	–	44,422,137
Deposits from customers	222,459,498	–	222,459,498
Certificates of deposit issued	4,380,410	–	4,380,410
Trading liabilities	3,782,205	–	3,782,205
Current tax payable	341,132	–	341,132
Deferred tax liabilities	192,053	(34,592)	157,461
Other accounts and provisions	4,335,857	164,777	4,500,634
Total liabilities	284,370,983	130,185	284,501,168
Share capital	7,307,606	–	7,307,606
Reserves			
– Capital reserve	349,328	–	349,328
– Statutory reserve	429,443	–	429,443
– General reserve	2,154,158	–	2,154,158
– Bank premises revaluation reserve	3,448,487	–	3,448,487
– Investment revaluation reserve (recycling)	283,786	(417,120)	(133,334)
– Investment revaluation reserve (non-recycling)	–	425,225	425,225
– Cash flow hedging reserve	(442)	–	(442)
– Unappropriated profits	22,581,124	(35,265)	22,545,859
Total reserves	29,245,884	(27,160)	29,218,724
Total equity	36,553,490	(27,160)	36,526,330
Total equity and liabilities	320,924,473	103,025	321,027,498

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) HKFRS 9, Financial instruments

With effect from 1st January, 2018, HKFRS 9 supersedes HKAS 39, *Financial Instruments: Recognition and Measurement*. HKFRS 9 prescribes new accounting requirements for classification and measurement of financial instruments, a new expected credit loss model of measuring impairment of financial assets, and new general hedge accounting requirements.

The date of transition to HKFRS 9, *Financial Instruments* was 1st January, 2018, as the Group elected to apply the exemptions granted under HKFRS 1 to not restate the financial information of its comparative period in respect of financial instruments. The Group was also exempted from the application of HKFRS 7, *Financial Instruments: Disclosures* for the comparative period to the extent the disclosures relate to items in scope of HKFRS 9.

The Group was required to recognise the cumulative effect of first-time adopting HKFRS 9 in Unappropriated Profit as at 1st January, 2018.

The accounting policies for financial instruments under HKFRS 9 from 1st January, 2018 is as disclosed below.

(i) Classification and measurement: financial assets

On initial recognition, a non-derivative financial asset is either measured at amortised cost, Fair Value through Other Comprehensive Income (FVOCI) or Fair Value through Profit or Loss (FVTPL).

(1) Equity instruments

Equity instruments held for trading are classified at FVTPL. Equity instruments that are not held for trading are either classified at FVTPL or FVOCI based on an irrevocable election on initial recognition on an investment-by-investment basis.

At the reporting date, realised and unrealised fair value gains or losses on revaluing the equity instruments classified at FVTPL are recognised in the statement of profit or loss. Realised and unrealised fair value gains or losses on revaluing the equity instruments classified at FVOCI are recognised in other comprehensive income.

Dividend earned whilst holding the equity instruments classified at FVTPL and FVOCI is reported as dividend income in the statement of profit or loss.

(2) Debt instruments measured at amortised cost

A debt financial asset is measured at amortised cost if it meets both of the following conditions and is not designated at FVTPL:

- it is held within a business model whose objective is to hold the asset until maturity to collect contractual cash flows; and
- its contractual terms give rise to cash flows that are solely payments of principal and interest on the principal outstanding.

Debt instruments classified at amortised cost are subject to the expected credit loss requirements in accordance with HKFRS 9. Interest earned whilst holding the financial assets is included in interest income.

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) HKFRS 9, Financial instruments *(Continued)*

(i) Classification and measurement: financial assets *(Continued)*

(3) Debt instruments measured at FVOCI

A debt financial asset is measured at FVOCI if it meets both of the following conditions and is not designated at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial asset; and

- its contractual terms give rise to cash flows that are solely payments of principal and interest on the principal outstanding.

Debt instruments classified at FVOCI are subject to the expected credit loss requirements in accordance with HKFRS 9. Interest earned whilst holding the financial assets is included in interest income.

At the reporting date, the Group recognises unrealised fair value gains and losses on revaluing these assets in other comprehensive income (OCI) and presents the cumulative gains and losses in fair value reserve within equity, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in the statement of profit or loss. At maturity or upon disposal, the cumulative gain or loss previously recognised in OCI is reclassified from fair value reserve to the statement of profit or loss.

(4) Debt instruments measured at FVTPL

Debt instruments that do not meet the requirements to be measured at amortised cost or at FVOCI are measured at FVTPL. At the reporting date, the Group recognises realised and unrealised gains and losses as trading income in the statement of profit or loss. Interest earned whilst holding the assets is included in the interest income.

(5) Designation at FVTPL

On initial recognition, the Group may irrevocably designate a financial asset, which otherwise meets the requirements to be measured at amortised cost or at FVOCI, at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. Upon designation, financial assets are measured at fair value on each reporting date until maturity or derecognition. Realised and unrealised fair value changes are recognised in the statement of profit or loss.

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) HKFRS 9, Financial instruments *(Continued)*

(ii) Impairment of financial assets

HKFRS 9 replaces the existing HKFRS 39 loan provisioning requirements with a forward-looking expected credit loss (ECL) model.

(1) Scope

Under HKFRS 9, the expected loss model is applied to financial assets classified at amortised cost or FVOCI, and certain off-balance sheet loan commitments and financial guarantees which were previously provided for under HKAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

(2) Expected credit loss impairment model

Under HKFRS 9, credit loss allowances are measured on each reporting date according to a three-stage expected credit loss impairment model:

- Stage 1 – On initial recognition, expected credit loss will be that resulting from default events that are possible over the next 12 months (12-month ECL).

- Stage 2 – Following a significant increase in credit risk of the financial assets since its initial recognition, the credit loss allowance will be that which results from all possible default events over the expected life of the asset (Lifetime ECL).

- Stage 3 – When a financial asset exhibits objective evidence of impairment and is considered to be credit-impaired, a loss allowance will be the full lifetime expected credit loss.

Loans are written off against impairment allowances when all feasible recovery actions have been exhausted or when the recovery prospects are considered remote.

(3) Measurement

An ECL estimate is produced for all relevant instruments established on probability-weighted forward-looking economic scenarios. The measurement of ECL is primarily calculated based on the probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD"). These parameters are derived from internal rating models after adjusting them to be un-biased and forward looking. Where internal rating models are not available, such estimates are based on comparable internal rating models after adjusting for portfolio differences.

12-month ECL is based on a maximum of 12-month PD while Lifetime ECL is based on the remaining lifetime of the instrument. LGD reflects the expected loss value given default, after taking into account the effect of collateral. EAD reflects the expected exposure at default, after taking into account of any expected repayments and/or drawdown. 12-month ECL and Lifetime ECL will be the respective discounted value (using the effective interest rate) of 12-month PD and Lifetime PD, multiplied with LGD and EAD.

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) HKFRS 9, Financial instruments *(Continued)*

(ii) Impairment of financial assets *(Continued)*

(4) Movement between stages

Movements between Stage 1 and Stage 2 are based on whether an instrument's credit risk as at the reporting date has increased significantly since its initial recognition.

In accordance with HKFRS 9, financial assets are classified in Stage 2 where there is a significant increase in credit risk since initial recognition, where loss allowance will be measured using lifetime ECL.

The Group considers both qualitative and quantitative parameters in the assessment of significant increase in credit risk. These include the following:

– The Group has established thresholds for significant increases in credit risk based on both a relative and absolute change in lifetime PD relative to initial recognition.

– The Group conducts qualitative assessment to ascertain if there has been significant increase in credit risk.

– The Group uses 30 days past due as an indication of significant increase in credit risk.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. The determination of whether a financial asset is credit-impaired under HKFRS 9 will be based on objective evidence of impairment.

The assessments for significant increase in credit risk since initial recognition and credit-impairment are performed independently as at each reporting period. Assets can move in both directions through the stages of the impairment model. After a financial asset has migrated to Stage 2, if it is no longer considered that credit risk has significantly increased relative to initial recognition in a subsequent reporting period, it will move back to Stage 1. Similarly, an asset that is in Stage 3 will move back to Stage 2 if it is no longer considered to be credit-impaired.

(5) Critical accounting estimates and judgements

In determining whether the credit risk of the Group's financial exposures has increased significantly since initial recognition, the Group will consider reasonable and supportable information that is readily available without undue cost or effort. This includes both quantitative and qualitative information such as the Group's historical credit assessment experience and available forward-looking information. ECL estimates are produced for all relevant instruments based on probability-weighted forward-looking economic scenarios. The measurement of ECL is primarily calculated based on the probability of default, loss given default and exposure at default. These are parameters derived from internal rating models after adjusting them to be un-biased and forward-looking. Where internal rating models are not available, such estimates are based on comparable internal rating models after adjusting for portfolio differences.

The assumptions and judgements used by management may affect loss allowances computed.

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) HKFRS 9, Financial instruments *(Continued)*

(ii) Impairment of financial assets *(Continued)*

(6) Recognition of income and expense

Interest income or expense is recognised using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset or amortised cost of the financial liability.

In calculating the interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

(c) HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 replaces the existing revenue standards, HKAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

There is no material impact on the Group's consolidated financial statements after adoption of HKFRS 15.

4. OPERATING PROFIT

(a) Interest income

	Six months ended 30th June, 2018	Six months ended 30th June, 2017
Interest income including the following:		
– Financial assets not measured at fair value through profit or loss	**4,312,682**	3,216,623
– Interest income from impaired financial assets	**14,177**	10,893

(b) Interest expense

	Six months ended 30th June, 2018	Six months ended 30th June, 2017
Interest expense including the following:		
– Financial liabilities not measured at fair value through profit or loss	**1,800,727**	1,227,111

4. OPERATING PROFIT *(Continued)*

(c) Fee and commission (net)

	Six months ended 30th June, 2018	Six months ended 30th June, 2017
Fees and commission		
Credit commission and fees	**106,552**	90,623
Credit card related fees	**118,275**	116,919
Trade related fees	**38,403**	32,850
Insurance commission	**80,139**	61,984
Stockbroking fees	**78,263**	51,019
Trust fees	**–**	34
Wealth management fees	**32,778**	24,233
Other fees and commission income	**82,719**	68,031
Less: Fees and commission expenses	**(70,082)**	(57,605)
	467,047	388,088
of which:		
Net fees and commission, other than amounts included in determining the effective interest rate, arising from financial instruments that are not held for trading nor designated at fair value through profit or loss		
– fees and commission income	**158,040**	139,618
– fees and commission expenses	**(3)**	(2)
	158,037	139,616

(d) Dividends

	Six months ended 30th June, 2018	Six months ended 30th June, 2017
Dividend income from available-for-sale financial assets		
– Unlisted financial assets	**–**	8,872
– Listed financial assets	**–**	326
Dividend income from financial assets measured at fair value through other comprehensive income		
– Unlisted financial assets	**8,228**	–
Dividend income from listed trading investments	**11**	6
	8,239	9,204

Note: The Group has initially applied HKFRS 9 and HKFRS 15 at 1st January, 2018. Under the transition methods chosen, comparative information is not restated.

4. OPERATING PROFIT *(Continued)*

(e) Rental income

	Six months ended 30th June, 2018	Six months ended 30th June, 2017
Rental income from investment properties less direct outgoings of HK$113,000 (30th June, 2017: HK$141,000)	**6,405**	5,577
	6,405	5,577

(f) Other income

	Six months ended 30th June, 2018	Six months ended 30th June, 2017
Foreign exchange*	**(90,756)**	106,470
Hedging activities		
– Fair value hedges		
– hedged items	**(63,845)**	13,992
– hedging instruments	**66,708**	(16,751)
Interest rate and other derivatives	**80,673**	(717)
Trading securities	**33,627**	17,865
Financial assets designated at fair value through profit or loss	**(9)**	8,543
Others	**438**	597
Net trading income	**26,836**	129,999
Gains transferred from investment revaluation reserve upon disposal	**15,566**	19,256
Gains on disposal of available-for-sale financial assets	**–**	18,913
Losses on disposal of financial assets measured at fair value through other comprehensive income	**(33,902)**	–
Total gains on disposal of available-for-sale financial assets	**–**	38,169
Total losses on disposal of financial assets measured at fair value through other comprehensive income	**(18,336)**	–
Revaluation of investment properties (note 10)	**4,026**	10,956
Disposal of tangible fixed assets	**(1,356)**	(1,635)
Others	**17,363**	10,022
	28,533	187,511

* Included the net interest expenses element of HK$185,000,000 (30th June, 2017: net interest income for HK$1,807,000) on the cross currency funding swap classified as "Other income".

4. OPERATING PROFIT *(Continued)*

(g) Operating expenses

	Six months ended 30th June, 2018	Six months ended 30th June, 2017
Staff costs		
Salaries and other staff costs	**896,146**	843,853
Retirement benefit costs	**88,702**	85,112
Share based expenses	**13,829**	14,908
	998,677	943,873
Premises and equipment expenses, excluding depreciation	**238,676**	246,803
Depreciation (note 10)	**116,437**	113,642
Others	**164,793**	117,277
	1,518,583	1,421,595

5. TAXATION

Taxation in the consolidated statement of profit or loss represents:

	Six months ended 30th June, 2018	Six months ended 30th June, 2017
Current tax – Provision for Hong Kong profits tax	**160,462**	146,111
Current tax – Provision for tax outside Hong Kong	**90,875**	54,816
Deferred taxation	**27,779**	(4,056)
	279,116	196,871

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

	30th June, 2018	31st December, 2017
Cash balances	**710,424**	915,243
Balances with central banks	**6,314,181**	9,318,097
Balances with banks	**962,215**	717,561
Expected credit loss (Stage 1)	**(25,775)**	–
	7,961,045	10,950,901

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

	30th June, 2018	31st December, 2017
Remaining maturity		
– Within 1 month	**878,695**	7,762,089
– Over 1 month but within 1 year	**350,542**	233,638
Expected credit loss (Stage 1)	**(4,683)**	–
	1,224,554	7,995,727

8. ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS

(a) Advances to customers and other accounts

	30th June, 2018	31st December, 2017
Gross advances to customers	**190,376,740**	179,583,530
Expected credit loss (Stages 1 and 2)/collective impairment allowances for loans and advances (note 9)	**(327,086)**	(476,163)
Expected credit loss (Stage 3)/individual impairment allowances for impaired loans and advances (note 9)	**(108,599)**	(173,003)
Net advances to customers	**189,941,055**	178,934,364
Gross trade bills	**3,428,916**	3,316,618
Expected credit loss (Stages 1 and 2)/collective impairment allowances for trade bills (note 9)	**(12,578)**	(41)
Expected credit loss (Stage 3)/individual impairment allowances for impaired trade bills (note 9)	**–**	–
Net trade bills	**3,416,338**	3,316,577
Advances to banks	**4,890,285**	4,922,693
Customer liability under acceptances	**1,251,399**	1,622,378
Interest receivables	**822,079**	742,179
Positive fair values of derivative financial instruments held for hedging	**89,621**	27,568
Other accounts	**1,492,181**	1,576,999
	201,902,958	191,142,758

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

(b) Advances to customers analysed by industry sectors

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

	30th June, 2018		31st December, 2017	
	Gross advances to customers	% of gross advances covered by collateral	Gross advances to customers	% of gross advances covered by collateral
Advances for use in Hong Kong				
Industrial, commercial and financial				
– Property development	**6,057,341**	**27.4**	5,389,762	25.3
– Property investment	**25,309,162**	**98.0**	22,124,359	97.8
– Financial concerns	**4,702,785**	**8.0**	4,843,504	9.1
– Stockbrokers	**4,219,441**	**51.6**	4,501,436	57.1
– Wholesale and retail trade	**6,942,726**	**50.7**	5,613,729	65.2
– Manufacturing	**2,862,764**	**60.3**	2,984,606	52.2
– Transport and transport equipment	**7,439,819**	**98.4**	7,389,891	98.4
– Information technology	**60,427**	**46.6**	51,852	42.7
– Share financing	**336,042**	**85.4**	368,938	89.2
– Recreational activities	**1,341**	**–**	676	–
– Others	**5,343,919**	**61.0**	4,077,605	64.7
Individuals				
– Advances for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes	**1,475,435**	**100.0**	1,600,765	100.0
– Advances for the purchase of other residential properties	**45,069,759**	**99.9**	40,837,593	100.0
– Credit card advances	**321,502**	**1.0**	265,317	0.9
– Others	**13,600,531**	**71.8**	14,471,409	70.2
	123,742,994	**82.0**	114,521,442	82.1
Trade finance	**5,822,072**	**44.1**	4,919,655	47.4
Advances for use outside Hong Kong				
– Mainland China	**34,043,911**	**56.1**	32,978,562	57.7
– Macau	**20,762,675**	**91.7**	20,433,657	91.8
– Others	**6,005,088**	**99.1**	6,730,214	99.3
	60,811,674	**72.5**	60,142,433	73.9
	190,376,740	**77.8**	179,583,530	78.4

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

(c) Impaired advances to customers

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

	30th June, 2018	31st December, 2017
Gross impaired advances to customers	**690,376**	870,780
Gross impaired advances to customers as a percentage of total advances to customers	**0.36%**	0.48%
Market value of collateral held with respect to impaired advances to customers	**610,442**	743,621
Expected credit loss (Stage 3)/individual impairment allowances	**108,599**	173,003

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

There were no impaired advances to banks nor expected credit loss (Stage 3)/individual impairment allowances made on advances to banks as at 30th June, 2018 and 31st December, 2017.

(d) Repossessed assets

At 30th June, 2018, repossessed assets obtained as securities for impaired advances to customers totalled HK$75,126,000 (31st December, 2017 (restated): HK$196,292,000).

9. RECONCILIATION OF EXPECTED CREDIT LOSS/IMPAIRMENT ALLOWANCES

	Six months ended 30th June, 2018				
	Stage 1	Stage 2	Stages 1 and 2 /Collective	Stage 3 /Individual	Total
At 31st December, 2017	–	–	**476,204**	**173,003**	**649,207**
Opening balance adjustment arising from change in accounting policy (note 3)	–	–	**24,365**	–	**24,365**
At 1st January, 2018 after opening balance adjustment	**438,672**	**61,897**	**500,569**	**173,003**	**673,572**
Transfers of financial instruments					
– transfers from Stage 1 to Stage 2	**(20,815)**	**20,815**	–	–	–
– transfers from Stage 2 to Stage 1	**52,307**	**(52,307)**	–	–	–
– transfers to Stage 3	**(489)**	**(1,990)**	**(2,479)**	**2,479**	–
– transfers from Stage 3	**1,961**	**2,017**	**3,978**	**(3,978)**	–
Net re-measurement of expected credit loss	**(94,526)**	**53,453**	**(41,073)**	**29,891**	**(11,182)**
New financial assets originated or purchased assets derecognised, repayments and further lending	**40,887**	**(19,307)**	**21,580**	**573**	**22,153**
Amounts written off	–	–	–	**(89,193)**	**(89,193)**
Exchange adjustments	**(2,003)**	**510**	**(1,493)**	**(4,176)**	**(5,669)**
At 30th June, 2018	**415,994**	**65,088**	**481,082**	**108,599**	**589,681**
Representing expected credit loss for:					
Balances and placement with central banks	**23,525**	–	**23,525**	–	**23,525**
Balances and placement with banks	**6,933**	–	**6,933**	–	**6,933**
Advances to customers (note 8(a))	**269,937**	**57,149**	**327,086**	**108,599**	**435,685**
Trade bills (note 8(a))	**12,356**	**222**	**12,578**	–	**12,578**
Contingent liabilities and commitments to extend credit (note 15)	**97,942**	**3,004**	**100,946**	–	**100,946**
Financial assets measured at fair value through other comprehensive income	**5,301**	**4,713**	**10,014**	–	**10,014**
	415,994	**65,088**	**481,082**	**108,599**	**589,681**

9. RECONCILIATION OF EXPECTED CREDIT LOSS/IMPAIRMENT ALLOWANCES *(Continued)*

	Year ended 31st December, 2017		
	Collective	Individual	Total
At 1st January	571,553	220,228	791,781
Additions	–	253,765	253,765
Releases	(159,121)	(122,570)	(281,691)
Net charges/(releases) to consolidated statement of profit or loss	(159,121)	131,195	(27,926)
Unwind of discount of loan impairment losses	–	(16,465)	(16,465)
Recoveries of advances written off in prior years	–	48,436	48,436
Amounts written off	–	(219,607)	(219,607)
Exchange adjustments	63,772	9,216	72,988
At 31st December	476,204	173,003	649,207
Representing impairment allowances for:			
Trade bills (note 8(a))	41	–	41
Advances to customers (note 8(a))	476,163	173,003	649,166
	476,204	173,003	649,207

10. TANGIBLE FIXED ASSETS

	Six months ended 30th June, 2018				
	Investment properties	Bank premises	Equipment	Bank premises and equipment	Total
Cost or valuation					
At 1st January	**387,408**	**5,359,467**	**1,508,321**	**6,867,788**	**7,255,196**
Additions	**–**	**17,319**	**36,423**	**53,742**	**53,742**
Disposals	**(106,078)**	**(162)**	**(67,042)**	**(67,204)**	**(173,282)**
Surplus on revaluation					
– Credited to bank premises revaluation reserve	**–**	**276,962**	**–**	**276,962**	**276,962**
– Credited to consolidated statement of profit or loss (note 4(f))	**4,026**	**–**	**–**	**–**	**4,026**
Elimination of accumulated depreciation on revalued bank premises	**–**	**(40,897)**	**–**	**(40,897)**	**(40,897)**
Exchange adjustment	**85**	**79**	**(1,373)**	**(1,294)**	**(1,209)**
At 30th June	**285,441**	**5,612,768**	**1,476,329**	**7,089,097**	**7,374,538**
The analysis of cost or valuation of the above assets is as follows:					
At cost	**–**	**1,371,982**	**1,476,329**	**2,848,311**	**2,848,311**
At valuation 2018	**285,441**	**4,240,786**	**–**	**4,240,786**	**4,526,227**
	285,441	**5,612,768**	**1,476,329**	**7,089,097**	**7,374,538**
Accumulated depreciation					
At 1st January	**27,615**	**354,121**	**1,208,375**	**1,562,496**	**1,590,111**
Charge for the period (note 4(g))	**249**	**56,856**	**59,332**	**116,188**	**116,437**
Written back on disposals	**(5,505)**	**(162)**	**(64,588)**	**(64,750)**	**(70,255)**
Elimination of accumulated depreciation on revalued bank premises	**–**	**(40,897)**	**–**	**(40,897)**	**(40,897)**
Exchange adjustment	**(62)**	**(67)**	**(1,953)**	**(2,020)**	**(2,082)**
At 30th June	**22,297**	**369,851**	**1,201,166**	**1,571,017**	**1,593,314**
Net book value					
At 30th June	**263,144**	**5,242,917**	**275,163**	**5,518,080**	**5,781,224**

10. TANGIBLE FIXED ASSETS *(Continued)*

Year ended 31st December, 2017

	Investment properties	Bank premises	Equipment	Bank premises and equipment	Total
Cost or valuation					
At 1st January	363,546	4,812,540	1,599,575	6,412,115	6,775,661
Additions	–	6,149	83,609	89,758	89,758
Disposals	–	–	(176,418)	(176,418)	(176,418)
Surplus on revaluation					
– Credited to bank premises revaluation reserve	–	605,164	–	605,164	605,164
– Credited to consolidated statement of profit or loss	21,468	–	–	–	21,468
Elimination of accumulated depreciation on revalued bank premises	–	(65,458)	–	(65,458)	(65,458)
Exchange adjustment	2,394	1,072	1,555	2,627	5,021
At 31st December	387,408	5,359,467	1,508,321	6,867,788	7,255,196
The analysis of cost or valuation of the above assets is as follows:					
At cost	–	1,354,746	1,508,321	2,863,067	2,863,067
At valuation 2017	387,408	4,004,721	–	4,004,721	4,392,129
	387,408	5,359,467	1,508,321	6,867,788	7,255,196
Accumulated depreciation					
At 1st January	24,651	322,468	1,237,636	1,560,104	1,584,755
Charge for the year	1,194	96,680	127,394	224,074	225,268
Written back on disposals	–	–	(159,398)	(159,398)	(159,398)
Elimination of accumulated depreciation on revalued bank premises	–	(65,458)	–	(65,458)	(65,458)
Exchange adjustment	1,770	431	2,743	3,174	4,944
At 31st December	27,615	354,121	1,208,375	1,562,496	1,590,111
Net book value					
At 31st December	359,793	5,005,346	299,946	5,305,292	5,665,085

11. ASSETS OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

On 20th March, 2017, the Bank entered into a share sale agreement with an independent third party to dispose of the Group's interests in 33.33% of the issued share capital of Hong Kong Life Insurance Limited for a cash consideration of approximately HK$2,366,667,000 before transaction related expenses. The Bank has received a deposit of HK$236,667,000, being 10% of the consideration.

Completion of the transaction is subject to certain conditions including obtaining the necessary approvals from the relevant authorities, which based on the management's view shall be obtained within 18 months. Accordingly, interests in Hong Kong Life Insurance Limited was classified as "Assets of a disposal group classified as held for sale".

12. DEPOSITS AND BALANCES OF BANKS, CENTRAL BANKS AND OTHER FINANCIAL INSTITUTIONS

	30th June, 2018	31st December, 2017
Deposits from central banks	**746,515**	644,614
Deposits from banks	**10,062,278**	3,813,077
	10,808,793	4,457,691

13. DEPOSITS FROM CUSTOMERS

	30th June, 2018	31st December, 2017
Demand deposits and current accounts	**49,123,314**	52,751,649
Savings deposits	**30,491,865**	31,779,680
Time, call and notice deposits at amortised cost	**137,869,712**	137,928,169
	217,484,891	222,459,498

14. CERTIFICATES OF DEPOSIT ISSUED

	30th June, 2018	31st December, 2017
Certificates of deposit issued at amortised cost	**5,793,746**	4,380,410
	5,793,746	4,380,410

15. OTHER ACCOUNTS AND PROVISIONS

	30th June, 2018	31st December, 2017
Acceptances outstanding	**1,251,399**	1,622,379
Interest payable	**563,543**	508,550
Negative fair value of derivative financial instruments held for hedging	**39,887**	1,684
Other payables	**2,228,225**	2,203,244
Expected credit loss on contingent liabilities and commitments to extend credit	**100,946**	–
	4,184,000	4,335,857

16. RESERVES

The Group's unappropriated profits as at 30th June, 2018 included a regulatory reserve of HK$1,957,435,000 (31st December, 2017: HK$1,786,589,000). The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of losses which the Group will or may incur on advances to customers in addition to expected credit loss/impairment allowances recognised. Movements in the reserve are earmarked directly through unappropriated profits and in consultation with the HKMA.

17. CONTINGENT LIABILITIES AND COMMITMENTS TO EXTEND CREDIT

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

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

17. CONTINGENT LIABILITIES AND COMMITMENTS TO EXTEND CREDIT *(Continued)*

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

	30th June, 2018	31st December, 2017
Direct credit substitutes	**3,560,770**	3,290,887
Transaction-related contingencies	**812,478**	604,414
Trade-related contingencies	**2,575,847**	1,647,937
Other commitments:		
With an original maturity of not more than one year	**1,561,011**	319,906
With an original maturity over one year	**4,263,577**	3,660,086
Which are unconditionally cancellable	**33,039,147**	33,457,452
Forward forward deposits placed	**801,885**	–
	46,614,715	42,980,682
Credit risk weighted amounts	**6,610,687**	5,378,746

18. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

18. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

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

	30th June, 2018			
	Qualifying for hedge accounting	Managed in conjunction with financial instruments designated at fair value through profit or loss	Others, including held for trading	Total
Exchange rate contracts				
Forwards	–	–	**199,154,632**	**199,154,632**
Options purchased	–	–	**13,296,955**	**13,296,955**
Options written	–	–	**13,042,035**	**13,042,035**
Interest rate contracts				
Swaps	**20,913,851**	–	**187,305,991**	**208,219,842**
Equity contracts				
Options purchased	–	–	**880,361**	**880,361**
Options written	–	–	**878,141**	**878,141**
Credit derivative contracts				
Credit defaults swaps purchased	–	–	**6,052,721**	**6,052,721**
Credit defaults swaps written	–	–	**6,052,721**	**6,052,721**
	20,913,851	–	**426,663,557**	**447,577,408**

18. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

	31st December, 2017			
	Qualifying for hedge accounting	Managed in conjunction with financial instruments designated at fair value through profit or loss	Others, including held for trading	Total
Exchange rate contracts				
Forwards	–	–	224,770,013	224,770,013
Options purchased	–	–	21,684,006	21,684,006
Options written	–	–	20,205,249	20,205,249
Interest rate contracts				
Swaps	8,604,786	–	191,978,701	200,583,487
Equity contracts				
Options purchased	–	–	109,009	109,009
Options written	–	–	106,903	106,903
Credit derivative contracts				
Credit defaults swaps purchased	–	–	5,238,124	5,238,124
Credit defaults swaps written	–	–	5,202,234	5,202,234
	8,604,786	–	469,294,239	477,899,025

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

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

	30th June, 2018		31st December, 2017	
	Assets	Liabilities	Assets	Liabilities
Exchange rate contracts	**2,364,311**	**2,344,898**	2,775,850	3,329,917
Interest rate contracts	**877,372**	**764,429**	460,596	448,988
Equity contracts	**31,229**	**31,098**	957	945
Credit derivative contracts	**3,101**	**3,101**	2,335	2,355
	3,276,013	**3,143,526**	3,239,738	3,782,205

18. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

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

	30th June, 2018		31st December, 2017	
	Assets	Liabilities	Assets	Liabilities
Interest rate contracts	**89,621**	**39,887**	27,568	1,684
	89,621	**39,887**	27,568	1,684

The credit risk weighted amounts are as follows:

	30th June, 2018	31st December, 2017
Exchange rate contracts	**2,658,204**	3,169,168
Interest rate contracts	**198,955**	193,124
Equity contracts	**14,005**	1,465
Credit derivative contracts	**620**	467
	2,871,784	3,364,224

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

Fair value hedges

The fair value hedges principally consist of interest rate swaps. The interest rate swaps are used to protect against changes in the fair value of certain fixed rate assets and floating rate assets due to movements in market interest rates. At 30th June, 2018, the net positive fair value of derivatives held as fair value hedges was HK$48,222,000 (31st December, 2017: HK$26,413,000).

The gains on the hedging instruments for the period were HK$66,708,000 (31st December, 2017: HK$15,652,000). The losses on the hedged item attributable to the hedged risk for the period were HK$63,845,000 (31st December, 2017: HK$18,709,000).

Cash flow hedges

The cash flow hedges principally consist of interest rate contracts that are used to hedge against the variability in cash flows of certain floating rate assets and fixed rate liabilities. At 30th June, 2018, the positive fair value of derivatives held as cash flow hedges was HK$1,512,000 (31st December, 2017: negative fair value HK$529,000). During the period, there was no ineffectiveness recognised in the statement of profit or loss that arose from cash flow hedges (31st December, 2017: nil).

18. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

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

	30th June, 2018		
	Less than 1 year	1 to 5 years	Total
Forecast receivable cash flows	**–**	**663,934**	**663,934**
Forecast payable cash flows	**–**	**(433,000)**	**(433,000)**
Forecast net payable cash flows	**–**	**230,934**	**230,934**

	31st December, 2017		
	Less than 1 year	1 to 5 years	Total
Forecast receivable cash flows	–	229,918	229,918
Forecast payable cash flows	–	(112,177)	(112,177)
Forecast net payable cash flows	–	117,741	117,741

19. LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk of inability to fund an increase in assets or meet obligations as they fall due. An institution's obligations, and the funding sources used to meet them, depend significantly on its business mix, statement of financial position structure, and the cash flow profiles of its on- and off-balance sheet obligations. The Group's primary objective of liquidity risk management is to manage the liquidity risk exposures under both normal and stressed conditions. The Group has established liquidity management policies for ensuring adequate liquidity is maintained at all times. The Group maintained an average liquidity maintenance ratio of 39.2% for the six months ended 30th June, 2018 (30th June, 2017: 44.4%), which is well above the statutory requirement of 25%. The ratio as of 30th June, 2018 and 30th June, 2017 are compiled in accordance with the Banking (Liquidity) Rules effective from 1st January, 2015.

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

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

Customer deposits form an important part of funding source of the Group. The Retail Banking Division and Corporate Banking Division are responsible for maintaining customer deposits as well as advising the funding need of loans to the Treasury Division. The head of Retail Banking Division updates information to the ALCO members on any material customer deposits movements and strategy to tap deposits.

19. LIQUIDITY RISK MANAGEMENT *(Continued)*

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

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

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

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

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

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

The maintenance of liquidity maintenance ratio can serve the purpose to address the short-term liquidity stability. Medium-term funding ratio gives a clear picture on the Group's medium-term funding. A medium-term funding ratio is a percentage of liabilities plus shareholders' equity to total assets excluding land and building and investments in associates or subsidiaries, both with a contractual maturity of more than one year.

The Group projects future cash flows under normal and stressed conditions over different time horizons to identify potential funding mismatches and compares against the liquidity metrics. Moreover, the risk is further analysed by currencies and entities for senior management's review.

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

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

20. CURRENCY RISK

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

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

	30th June, 2018									
(In millions of HK$ equivalent)	US$	Chinese Renminbi	Pound Sterling	Euro	Canadian $	Australian $	Singapore $	New Zealand $	Macau Patacas	Total
Spot assets	**70,202**	**71,567**	**768**	**698**	**129**	**5,862**	**456**	**258**	**13,084**	**163,802**
Spot liabilities	**(73,552)**	**(53,844)**	**(1,259)**	**(2,698)**	**(2,043)**	**(10,741)**	**(452)**	**(3,063)**	**(13,237)**	**(161,864)**
Forward purchases	**101,619**	**73,780**	**781**	**2,920**	**1,999**	**5,768**	**10**	**2,978**	**–**	**190,413**
Forward sales	**(97,565)**	**(91,896)**	**(219)**	**(901)**	**(119)**	**(1,041)**	**(27)**	**(276)**	**(1)**	**(192,401)**
Net option positions	**(876)**	**875**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1)**
Net long/(short) positions	**(172)**	**482**	**71**	**19**	**(34)**	**(152)**	**(13)**	**(103)**	**(154)**	**(51)**

	31st December, 2017									
(In millions of HK$ equivalent)	US$	Chinese Renminbi	Pound Sterling	Euro	Canadian $	Australian $	Singapore $	New Zealand $	Macau Patacas	Total
Spot assets	70,571	74,124	861	914	113	8,071	192	124	12,556	169,857
Spot liabilities	(79,778)	(47,748)	(1,311)	(1,167)	(1,871)	(16,190)	(219)	(3,342)	(12,885)	(165,414)
Forward purchases	116,741	81,359	649	1,339	1,779	8,304	42	3,275	–	213,967
Forward sales	(105,619)	(110,755)	(196)	(1,081)	(29)	(175)	(29)	(58)	–	(219,838)
Net option positions	(2,457)	2,456	–	–	–	–	–	–	–	(1)
Net long/(short) positions	(542)	(564)	3	5	(8)	10	(14)	(1)	(329)	(1,429)

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

	30th June, 2018				31st December, 2017			
(In millions of HK$ equivalent)	Macau Patacas	Chinese Renminbi	US$	Total	Macau Patacas	Chinese Renminbi	US$	Total
Net structural positions	**3,044**	**7,291**	**1,609**	**11,944**	3,063	6,612	1,689	11,364

21. RESTATEMENT OF PRIOR PERIODS

Certain comparative figures have been restated to conform with the current period's presentation.

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

(A) CAPITAL AND LIQUIDITY MAINTENANCE RATIOS

(i) Capital ratio

	30th June, 2018	31st December, 2017 (restated)
Common Equity Tier 1 capital ratio	**14.1%**	14.2%
Tier 1 capital ratio	**14.1%**	14.2%
Total capital ratio	**16.0%**	16.1%
Capital conservation buffer ratio	**1.875%**	1.250%
Countercyclical capital buffet ratio	**1.137%**	0.750%
Common Equity Tier 1 capital	**30,705,832**	29,120,295
Tier 1 capital	**30,705,832**	29,120,295
Total capital	**34,808,273**	32,973,126
Risk weighted assets	**217,075,230**	205,072,878

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

In view of the Capital Rules, the Group has adopted the "basic indicator approach" for the calculation of operational risk and the "standardised (market risk) approach" for the calculation of market risk. For the calculation of the risk-weighted assets for credit risk, the Group has adopted the "standardised (credit risk) approach" as of 30th June, 2018 and 31st December, 2017.

In calculating the capital ratios of the Group at 30th June, 2018 and 31st December, 2017, certain subsidiaries are excluded from the regulatory scope of consolidation as they are authorised and supervised by relevant 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 Capital Rules and the Banking Ordinance.

(A) CAPITAL AND LIQUIDITY MAINTENANCE RATIOS *(Continued)*

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

Subsidiaries	Principal activities	**30th June, 2018** Total assets	**30th June, 2018** Total equity	31st December, 2017 Total assets	31st December, 2017 Total equity
CF Limited	Dormant/undergoing voluntary liquidation	**–**	**–**	–	–
C.F. Finance Company Limited	Undergoing voluntary liquidation	**421**	**421**	421	421
Chekiang First Bank (Nominees) Limited	Nominee Services	**10**	**10**	10	10
Chekiang First Bank (Trustees) Limited	Trustee Services	**3,929**	**3,917**	3,926	3,914
Chekiang First Limited	Dormant	**1**	**1**	1	1
Chekiang First Securities Company Limited	Undergoing voluntary liquidation	**6,367**	**6,360**	6,367	6,360
Cyber Wing Hang Limited	Dormant/undergoing voluntary liquidation	**229**	**229**	229	229
Data Processing Services Limited	Dormant/undergoing voluntary liquidation	**888**	**888**	888	888
Honfirst Investment Limited	Futures Trading	**16,707**	**16,640**	16,621	16,554
Honfirst Property Agency Limited	Dormant/undergoing voluntary liquidation	**34**	**34**	34	34
OCBC Wing Hang (Nominees) Limited	Nominee Services	**10**	**10**	10	10
OCBC Wing Hang (Trustee) Limited	Trustee Services	**3,637**	**3,626**	3,654	3,643
OCBC Wing Hang Insurance Agency Limited	Insurance Agency	**94,798**	**80,228**	81,726	69,814
OCBC Wing Hang Insurance Brokers Limited	Insurance Broker	**62,898**	**48,206**	59,785	37,783
OCBC Wing Hang Shares Brokerage Company Limited	Securities Dealing	**520,410**	**318,506**	621,590	307,324

As at 30th June, 2018, there are no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation with different method of consolidation.

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

(A) CAPITAL AND LIQUIDITY MAINTENANCE RATIOS *(Continued)*

(ii) Average liquidity maintenance ratio

	Six months ended 30th June, 2018	Six months ended 30th June, 2017
Average liquidity maintenance ratio	**39.2%**	44.4%

The average liquidity maintenance ratio for the six months includes the liquidity positions of the Bank and certain of its financial subsidiaries, which is the basis of computation agreed with the HKMA.

(B) ADVANCES TO CUSTOMERS ANALYSED BY GEOGRAPHICAL AREA

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

30th June, 2018

	Gross advances to customers	Impaired advances to customers	Overdue advances to customers for over three months	Expected credit loss (Stage 3) on advances to customers	Expected credit loss (Stages 1 and 2) on advances to customers
Hong Kong	**134,629,926**	**142,879**	**120,454**	**71,355**	**206,409**
Macau	**20,403,787**	**15,941**	**9,658**	**8,584**	**21,040**
Mainland China	**32,007,568**	**529,064**	**498,975**	**28,113**	**91,781**
Others	**3,335,459**	**2,492**	**–**	**547**	**7,856**
	190,376,740	**690,376**	**629,087**	**108,599**	**327,086**

31st December, 2017 (restated)

	Gross advances to customers	Impaired advances to customers	Overdue advances to customers for over three months	Individual impairment allowances on advances to customers	Collective impairment allowances on advances to customers
Hong Kong	125,943,810	264,302	229,813	123,165	119,835
Macau	20,045,539	11,446	14,851	6,564	9,791
Mainland China	30,469,470	593,422	514,961	42,838	326,659
Others	3,124,711	1,610	6,636	436	19,878
	179,583,530	870,780	766,261	173,003	476,163

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

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

	30th June, 2018				
	Gross advances to customers	Impaired advances to customers	Overdue advances to customers for over three months	Expected credit loss (Stage 3) on advances to customers	Expected credit loss (Stages 1 and 2) on advances to customers
Property investment	**25,309,162**	**–**	**–**	**–**	**35,658**
Advances for the purchase of other residential properties	**45,069,759**	**12,346**	**18,227**	**–**	**17,347**
Advances for use outside Hong Kong					
– Mainland China	**34,043,911**	**549,733**	**514,301**	**39,837**	**95,359**
– Macau	**20,762,675**	**15,941**	**9,658**	**8,465**	**21,134**

	31st December, 2017				
	Gross advances to customers	Impaired advances to customers	Overdue advances to customers for over three months	Individual impairment allowances on advances to customers	Collective impairment allowances on advances to customers
Property investment	22,124,359	13,848	16,227	3,863	12,943
Advances for the purchase of other residential properties	40,837,593	18,192	20,893	1,086	33,762
Advances for use outside Hong Kong					
– Mainland China	32,978,562	623,803	540,910	68,645	368,216
– Macau	20,433,657	11,446	14,851	6,564	8,056

(D) OVERDUE AND RESCHEDULED ASSETS

(i) Overdue and rescheduled advances to customers

	30th June, 2018		31st December, 2017	
	Amount	% of total advances to customers	Amount	% of total advances to customers
Gross advances to customers which have been overdue with respect to either principal or interest for periods of:				
– 6 months or less but over 3 months	**41,133**	**0.02**	82,213	0.05
– 1 year or less but over 6 months	**108,248**	**0.06**	130,696	0.07
– Over 1 year	**479,706**	**0.25**	553,352	0.31
	629,087	**0.33**	766,261	0.43
Covered portion of overdue advances	**566,031**		656,103	
Uncovered portion of overdue advances	**63,056**		110,158	
	629,087		766,261	
Current market values of collateral held against covered portion of overdue advances	**1,751,443**		1,533,812	
Expected credit loss (Stage 3)/individual impairment allowances made on overdue advances	**84,598**		153,537	

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

	30th June, 2018		31st December, 2017	
	Amount	% of total advances to customers	Amount	% of total advances to customers
Rescheduled advances to customers	**4,258**	**–**	5,644	–

There are no advances to banks which are overdue nor rescheduled as at 30th June, 2018 and 31st December, 2017.

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

(ii) Other overdue assets

There were no overdue trade bills included in "Advances to customers and other accounts" as at 30th June, 2018 and 31st December, 2017.

There were no overdue debt securities included in "Financial assets designated at fair value through profit or loss" and "Financial assets measured at fair value through other comprehensive income" or "Available-for-sale financial assets" as at 30th June, 2018 and 31st December, 2017.

Under "Other assets" as at 30th June, 2018 and 31st December, 2017, there were no receivables which were overdue.

(E) NON-BANK MAINLAND CHINA EXPOSURES

The analysis on non-bank Mainland China exposures includes exposures of the Bank and certain of its subsidiaries on the basis agreed with the HKMA.

	30th June, 2018		
(In millions of HK$ equivalent)	On-balance sheet exposures	Off-balance sheet exposures	Total exposures
(i) Central government, central government-owned entities and their subsidiaries and Joint Ventures ("JVs")	**12,017**	**4,332**	**16,349**
(ii) Local government, local government-owned entities and their subsidiaries and JVs	**1,912**	**767**	**2,679**
(iii) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	**25,833**	**1,569**	**27,402**
(iv) Other entities of central government not reported in item (i) above	**678**	**–**	**678**
(v) Other entities of local government not reported in item (ii) above	**969**	**313**	**1,282**
(vi) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in the Mainland China	**2,471**	**691**	**3,162**
(vii) Other counterparties where the exposures are considered by the Group to be non-bank Mainland China exposures	**3,797**	**17**	**3,814**
Total	**47,677**	**7,689**	**55,366**
Total assets after provisions	**300,150**		
On-balance sheet exposures as a percentage of total assets	**15.88%**		

(E) NON-BANK MAINLAND CHINA EXPOSURES *(Continued)*

(In millions of HK$ equivalent)	31st December 2017 On-balance sheet exposures	Off-balance sheet exposures	Total exposures
(i) Central government, central government-owned entities and their subsidiaries and JVs	10,218	2,299	12,517
(ii) Local government, local government-owned entities and their subsidiaries and JVs	1,871	588	2,459
(iii) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	25,410	1,600	27,010
(iv) Other entities of central government not reported in item (i) above	287	–	287
(v) Other entities of local government not reported in item (ii) above	950	161	1,111
(vi) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in the Mainland China	2,061	497	2,558
(vii) Other counterparties where the exposures are considered by the Group to be non-bank Mainland China exposures	4,311	7	4,318
Total	45,108	5,152	50,260
Total assets after provisions	299,786		
On-balance sheet exposures as a percentage of total assets	15.05%		

(F) INTERNATIONAL CLAIMS

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

30th June, 2018

	Banks	Official sector	Non-bank private sector: Non-bank financial institutions	Non-bank private sector: Non-financial private sector	Total
Offshore centres, of which:					
– Hong Kong	**2,246**	**6,773**	**11,157**	**127,948**	**148,124**
– Macau	**209**	**4,861**	**61**	**20,654**	**25,785**
– Singapore	**7,022**	**–**	**195**	**993**	**8,210**
Developing Asia-Pacific, of which:					
– Mainland China	**61,697**	**6,819**	**13,488**	**32,016**	**114,020**
	71,174	**18,453**	**24,901**	**181,611**	**296,139**

31st December, 2017

	Banks	Official sector	Non-bank private sector: Non-bank financial institutions	Non-bank private sector: Non-financial private sector	Total
Offshore centres, of which:					
– Hong Kong	1,379	5,463	11,332	118,900	137,074
– Macau	53	4,945	60	20,391	25,449
– Singapore	7,228	–	–	692	7,920
Developing Asia-Pacific, of which:					
– Mainland China	69,199	9,752	13,515	30,103	122,569
	77,859	20,160	24,907	170,086	293,012

The above analysis is disclosed on a net basis after taking into account the effect of any recognised risk transfer.

(G) COUNTERCYCLICAL CAPITAL BUFFER RATIO, LEVERAGE RATIO AND CORE FUNDING RATIO

The detailed disclosures required by the Banking (Disclosure) Rules will be disclosed before 30th September, 2018 under "Regulatory Disclosure" on the website of the Bank (www.ocbcwhhk.com).

(H) RESTATEMENT OF PRIOR PERIODS

Certain comparative figures have been restated to conform with the current period's presentation.

OCBC WING HANG

Registered Office: 161 Queen's Road Central, Hong Kong

MIX
Paper from responsible sources
FSC™ C014929
FSC
www.fsc.org