

BANK OF COMMUNICATIONS (HONG KONG) LIMITED

Interim Report 2018



始於1908 您的財富管理銀行



Bank of Communications (Hong Kong) Limited

20 Pedder Street, Central, Hong Kong

www.hk.bankcomm.com

Contents

BANK OF COMMUNICATIONS (HONG KONG) LIMITED
INTERIM REPORT 2018

Report on Review of Interim Financial Information	2
Unaudited Condensed Statement of Profit or Loss and Other Comprehensive Income	3
Unaudited Condensed Statement of Financial Position	4
Unaudited Condensed Statement of Changes in Equity	5
Unaudited Condensed Statement of Cash Flows	6
Notes to the Unaudited Condensed Financial Statements	7

Report on Review of Interim Financial Information

TO THE BOARD OF DIRECTORS OF BANK OF COMMUNICATIONS (HONG KONG) LIMITED

(incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 3 to 48, which comprises the interim condensed statement of financial position of Bank of Communications (Hong Kong) Limited (the “Company”) as at 30 June 2018 and the related interim condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

Other Matter

The comparative condensed statement of financial position as at year ended 31 December 2017 and the comparative condensed statements of comprehensive income, changes in equity and cash flows, and related explanatory notes, for the period ended 30 June 2017 have not been audited or reviewed.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 13 September 2018

Unaudited Condensed Statement of Profit or Loss and Other Comprehensive Income

(All amounts expressed in thousands of HK\$ unless otherwise stated)

		Six months ended 30 June	
		2018	2017 (restated)
	Notes		
Interest income		2,191,858	5,415,354
Interest expense		(1,614,282)	(3,693,635)
Net interest income	4	577,576	1,721,719
Fee and commission income	5	484,760	1,083,902
Fee and commission expense	6	(20,138)	(43,239)
Net fee and commission income		464,622	1,040,663
Net gains arising from trading activities	8	174,771	1,233,956
Net (losses)/gains arising from financial investments		(14,413)	155,662
Dividend income	7	700	2,050
Other operating income	9	7,874	38,645
(Provision for)/reversal of impairment allowances on loans and advances to customers	10	(27,904)	14,350
Other operating expenses	11	(676,802)	(1,043,638)
Profit before tax		506,424	3,163,407
Income tax expenses	12	(138,870)	(506,855)
Net profit for the period		367,554	2,656,552
Other comprehensive income			
<i>Item that will not be reclassified subsequently to profit or loss:</i>			
Equity investments at fair value through other comprehensive income – net change in fair value		2,500	–
<i>Items that may be reclassified to profit or loss:</i>			
Available-for-sale financial assets – net change in fair value		–	144,176
Debt investments at fair value through other comprehensive income – net change in fair value		129,984	–
Other comprehensive income for the period		132,484	144,176
Total comprehensive income for the period		500,038	2,800,728

The accompanying notes form a part of these financial statements.

Unaudited Condensed Statement of Financial Position

(All amounts expressed in thousands of HK\$ unless otherwise stated)

		As at 30 June 2018	As at 31 December 2017 (restated)
	Notes		
ASSETS			
Cash and balances with central bank	13	2,624,627	2,615,265
Due from banks and other financial institutions	14	64,670,088	105,537,218
Loans and advances to customers	17	37,374,635	256,368,508
Financial assets at fair value through profit or loss	15	279,923	20,290,313
Financial assets at fair value through other comprehensive income	18	75,772,145	–
Financial investments – available-for-sale	18	–	182,454,457
Financial investments – held-to-maturity	18	–	3,895,864
Property and equipment	19	66,230	391,446
Deferred income tax assets		8,798	11,352
Other assets	20	2,640,645	5,877,791
Total assets		183,437,091	577,442,214
LIABILITIES			
Due to banks and other financial institutions	21	3,349,218	21,108,085
Financial liabilities at fair value through profit or loss	22	232,869	11,055,199
Due to customers	23	154,457,880	441,714,184
Certificates of deposit issued	24	–	22,014,718
Debt securities issued	25	–	38,888,667
Current tax liabilities		6,407	943,915
Other liabilities	26	7,443,529	4,573,515
Total liabilities		165,489,903	540,298,283
EQUITY			
Head office account		–	18,380,966
Share capital	27	17,900,000	300,000
Other reserves		16,392	1,894,385
Retained earnings		30,796	16,568,580
Total equity		17,947,188	37,143,931
Total equity and liabilities		183,437,091	577,442,214

The condensed interim financial information was approved and authorised for issue by the Board of Directors on 13 September 2018 and signed on its behalf by:

Chairman: Shou Fugang

Chief Executive: Chan Ha Fong, Nancy

The accompanying notes form a part of these financial statements.

Unaudited Condensed Statement of Changes in Equity

(All amounts expressed in thousands of HK\$ unless otherwise stated)

	Attributable to the shareholders of the Company				Total
	Share capital	Revaluation reserve	Regulatory reserve	Retained earnings	
At 1 January 2018	300,000	–	–	(7,512)	292,488
Effect of recapitalization of a business	–	931,049	963,336	16,576,092	18,470,477
	300,000	931,049	963,336	16,568,580	18,762,965
Change in accounting policy	–	54,957	–	(101,009)	(46,052)
	300,000	986,006	963,336	16,467,571	18,716,913
Restated balance at 1 January 2018	–	132,484	–	–	132,484
Other comprehensive income	–	–	–	367,554	367,554
Net profit for the period	–	(1,102,098)	(963,336)	(16,804,329)	(18,869,763)
Transfer of Excluded Business to HKBR (Note 2)	17,600,000	–	–	–	17,600,000
Issuance of share capital	17,900,000	16,392	–	30,796	17,947,188
At 30 June 2018					
At 1 January 2017	300,000	–	–	(1,720)	298,280
Effect of recapitalization of a business	–	614,326	963,336	12,177,122	13,754,784
	300,000	614,326	963,336	12,175,402	14,053,064
Restated balance at 1 January 2017	–	144,176	–	–	144,176
Other comprehensive income	–	–	–	2,656,552	2,656,552
Net profit for the period	300,000	758,502	963,336	14,831,954	16,853,792
At 30 June 2017 (restated)					

The accompanying notes form a part of these financial statements.

Unaudited Condensed Statement of Cash Flows

(All amounts expressed in thousands of HK\$ unless otherwise stated)

		Six months ended 30 June	
		2018	2017 (restated)
	Notes		
Cash flows from operating activities:			
Profit before tax		506,424	3,163,407
Adjustments for:			
Provision for/(reversal of) impairment allowances on loans and advances to customers		27,904	(14,350)
Provision for/(reversal of) impairment allowances on financial investments		19,370	(19,384)
Provision for impairment allowances on other receivables		19,742	11,285
Provision for impairment allowances on due from banks and other financial institutions		10,427	–
Reversal of impairment allowances on financial guarantee and credit related commitments		(10,070)	–
Depreciation		18,894	45,719
Interest income from financial investments		(794,900)	(1,872,921)
Fair value losses/(gains)		156,468	(3,431,330)
Dividend income		(700)	(2,050)
Revaluation surplus of investment properties		–	(24,109)
Net losses/(gains) arising from financial investments		14,413	(155,662)
Operating cash flows before movements in operating assets and liabilities		(32,028)	(2,299,395)
Net (increase)/decrease in due from banks and other financial institutions		(111,631,500)	14,468,469
Net decrease in financial assets at fair value through profit or loss		3,625,177	5,989,338
Net decrease/(increase) in loans and advances to customers		16,352,347	(29,426,385)
Net increase in other assets		(8,787,835)	(938,749)
Net increase in due to banks and other financial institutions		169,011,241	14,413,987
Net decrease in financial liabilities at fair value through profit or loss		(3,661,465)	(6,367,736)
Net increase in due to customers		12,781,648	67,922,107
Net increase in other liabilities		9,744,414	16,986
Income tax paid		(969,945)	–
Net cash inflows from operating activities		86,432,054	63,778,622
Cash flows from investing activities:			
Purchase of financial investments		(609,327,584)	(45,274,384)
Disposal or redemption of financial investments		559,602,189	22,379,977
Dividend received		700	2,050
Interest received from financial investments		525,319	674,842
Purchase of property and equipment		(8,532)	(7,659)
Net cash outflows from investing activities		(49,207,908)	(22,225,174)
Cash flows from financing activities:			
Proceeds on debt securities issued		–	31,094,048
Repayment of the principals of debt securities issued		–	(17,063,755)
Repayment to Head office		–	(55,056,077)
Proceeds from issuance of share capital		17,600,000	–
Net cash inflows/(outflows) from financing activities		17,600,000	(41,025,784)
Net increase in cash and cash equivalents		54,824,146	527,664
Transfer of cash and cash equivalents in relation to the Transfer of Excluded Business to HKBR	2	(44,471,259)	–
Cash and cash equivalents at the beginning of the period		40,591,763	7,084,129
Cash and cash equivalents at the end of the period	29	50,944,650	7,611,793

The accompanying notes form a part of these financial statements.

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018

(All amounts expressed in thousands of HK\$ unless otherwise stated)

1 General

Bank of Communications (Hong Kong) Limited (“the Company”) is a private company incorporated and domiciled in Hong Kong. The address of its registered office is 20 Pedder Street, Central, Hong Kong and principal place of business is 1/F, Wheelock House, 20 Pedder Street, Central, Hong Kong. Its ultimate holding company is Bank of Communications Co., Ltd., which is incorporated in the People’s Republic of China.

On 29 September 2015, the Monetary Authority granted the Company a banking licence under the Banking Ordinance.

On 29 January 2018 (the “Appointed Day”), the Bank of Communications (Hong Kong) Limited (Merger) Ordinance (Chapter 1182 of the laws of Hong Kong) (the “Ordinance”) has become effective. Pursuant to the Ordinance, certain activities, assets and liabilities which constitute the retail banking business and private banking business (“Transferred Business”) of Bank of Communications Co., Ltd. Hong Kong Branch (“HKBR”) have been transferred to the Company in accordance with section 4(1) of the Ordinance. Accordingly, the Company commenced its retail banking business and private banking business on the Appointed Day.

These financial statements are presented in thousands of Hong Kong Dollars (HK\$), unless otherwise stated.

Certain financial information relating to the year ended 31 December 2017 that is included in the condensed interim financial information for the six months ended 30 June 2018 as comparative information does not constitute the Company’s statutory annual financial statements for that year but is derived from the financial statements of the Company and the financial information of HKBR.

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 Company has delivered the financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

The Company’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 financial information for HKBR for the year ended 31 December 2017 has not been audited or reviewed.

The regulatory disclosure information required under the Banking (Disclosure) Rules is available in the Regulatory Disclosure Section of our website www.hk.bankcomm.com.

2 Basis of Preparation and Accounting Estimates and Judgements

2.1 Basis of preparation and principal accounting policies

These unaudited condensed interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 Interim Financial Reporting. The financial statements have been prepared on the historical cost basis except for certain financial instruments and investment property which are measured at fair value.

The Company adopts the going concern basis in preparing its condensed interim financial information.

The transfer of retail bank business and private banking business from HKBR to the Company is a recapitalization of a business and does not result in any changes in business substance, management nor the ultimate controlling shareholder. Accordingly, the assets and liabilities of the Transferred Business have been presented using their carrying value in the records of HKBR.

Certain assets and liabilities of HKBR’s corporate banking business have not been transferred to the Company (the “Excluded Business”). Accordingly, the statement of financial position and the statement of comprehensive income of the Company includes the net assets and results of the Excluded Business up to 28 January 2018 because the results of this business cannot be clearly distinguished from that of the Transferred Business. The Excluded Business have been accounted for as a deduction from equity upon completion of the business transfer at 29 January 2018.

The effects of all transactions between the Company and the Transferred Business of HKBR before the recapitalization are eliminated in preparing the condensed interim financial statements.

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018
(All amounts expressed in thousands of HK\$ unless otherwise stated)

2 Basis of Preparation and Accounting Estimates and Judgements *(continued)*

2.1 Basis of preparation and principal accounting policies *(continued)*

The effects of the recapitalization of a business for the period ended 30 June 2018 and 2017 and the financial position of the Company at 31 December 2017 are summarized below:

	HKBR	The Company	Inter-company elimination	Total
ASSETS				
Cash and balances with central bank	2,615,265	–	–	2,615,265
Due from banks and other financial institutions	105,537,218	300,090	(300,090)	105,537,218
Loans and advances to customers	256,368,508	–	–	256,368,508
Financial assets as fair value through profit or loss	20,290,313	–	–	20,290,313
Financial investments – available-for-sale	182,454,457	–	–	182,454,457
Financial investments – held-to-maturity	3,895,864	–	–	3,895,864
Property and equipment	391,446	–	–	391,446
Deferred income tax assets	11,352	–	–	11,352
Other assets	5,874,660	3,131	–	5,877,791
Total assets	577,439,083	303,221	(300,090)	577,442,214
LIABILITIES				
Due to banks and other financial institutions	21,099,015	9,070	–	21,108,085
Financial liabilities at fair value through profit or loss	11,055,199	–	–	11,055,199
Due to customers	442,014,274	–	(300,090)	441,714,184
Certificates of deposit issued	22,014,718	–	–	22,014,718
Current tax liabilities	943,915	–	–	943,915
Debt securities issued	38,888,667	–	–	38,888,667
Other liabilities	4,571,852	1,663	–	4,573,515
Total liabilities	540,587,640	10,733	(300,090)	540,298,283
EQUITY				
Head office account	18,380,966	–	–	18,380,966
Share capital	–	300,000	–	300,000
Other reserves	1,894,385	–	–	1,894,385
Retained earnings/(accumulated losses)	16,576,092	(7,512)	–	16,568,580
Total equity	36,851,443	292,488	–	37,143,931
Total equity and liabilities	577,439,083	303,221	(300,090)	577,442,214

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018
(All amounts expressed in thousands of HK\$ unless otherwise stated)

2 Basis of Preparation and Accounting Estimates and Judgements *(continued)*

2.1 Basis of preparation and principal accounting policies *(continued)*

The statement of comprehensive income for the period ended 30 June 2018:

	HKBR	The Company	Total
Net interest income	413,882	163,694	577,576
Other income	255,756	377,798	633,554
Total income	669,638	541,492	1,211,130
Operating expenses	(176,893)	(499,909)	(676,802)
Provision for impairment allowance on loans and advances to customers	(29,762)	1,858	(27,904)
Profit before tax	462,983	43,441	506,424
Income tax	(133,774)	(5,096)	(138,870)
Profit for the period	329,209	38,345	367,554
Other comprehensive income	116,092	16,392	132,484
Total comprehensive income for the period	445,301	54,737	500,038

The statement of comprehensive income for the period ended 30 June 2017:

	HKBR	The Company	Total
Net interest income	1,721,704	15	1,721,719
Other income	2,470,976	–	2,470,976
Total income	4,192,680	15	4,192,695
Operating expenses	(1,040,266)	(3,372)	(1,043,638)
Reversal of impairment allowance on loans and advances to customers	14,350	–	14,350
Profit/(loss) before tax	3,166,764	(3,357)	3,163,407
Income tax	(506,855)	–	(506,855)
Profit/(loss) for the period	2,659,909	(3,357)	2,656,552
Other comprehensive income	144,176	–	144,176
Total comprehensive income/(expense) for the period	2,804,085	(3,357)	2,800,728

These unaudited condensed financial statements of the Company do not include all the notes of the types normally included in annual financial statement. Accordingly, these unaudited condensed financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2017.

Except as described below, the Company's accounting policies applied in preparing these unaudited condensed financial statements are consistent with those policies applied in preparing the financial statements for the year ended 31 December 2017.

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018
(All amounts expressed in thousands of HK\$ unless otherwise stated)

2 Basis of Preparation and Accounting Estimates and Judgements *(continued)*

2.1 Basis of preparation and principal accounting policies *(continued)*

2.1.1 New and revised HKFRSs effective by 1 January 2018 applied by the Company

HKFRS 9	Financial Instruments
HKFRS 15 and the related amendments	Revenue from Contracts with Customers
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKAS 28 and HKFRS 1	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The impact of the adoption of Hong Kong Financial Reporting Standard ("HKFRS") 9 and HKFRS 15 and the new accounting policies are disclosed in note 2.4 below. The other standards did not have any impact on the Company's accounting policies and did not require retrospective adjustments.

2.1.2 Standards and amendments that are not yet effective and have not been adopted by the Company

		Effective for annual period beginning on or after
HKFRIC 23	Uncertainty over income tax	1 January 2019
HKFRS 16	Leases	1 January 2019
Amendments to HKFRS 9	Prepayment Features with Negative Compensation and Modifications of Financial Liabilities	1 January 2019

HKFRS 16 Leases

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Company's operating leases. As at 30 June 2018, the Company has non-cancellable operating lease commitments of HK\$12,733,000 (31 December 2017: HK\$385,338,000), see note 28. However, the Company has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Company's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Company does not intend to adopt the standard before its effective date.

Except for the above mentioned impact of HKFRS 16, the adoption of the above new HKFRSs and amendments to HKFRSs issued but not yet effective is not expected to have a material effect on the Company's operating results, financial position or other comprehensive income.

2.2 Critical accounting estimates and judgments in applying accounting policies

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

In preparing this condensed interim financial information, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements for the year ended 31 December 2017, except for below:

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018
(All amounts expressed in thousands of HK\$ unless otherwise stated)

2 Basis of Preparation and Accounting Estimates and Judgements *(continued)*

2.2 Critical accounting estimates and judgments in applying accounting policies *(continued)*

Measurement of the expected credit loss ("ECL") allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and fair value through other comprehensive income is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the respective portfolios' past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

2.3 Significant accounting policies

2.3.1 Interest income and expense

Interest income and expense are recognized in profit or loss for interest-bearing financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (including a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument (but does not consider future credit losses). The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income on an impaired financial asset or a group of impaired similar financial assets is recognized using the original interest rate which was used to discount the future cash flows for the purpose of measuring the impairment loss.

2.3.2 Fee and commission income

The Company earns fee and commission income from a diverse range of services it provides to its customers. For those services that are over a period of time, fee and commission income are accrued over that period when the services are rendered. For other services, fee and commission income are recognized when the services are rendered.

2.3.3 Dividend income

Dividends are recognized when the right to receive the dividends is established.

2.3.4 Assets transferred under repurchase agreements

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date at a fixed or determinable price are not derecognized in the statement of financial position. The proceeds from selling such assets are presented under "due to banks and other financial institutions" in the statement of financial position. The difference between the selling price and repurchasing price is recognized as interest expense during the term of the agreement using the effective interest method.

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018
(All amounts expressed in thousands of HK\$ unless otherwise stated)

2 Basis of Preparation and Accounting Estimates and Judgements *(continued)*

2.3 Significant accounting policies *(continued)*

2.3.5 Property and equipment

The Company's property and equipment mainly comprise buildings, equipment, transportation equipment and property improvement.

The assets purchased are initially measured at acquisition cost.

Subsequent expenditures incurred for the property and equipment are included in the cost of the property and equipment if it is probable that economic benefits associated with the asset will flow to the Company and the subsequent expenditures can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognized. Other subsequent expenditures are recognized in profit or loss in the period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets over their estimated useful lives. The useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Buildings comprise primarily branch office premises and office premises. The estimated useful lives and depreciation rate of land and buildings, equipment, transportation equipment and property improvement are as follows:

Type of assets	Estimated useful lives
Buildings	50 years
Equipment	5 years
Transportation equipment (excluding equipment under operating leases)	3 years
Property improvement	Over the shorter of the economic useful lives and remaining lease terms

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

2.3.6 Foreclosed assets

Foreclosed assets are initially recognized at fair value. At each reporting date, foreclosed assets are subsequently measured at lower of its carrying amount or fair value less cost of sale. When the fair value less cost of sale is lower than the foreclosed asset's carrying amount, an impairment loss is recognized in profit or loss.

When a foreclosed asset is disposed, the difference between the disposal proceeds and the carrying amount is recognized in profit or loss.

2.3.7 Investment property

Investment property is a property held to earn rentals or for capital appreciation or both and initially measured at cost.

As there is an active property market in the location in which the Company's investment property is situated, and the Company can obtain the market price and other relevant information regarding the same or similar type of property from the property market so as to reasonably estimate the fair value of the investment property; therefore, the Company uses the fair value model for subsequent measurement of the investment property, with changes in the fair value included in profit or loss for the period in which they arise.

When an investment property is sold, transferred, retired or damaged, the Company recognizes the amount of any proceeds on disposal net of the carrying amount and related taxes in profit or loss for the period.

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018
(All amounts expressed in thousands of HK\$ unless otherwise stated)

2 Basis of Preparation and Accounting Estimates and Judgements *(continued)*

2.3 Significant accounting policies *(continued)*

2.3.8 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis over the lease term.

2.3.9 Provisions

Provisions are recognized when the Company has a present obligation related to a contingency, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account factors pertaining to a contingency such as the risks, uncertainties and time value of money. Where the effect of the time value of money is material, the amount of the provision is determined by discounting the related future cash outflows.

Where all or some of the expenditure required to settle a provision is expected to be reimbursed by a third party, the reimbursement is recognized as a separate asset only when it is virtually certain that reimbursement will be received, and the amount of reimbursement recognized does not exceed the carrying amount of the provision.

2.3.10 Contingent liabilities and contingencies

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events that is not recognized because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and the amount can be reliably measured, it will then be recognized as a provision.

2.3.11 Financial guarantee contracts and credit related commitments

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Company and not designated as at fair value through profit or loss is recognized initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract.

2.3.12 Fiduciary activities

In activities where the Company acts in a fiduciary capacity such as trustee, custodian or agent, the assets and income arising from the transaction together with the related undertakings to return the assets to customers are excluded from the Company's financial statements.

The Company conducts entrusted lending for the third-party lenders. The Company grants loans to borrowers, as trustee, according to the instruction of the third-party lenders who fund these loans. The Company is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Company does not assume the risks and rewards of the entrusted loans and does not provide funding for the corresponding entrusted funds, the entrusted loans are not recognized as assets and liabilities of the Company.

2.3.13 Acceptances

Acceptances comprise the Company's commitments on payment for bills that are issued to customers. Acceptances are accounted for as financial guarantees and credit related commitments and are disclosed as contingent liabilities and commitments.

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018
(All amounts expressed in thousands of HK\$ unless otherwise stated)

2 Basis of Preparation and Accounting Estimates and Judgements *(continued)*

2.3 Significant accounting policies *(continued)*

2.3.14 Employee benefits

The Company's contributions to the mandatory provident fund scheme and defined contribution plan are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme or the plan prior to vesting fully in the contributions.

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

2.3.15 Offset financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the assets and settle the liability simultaneously.

2.3.16 Hedge accounting

The Company designates certain derivatives as hedging instruments for fair value hedges or cash flow hedges.

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions.

Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values of the hedged item attributable to the hedged risk.

Fair value hedges

Fair value hedge is a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.

The changes in fair value of hedging instruments that are designated and qualified as fair value hedges are recorded in profit or loss, together with the changes in fair value of the hedged item attributable to the hedged risk. The net difference is recognized as ineffectiveness in the profit or loss.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity. If the hedged item is de-recognized, the unamortised carrying value adjustment is recognized immediately in the profit or loss.

Cash flow hedge

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction that could ultimately affect the profit or loss.

The effective portion of changes in the fair value of hedging instruments that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated in equity in the reserve. The ineffective portion is recognized immediately in the profit or loss.

Amounts accumulated in equity are reclassified to the profit or loss in the same periods when the hedged item affects the profit or loss.

When a hedging instrument expires or is sold, or the hedge designation is revoked or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss on the hedging instrument existing in equity at that time remains in equity and is reclassified to the profit or loss when the forecast transaction ultimately occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss existing in equity is immediately transferred to the profit or loss.

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018
(All amounts expressed in thousands of HK\$ unless otherwise stated)

2 Basis of Preparation and Accounting Estimates and Judgements *(continued)*

2.3 Significant accounting policies *(continued)*

2.3.17 Derivative financial instruments

Derivative financial instruments include, but not limited to, interest rate derivative and foreign exchange derivative. Derivative financial instruments are initially measured at fair value at the date a derivative contract is entered into and are subsequently measured at fair value. Changes in fair value of these derivative financial instruments are recognized in profit or loss. Fair values are obtained from quoted market prices in active market or are determined using valuation techniques, including discounted cash flow model and options pricing model as appropriate. All derivatives are recognized as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their characteristics and risks are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognized in profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognized in profit or loss.

2.3.18 Financial assets

The Company's financial assets are initially measured at fair value and classified into one of the four categories, including financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables. Financial investments comprise held-to-maturity investments, available-for-sale financial assets and debt securities classified as loans and receivables. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

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

Financial assets at fair value through profit or loss have two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition.

A financial asset is classified as held for trading if one of the following conditions is satisfied: (1) It has been acquired principally for the purpose of selling in the near term; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and there is objective evidence that the Company has a recent actual pattern of short-term profit-taking; or (3) It is a derivative, except for a derivative that is designated and effective as a hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

A financial asset may be designated as at fair value through profit or loss upon initial recognition only when one of the following conditions is satisfied: (1) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise result from measuring assets or recognizing the gains or losses on them on different bases; or (2) The financial asset forms part of a group of financial assets or a group of financial assets and financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is reported to key management personnel on that basis; or (3) It forms part of a contract containing one or more embedded derivatives, and HKAS 39 – Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated at financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss are subsequently measured at fair value. Any gains or losses arising from changes in the fair value and any dividend or interest income earned on the financial assets are recognized in profit or loss.

(b) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses.

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018
(All amounts expressed in thousands of HK\$ unless otherwise stated)

2 Basis of Preparation and Accounting Estimates and Judgements *(continued)*

2.3 Significant accounting policies *(continued)*

2.3.18 *Financial assets (continued)*

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative that are not either designated or classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognized in other comprehensive income, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognized in other comprehensive income accumulated at which time in equity is reclassified to profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of the reporting period.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established.

Interest income on available-for-sale debt instruments are calculated using the effective interest method and recognized in profit or loss.

(d) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses.

2.3.19 *Impairment of financial assets*

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment of financial assets could include the following observable events:

- (1) Significant financial difficulty of the issuer or obligor.
- (2) A breach of contract, such as a default or delinquency in interest or principal payments.
- (3) The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider.
- (4) It becoming probable that the borrower will enter bankruptcy or other financial reorganization.
- (5) The disappearance of an active market for that financial asset because of financial difficulties.
- (6) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including: adverse changes in the payment status of borrowers in the group; and national or local economic conditions that correlate with defaults on the assets in the group.
- (7) Any significant change with an adverse effect that has taken place in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of investments in equity instruments may not be recovered.
- (8) A significant or prolonged decline in the fair value of equity instrument investments; and
- (9) Other objective evidence indicating impairment of the financial asset.

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018

(All amounts expressed in thousands of HK\$ unless otherwise stated)

2 Basis of Preparation and Accounting Estimates and Judgements *(continued)*

2.3 Significant accounting policies *(continued)*

2.3.19 Impairment of financial assets *(continued)*

(a) Impairment of financial assets carried at amortised cost

For a financial asset that is individually significant, the Company assesses the asset individually for impairment. For a financial asset that is not individually significant, the Company assesses the asset individually for impairment or includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset (whether significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively reassesses them for impairment. Assets for which an impairment loss is individually recognized are not included in a collective assessment of impairment.

If financial assets carried at amortised cost are impaired, the carrying amounts of the financial assets are reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of reduction is recognized as an impairment loss in profit or loss and is recorded through the use of an allowance account. When a financial asset is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss. If, subsequent to the recognition of an impairment loss on financial assets carried at amortised cost, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognized, the previously recognized impairment loss is reversed. However, the reversal is made to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognized.

(b) Impairment of available-for-sale financial assets

For available-for-sale equity instruments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment.

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value previously recognized directly in other comprehensive income is reclassified to profit or loss. The cumulative loss reclassified is the balance of the initial acquisition cost of the asset deducted by the recovered principal, amortized amount, the current fair value, and the impairment loss that has been previously recorded in profit or loss.

If, subsequent to the recognition of an impairment loss on available-for-sale financial assets, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognized, the previously recognized impairment loss is reversed. The amount of reversal of impairment loss on available-for-sale equity instruments is recognized as other comprehensive income, while the amount of reversal of impairment loss on available-for-sale debt investments is recognized in profit or loss.

(c) Impairment of financial assets measured at cost

If an impairment loss has been incurred on an investment in unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, or on a derivative financial asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the carrying amount of the financial asset is reduced to the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The amount of reduction is recognized as an impairment loss in profit or loss. The impairment loss on such financial asset is not reversed once it is recognized.

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018
(All amounts expressed in thousands of HK\$ unless otherwise stated)

2 Basis of Preparation and Accounting Estimates and Judgements *(continued)*

2.4 Changes in accounting policies

(a) HKFRS 9 Financial Instruments – Impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements. The new accounting policies are set out in note 2.4(b) below. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated with the exception of certain aspects of hedge accounting.

The total impact on the Company's retained earnings as at 1 January 2018 is as follows:

		2018
	<i>Notes</i>	
Closing retained earnings 31 December 2017 – HKAS 39		16,568,580
Increase in provision for impairment allowance on financial assets at fair value through other comprehensive income	(iii)	(87,321)
Decrease in provision for impairment allowance on loans and advances to customers	(iii)	124,977
Increase in provision for impairment allowance on financial assets at amortised cost	(iii)	(41,395)
Increase in provision for impairment allowance on financial guarantee and credit related commitments		(112,828)
The change in fair value of non-derivative financial liability designated at fair value arising from the changes in the liability's own credit risk	(i)	7,703
The reclassification from available-for-sale to fair value through profit or loss	(i)	7,855
Adjustment to retained earnings from adoption of HKFRS 9 on 1 January 2018		(101,009)
Opening retained earnings 1 January 2018 – HKFRS 9		<u>16,467,571</u>

(i) Classification and measurement

On 1 January 2018 (the date of initial application of HKFRS 9), the Company's management has assessed which business models to be applied to the financial assets held by the Company and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effects resulting from this reclassification are as follows:

		Fair value through profit or loss	Fair value through other comprehensive income (2017: Available- for-sale)	Held-to- maturity	Amortised cost (2017: Loan and receivables)
Financial assets – 1 January 2018					
	<i>Notes</i>				
Closing balance 31 December 2017 – HKAS 39		20,290,313	182,454,457	3,895,864	368,817,675
Reclassify investments from available-for-sale to fair value through profit or loss	(a)	838,116	(838,116)	–	–
Reclassify debt securities investments from held-to-maturity to amortised cost	(c)	–	–	(3,895,864)	3,895,864
Opening balance 1 January 2018 – HKFRS 9		<u>21,128,429</u>	<u>181,616,341</u>	<u>–</u>	<u>372,713,539</u>

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018

(All amounts expressed in thousands of HK\$ unless otherwise stated)

2 Basis of Preparation and Accounting Estimates and Judgements *(continued)*

2.4 Changes in accounting policies *(continued)*

(a) HKFRS 9 Financial Instruments – Impact of adoption (continued)

(i) Classification and measurement (continued)

The impact of these changes on the Company's reserves is as follows:

		Revaluation Reserve		
		Effect on AFS reserve	Effect on fair value through other comprehensive income reserve	Effect on retained earnings
	<i>Notes</i>			
Closing balance 31 December 2017 – HKAS 39		931,049	–	16,568,580
Reclassify investment from available-for-sale to fair value through profit or loss	(a)	(7,855)	–	7,855
Reclassify non-trading equities from available-for sale to fair value through other comprehensive income	(b)	–	(16,806)	–
Reclassify listed and unlisted bonds from available-for-sale to fair value through other comprehensive income	(d)	(923,194)	923,194	–
Reclassify the change in fair value of non-derivative financial liability designated at fair value arising from the changes in its own credit risk	(e)	–	(7,703)	7,703
Total impact		(931,049)	898,685	15,558
Opening balance 1 January 2018 – HKFRS 9		–	898,685	16,584,138

(a) Reclassification from available-for-sale to fair value through profit or loss

Certain investment in debt securities were reclassified from available-for-sale to financial assets at fair value through profit or loss (HK\$838,116,000 as at 1 January 2018). They do not meet the HKFRS 9 criteria for classification at amortised cost, because their contractual cash flows do not represent solely payments of principal and interest.

Related fair value gains of HK\$7,855,000 were transferred from the available-for-sale financial assets reserve to retained earnings on 1 January 2018.

(b) Equity investment previously classified as available-for-sale

The Company elected to present in other comprehensive income the changes in the fair value of all its equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. The equity investment was measured at cost previously. With the adoption HKFRS 9, the equity investment was remeasured at fair value of HK\$19,968,000 and the amount was transferred from available for sales to fair value through other comprehensive income and fair value loss of HK\$16,806,000 was recorded in other comprehensive income.

(c) Reclassification from held-to-maturity to amortised cost

Debt securities that would have previously been classified as held-to maturity are now classified at amortised cost. The Company intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. There was no difference between the previous carrying amount and the revised carrying amount of the other financial assets at 1 January 2018.

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018

(All amounts expressed in thousands of HK\$ unless otherwise stated)

2 Basis of Preparation and Accounting Estimates and Judgements *(continued)*

2.4 Changes in accounting policies *(continued)*

(a) HKFRS 9 Financial Instruments – Impact of adoption *(continued)*

(i) Classification and measurement *(continued)*

(d) Available-for-sale debt instruments classified as fair value through other comprehensive income

Listed and unlisted bonds were reclassified from available for sale to fair value through other comprehensive income, as the Company's business model is achieved by both collecting contractual cash flows and selling of these assets. The contractual cash flows of these investments are solely principal and interest. As a result, listed and unlisted bonds with a fair value of HK\$181,616,341,000 were reclassified from available-for-sale financial assets to financial assets at fair value through other comprehensive income and fair value gains of HK\$923,194,000 were reclassified from the available-for-sale reserve to the fair value through other comprehensive income reserve on 1 January 2018.

(e) Non-derivative financial liabilities

Following the adoption of HKFRS 9, the changes in fair value of the certificate of deposits issued by the Company due to the change in the liability's own credit rating are recognized in other comprehensive income. As a result, the amount of HK\$7,703,000 was reclassified from retained earnings to fair value through other comprehensive income reserve on 1 January 2018.

(ii) Derivatives and hedging activities

The Company's risk management strategies and hedge documentation of currency forward, currency and interest rate swaps and currency and interest rate options are aligned with the requirements of HKFRS 9 and these relationships are therefore treated as continuing hedges. Therefore, the management considers there are no material impacts for the Company's derivatives instruments with the adoption of HKFRS 9.

(iii) Impairment of financial assets

The Company has three types of financial assets that are subject to HKFRS 9's new expected credit loss model:

- loans and advances to customers
- other financial assets, and
- debt investment carried at fair value through other comprehensive income

The Company was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Company's retained earnings and equity is disclosed in the table in note 2.4 above.

Loans and advances to customers

The Company applies the HKFRS 9 to measure expected credit losses for all loans and advances to customers.

To measure the expected credit losses, loans and advances to customers have been grouped based on the shared credit risk characteristics.

On that basis, the loss allowance as at 1 January 2018 was determined as follows for loans and advances to customers:

	2018				2017 (restated) Total
	ECL staging				
	Stage 1	Stage 2	Stage 3	Total	
	12-month ECL	Lifetime ECL	Lifetime ECL		
Gross carrying amount	253,945,174	3,263,468	556,902	257,765,544	257,765,544
Loss allowance	(921,191)	(63,681)	(287,187)	(1,272,059)	(1,397,036)
Carrying amount	253,023,983	3,199,787	269,715	256,493,485	256,368,508

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018

(All amounts expressed in thousands of HK\$ unless otherwise stated)

2 Basis of Preparation and Accounting Estimates and Judgements *(continued)*

2.4 Changes in accounting policies *(continued)*

(a) HKFRS 9 Financial Instruments – Impact of adoption (continued)

(iii) Impairment of financial assets (continued)

Loans and advances to customers *(continued)*

The loss allowances for loans and advances to customers as at 31 December 2017 are reconciled to the opening loss allowances on 1 January 2018 as follows:

	Loans and advances to customers
At 31 December 2017 – calculated under HKAS 39 (restated)	1,397,036
Amount restated through opening retained earnings	(124,977)
Opening loss allowance as at 1 January 2018 – calculated under HKFRS 9	<u>1,272,059</u>

The Company's policy requires the review of individual financial assets that have objective evidence of impairment at least quarterly or more regularly when individual circumstances require. Impairment allowances on individually assessed financial assets are determined at the reporting date on a case-by-case basis, and are applied to all individually impaired financial assets. The assessment normally encompasses collaterals held (including re-confirmation of its enforceability) and the anticipated cash flows from that individual asset.

Other financial assets at amortised cost

Other financial assets at amortised cost include due from banks and other financial institutions and other receivables. Applying the expected credit risk model resulted in the recognition of a loss allowance of HK\$41,395,000 on 1 January 2018.

While cash and cash equivalents are also subject to the impairment requirement of HKFRS 9, the identified impairment loss was immaterial.

Debt investments at fair value through other comprehensive income

The restatement of the loss allowance for debt investments at fair value through other comprehensive income on transition to HKFRS 9 as a result of applying the expected credit risk model was HK\$87,321,000. HK\$87,321,000 has been reclassified from revaluation reserve to retained earnings.

(b) HKFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018

(i) Investments and other financial assets

Classification

From 1 January 2018, the Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Company's business models for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Company reclassifies debt investments when and only when its business model for managing those assets changes.

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018
(All amounts expressed in thousands of HK\$ unless otherwise stated)

2 Basis of Preparation and Accounting Estimates and Judgements *(continued)*

2.4 Changes in accounting policies *(continued)*

(b) HKFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018 (continued)

(i) Investments and other financial assets (continued)

Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Company classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss. Impairment losses are recognized in the statement of profit or loss.
- **Fair value through other comprehensive income:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in interest income using the effective interest rate method. Foreign exchange gains and losses and impairment expenses are recognised in the statement of profit or loss.
- **Fair value through profit or loss:** Assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss is recognized in profit or loss and presented net in the period in which it arises.

Equity instruments

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as Dividend income when the Company's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

Impairment

From 1 January 2018, the Company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

(ii) Derivatives and hedging

Cash flow hedges that qualify for hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018

(All amounts expressed in thousands of HK\$ unless otherwise stated)

2 Basis of Preparation and Accounting Estimates and Judgements *(continued)*

2.4 Changes in accounting policies *(continued)*

(c) HKFRS 15 Revenue from Contracts with Customers

The Company has adopted HKFRS 15 Revenue from Contracts with customers from 1 January 2018. The management has performed detailed analysis on the implementation of HKFRS 15 and concluded that the adoption of HKFRS 15 does not have a material effect on the Company's operating results, financial position or other comprehensive income.

3 Financial Risk Management

3.1 Fair value of financial assets and liabilities

(a) Determination of fair value and valuation techniques

Certain financial assets and liabilities of the Company are measured at fair value or with fair value disclosed for financial reporting purposes. The fair value has been determined using appropriate valuation techniques and inputs for fair value measurements. The appropriateness of the valuation techniques and the inputs to the fair value measurements are reviewed periodically.

Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1: The fair value of financial instruments traded in active markets is based on quoted (unadjusted) market prices at the end of the reporting period. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments.
- Calculation of the present value of the estimated future cash flows based on observable yield curves for interest rate swaps.
- The fair value of foreign currency forwards is determined using forward exchange rates at the balance sheet date.
- The fair value of the remaining financial instruments is determined using discounted cash flow analysis.

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018
(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 Financial Risk Management *(continued)*

3.1 Fair value of financial assets and liabilities *(continued)*

(b) Financial instruments not measured at fair value

The table below summarizes the carrying amounts and fair values where there are obvious variances from the carrying amounts, of those financial assets and liabilities that are not presented on the statement of financial position at their fair value.

	As at 30 June 2018		As at 31 December 2017 (restated)	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Financial assets at amortised cost (2017: Financial investment – held-to-maturity)	–	–	3,895,864	3,872,640
Financial liabilities				
Debt securities issued	–	–	17,310,104	17,364,566
Certificates of deposit issued	–	–	8,178,169	8,181,934

Fair value hierarchy of financial instruments not measured at fair value

	Level 1	Level 2	Level 3	Total
As at 30 June 2018				
Financial assets				
Financial assets at amortised cost	–	–	–	–
Financial liabilities				
Certificates of deposit issued	–	–	–	–
Debt securities issued	–	–	–	–
As at 31 December 2017 (restated)				
Financial assets				
Financial investments – held-to-maturity	–	3,872,640	–	3,872,640
Financial liabilities				
Certificates of deposit issued	1,456,011	6,725,923	–	8,181,934
Debt securities issued	1,680,255	15,684,311	–	17,364,566

Other financial instruments not carried at fair value are typically short-term in nature or repriced to current market rates frequently. Accordingly, their carrying amounts are reasonable approximations of their fair values.

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018
(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 Financial Risk Management *(continued)*

3.1 Fair value of financial assets and liabilities *(continued)*

(c) Financial assets and financial liabilities measured at fair value on a recurring basis

The table below summarizes the information relating to the fair value hierarchy of the financial assets and financial liabilities measured at fair value on a recurring basis:

	Level 1	Level 2	Level 3	Total
As at 30 June 2018				
Financial assets at fair value through profit or loss				
Debt securities				
– Governments and central banks	2,930	–	–	2,930
– Banks and other financial institutions	21,640	–	–	21,640
Derivative financial instruments				
– Foreign exchange contracts	–	247,688	–	247,688
– Interest rate contracts and others	–	7,665	–	7,665
	24,570	255,353	–	279,923
Debt securities at fair value through other comprehensive income				
– Governments and central banks	50,438,407	–	–	50,438,407
– Banks and other financial institutions	20,016,316	5,306,749	–	25,323,065
Equity securities at fair value through other comprehensive income				
– Banks and other financial institutions	–	10,673	–	10,673
	70,454,723	5,317,422	–	75,772,145
Total assets	70,479,293	5,572,775	–	76,052,068
Financial liabilities at fair value through profit or loss				
Derivative financial instruments				
– Foreign exchange contracts	–	231,356	–	231,356
– Interest rate contracts and others	–	1,513	–	1,513
Total liabilities	–	232,869	–	232,869

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018
(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 Financial Risk Management *(continued)*

3.1 Fair value of financial assets and liabilities *(continued)*

(c) Financial assets and financial liabilities measured at fair value on a recurring basis (continued)

	Level 1 (restated)	Level 2 (restated)	Level 3 (restated)	Total (restated)
As at 31 December 2017				
Financial assets at fair value through profit or loss				
Debt securities				
– Governments and central banks	2,780,915	39,453	–	2,820,368
– Public sector entities	105,267	–	–	105,267
– Banks and other financial institutions	5,289,883	–	–	5,289,883
– Corporate entities	2,993,373	–	–	2,993,373
Derivative financial instruments				
– Foreign exchange contracts	–	7,877,246	–	7,877,246
– Interest rate contracts and others	–	1,204,176	–	1,204,176
	11,169,438	9,120,875	–	20,290,313
Debt securities at fair value through other comprehensive income				
– Governments and central banks	10,200,633	124,377	–	10,325,010
– Public sector entities	193,833	–	–	193,833
– Banks and other financial institutions	82,548,308	48,812,021	–	131,360,329
– Corporate entities	39,625,846	912,665	–	40,538,511
Equity securities				
– Banks and other financial institutions	–	36,774	–	36,774
	132,568,620	49,885,837	–	182,454,457
Total assets	143,738,058	59,006,712	–	202,744,770
Financial liabilities at fair value through profit or loss				
Short position of securities held for trading	2,972,678	–	–	2,972,678
Derivative financial instruments				
– Foreign exchange contracts	–	7,242,761	–	7,242,761
– Interest rate contracts and others	–	839,760	–	839,760
Certificates of deposit issued	5,409,148	8,427,401	–	13,836,549
Debt securities issued	–	21,578,563	–	21,578,563
Total liabilities	8,381,826	38,088,485	–	46,470,311

There was no transfer between level 1 and 2 during the period.

As at 30 June 2018, the carrying amounts of financial instruments with fair values determined based on unobservable inputs were insignificant, and the effect on the valuation results by using reasonable alternatives for the unobservable assumptions is considered to be insignificant.

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018
(All amounts expressed in thousands of HK\$ unless otherwise stated)

3 Financial Risk Management *(continued)*

3.2 Offsetting financial assets and financial liabilities

Certain financial assets and financial liabilities of the Company are subject to enforceable master netting arrangements or similar agreements. The agreement between the Company and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such a mutual consent, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. These financial assets and financial liabilities of the Company are not offset in accordance with HKFRS.

As at 30 June 2018, the amount of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements is not material to the Company.

4 Net Interest Income

	Six months ended 30 June	
	2018	2017 (restated)
Interest income		
Due from banks and other financial institutions	556,011	936,150
Loans and advances to customers	840,063	2,603,027
Financial investments	794,900	1,872,921
Others	884	3,256
	2,191,858	5,415,354
Interest expense		
Due to banks and other financial institutions	(89,299)	(675,904)
Due to customers	(1,405,207)	(2,443,107)
Debt securities and certificates of deposit issued	(119,347)	(573,166)
Others	(429)	(1,458)
	(1,614,282)	(3,693,635)
Net interest income	577,576	1,721,719

5 Fee And Commission Income

	Six months ended 30 June	
	2018	2017 (restated)
Settlement service	21,661	40,291
Interchange service	12,646	14,285
Credit facilities, guarantee and commitment	84,494	658,461
Agency service	330,302	310,434
Depository service	26,713	24,914
Others	8,944	35,517
	484,760	1,083,902

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018
(All amounts expressed in thousands of HK\$ unless otherwise stated)

6 Fee And Commission Expense

	Six months ended 30 June	
	2018	2017 (restated)
Settlement and brokerage service	12,015	31,205
Interchange service	4,667	5,807
Others	3,456	6,227
	20,138	43,239

7 Dividend Income

	Six months ended 30 June	
	2018	2017 (restated)
Financial assets at fair value through other comprehensive income – unlisted investments	700	–
Available-for-sale equity securities	–	2,050

8 Net Gains Arising From Trading Activities

	Six months ended 30 June	
	2018	2017 (restated)
Foreign exchange	133,095	780,005
Interest rate instruments and others	347,769	263,430
Trading securities	(306,093)	190,521
	174,771	1,233,956

Net gains on foreign exchange include gains or losses from the trading of spot and forward contracts, currency swaps, cross currency interest rate swaps, currency options and the translation of foreign currency monetary assets and liabilities into HK\$.

Net gains on interest rate instruments and others include trading gains and losses and fair value changes of interest rate swaps, interest rate options and other derivatives.

9 Other Operating Income

	Six months ended 30 June	
	2018	2017 (restated)
Revaluation of investment property	–	24,109
Rental income	1,258	8,030
Others	6,616	6,506
	7,874	38,645

Others mainly include income arising from miscellaneous banking services provided to the Company's customers.

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018

(All amounts expressed in thousands of HK\$ unless otherwise stated)

10 Provision For/(Reversal Of) Impairment Allowances On Loans And Advances To Customers

	Six months ended 30 June	
	2018	2017 (restated)
Loans and advances to customers (Note 17.2)		
Stage 3 reversal of impairment allowances (2017: Individually assessed losses provision)		
– new charges	4,852	118,782
– recoveries	(8,808)	(131,985)
	(3,956)	(13,203)
Stage 1&2 provision for/(reversal of) impairment allowances (2017: Collectively assessed losses provision)		
– new charges	58,445	–
– recoveries	(26,585)	(1,147)
	27,904	(14,350)

11 Other Operating Expenses

	Six months ended 30 June	
	2018	2017 (restated)
Staff costs		
– salaries and other allowances	282,045	593,043
– retirement benefit costs	19,960	41,526
General operational and administrative expenses	74,146	88,042
Depreciation	18,894	45,719
Provision for/(reversal of) impairment allowances on financial investments	19,370	(19,384)
Provision for impairment allowances on other receivables	19,742	11,285
Provision for impairment allowances on due from banks and other financial institutions	10,427	–
Reversal of impairment allowances on financial guarantee and credit related commitment	(10,070)	–
Land and buildings administration fee	6,899	18,724
Rental expenses	106,468	110,610
Repairs and maintenance	28,659	73,804
Printing, postage and telegram	31,606	50,679
Directors and senior management remuneration	8,099	26,284
Management fee to a branch of the ultimate holding company	52,343	–
Others	8,214	3,306
	676,802	1,043,638

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018
(All amounts expressed in thousands of HK\$ unless otherwise stated)

12 Income Tax Expenses

	Six months ended 30 June	
	2018	2017 (restated)
Current tax		
– Hong Kong profits tax	138,374	517,916
– Underprovision in prior years	23,980	–
– Others	–	(3,162)
	162,354	514,754
Deferred income tax	(23,484)	(7,899)
	138,870	506,855

The current tax provision for the period ended 30 June 2018 and 2017 is based on the estimated assessable profit by using the Hong Kong profits tax rate of 16.5 per cent.

13 Cash And Balances With Central Bank

	As at 30 June 2018	As at 31 December 2017 (restated)
Cash	412,030	455,883
Balances with central bank	2,212,597	2,159,382
	2,624,627	2,615,265

14 Due From Banks And Other Financial Institutions

	As at 30 June 2018	As at 31 December 2017 (restated)
Due from banks and other financial institutions	48,320,023	6,541,233
Placements with and loans to banks	16,354,991	98,995,985
Less: provision for impairment allowances	(4,926)	–
	64,670,088	105,537,218

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018
(All amounts expressed in thousands of HK\$ unless otherwise stated)

15 Financial Assets At Fair Value Through Profit Or Loss

	As at 30 June 2018	As at 31 December 2017 (restated)
Derivative financial instruments (Note 16)	255,353	9,081,422
Financial assets at fair value through profit or loss		
Government bonds		
– Listed in Hong Kong	–	138,159
– Listed outside Hong Kong	–	2,682,208
– Unlisted	2,930	–
Other debt securities		
– Listed in Hong Kong	–	1,700,861
– Listed outside Hong Kong	–	3,425,711
– Unlisted – banking sector	21,640	3,261,952
	279,923	20,290,313

Financial assets at fair value through profit or loss are analyzed by issuer as follows:

	As at 30 June 2018	As at 31 December 2017 (restated)
Financial investments – financial assets at fair value through profit or loss		
– Governments and central banks	2,930	2,820,368
– Public sector entities	–	105,267
– Banks and other financial institutions	21,640	5,289,883
– Corporate entities	–	2,993,373
	24,570	11,208,891

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018

(All amounts expressed in thousands of HK\$ unless otherwise stated)

15 Financial Assets At Fair Value Through Profit Or Loss *(continued)*

The table below presents an analysis of debt investments by independent rating agencies designation as at 30 June 2018 and 31 December 2017:

	As at 30 June 2018 Financial assets at fair value through profit or loss (debt securities)	As at 31 December 2017 Financial assets at fair value through profit or loss (debt securities) (restated)
HK\$ securities		
AAA	–	–
AA- to AA+	960	247,095
A- to A+	–	–
Below A-	–	–
Unrated (1)	1,970	3,173,091
Sub-total	2,930	3,420,186
Foreign currency securities		
AAA	–	84,750
AA- to AA+	–	105,267
A- to A+	21,640	4,108,673
Below A-	–	1,385,172
Unrated (1)	–	2,104,843
Sub-total	21,640	7,788,705
Total	24,570	11,208,891

(1) These mainly represent investments and trading securities issued by Ministry of Finance of the PRC (“MOF”), the People’s Bank of China (“PBOC”) and policy banks which are not rated by independent agencies.

16 Derivative Financial Instruments

The following derivative instruments are utilised by the Company for trading or hedging purposes:

Currency forwards are contracts between two parties to buy or sell certain currencies at a specified future date at a predetermined price. The party agreeing to buy the underlying currency in the future assumes a long position, and the party agreeing to sell the currency in the future assumes a short position. The price agreed upon is called the delivery price, which is equal to the forward price at the time the contract is entered into.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). The Company’s credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Company assesses counterparties using the same techniques as for its lending activities.

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018
(All amounts expressed in thousands of HK\$ unless otherwise stated)

16 Derivative Financial Instruments *(continued)*

Currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option), on or before a set date or during a set period, a specific amount of a foreign currency at a predetermined price or to receive an interest payment based on a variable interest rate and pay a fixed interest rate or vice versa. The seller receives a premium from the purchaser in consideration for assuming foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Company and a customer (over the counter market).

The notional amounts of certain types of financial instruments provide a reference of the amounts recognized in the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Company's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following tables.

	Contractual/ notional amount	Fair values	
		Assets	Liabilities
As at 30 June 2018			
Foreign exchange contracts	45,529,968	247,688	(231,356)
Interest rate contracts and others	3,492,026	7,665	(1,513)
Total amount of derivative instruments recognized	49,021,994	255,353	(232,869)
As at 31 December 2017			
Foreign exchange contracts (restated)	566,232,696	7,877,246	(7,242,761)
Interest rate contracts and others (restated)	287,491,703	1,204,176	(839,760)
Total amount of derivative instruments recognized (restated)	853,724,399	9,081,422	(8,082,521)

The tables above provide a breakdown of the contractual or notional amounts and the fair values of the Company's derivative financial instruments outstanding at period/year end. These instruments, comprising foreign exchange and interest rate derivatives allow the Company and its customers to transfer, modify or reduce their foreign exchange and interest rate risks.

The Company undertakes its transactions in foreign exchange and interest rates contracts with other financial institutions and customers. Management has established limits for these contracts based on counterpart types, industry sectors and countries. Related risks are regularly monitored and controlled by management.

Notional amounts of derivative financial instruments by original currency:

	As at 30 June 2018	As at 31 December 2017 (restated)
Renminbi	3,261,708	142,341,927
United States Dollar	21,142,557	386,099,482
Hong Kong Dollar	19,050,720	229,207,873
Others	5,567,009	96,075,117
Total	49,021,994	853,724,399

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018
(All amounts expressed in thousands of HK\$ unless otherwise stated)

17 Loans And Advances To Customers

17.1 Loans and advances to customers

	As at 30 June 2018
Loans and advances to customers	37,521,369
Less: Allowance for stage 1 impairment losses	(94,120)
Less: Allowance for stage 2 impairment losses	(29,837)
Less: Allowance for stage 3 impairment losses	(22,777)
	37,374,635
	As at 31 December 2017 (restated)
Loans and advances to customers	257,765,544
Less: Allowance for collectively assessed impairment losses	(1,109,849)
Less: Allowance for individually assessed impairment losses	(287,187)
	256,368,508

17.2 Movements in allowances for losses on loans and advances to customers

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Impairment allowances as at 1 January 2018	921,191	63,681	287,187	1,272,059
Transfers:				
Transfer from Stage 1 to Stage 2	(430)	430	–	–
Transfer from Stage 1 to Stage 3	(10)	–	10	–
Transfer from Stage 2 to Stage 1	18,602	(18,602)	–	–
Transfer from Stage 2 to Stage 3	–	(139)	139	–
Changes in PDs/LGDs/EADs	(469)	22,230	1,391	23,152
Unwind of discount (a)	693	66	5	764
Foreign Exchange and other movements	(1,086)	39	(15,523)	(16,570)
New financial assets originated or purchased, assets derecognized, repayments and further lending	12,413	(2,924)	(5,501)	3,988
Write-offs	(306)	(290)	(2,709)	(3,305)
Transfer of Excluded Business to HKBR (Note 2)	(856,478)	(34,654)	(242,222)	(1,133,354)
Impairment allowances as at 30 June 2018	94,120	29,837	22,777	146,734

(a) The unwind of discount on Stage 3 financial assets is reported within 'interest income' so that interest income is recognized on the amortised cost (after deducting the ECL allowance).

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018
(All amounts expressed in thousands of HK\$ unless otherwise stated)

17 Loans And Advances To Customers *(continued)*

17.2 Movements in allowances for losses on loans and advances to customers *(continued)*

Year ended 31 December 2017

	Collectively assessed (restated)	Individually assessed (restated)	Total (restated)
Balance at the beginning of the year	989,849	355,762	1,345,611
Net impairment allowances for loans charged to profit or loss	120,000	(1,086)	118,914
– Impairment allowances for loans	120,000	78,255	198,255
– Reversal of impairment allowances for loans	–	(79,341)	(79,341)
Recoveries of loans written-off in previous years	–	2,389	2,389
Write-offs	–	(69,878)	(69,878)
Balance at the end of the year	1,109,849	287,187	1,397,036

17.3 Analysis of loans and advances to customers by collective and individual assessments

As at 30 June 2018	Loans and advances not impaired		Identified impaired loans and advances to customers	Total	Gross identified impaired loans and advances as a % of total gross loans and advances
	Stage 1 allowance	Stage 2 allowance	Stage 3 allowance		
Gross loans and advances	37,209,583	283,271	28,515	37,521,369	0.08%
Allowances for impairment losses	(94,120)	(29,837)	(22,777)	(146,734)	
Net loans and advances to customers	37,115,463	253,434	5,738	37,374,635	

As at 31 December 2017	Loans and advances not impaired	Identified impaired loans and advances to customers	Total	Gross identified impaired loans and advances as a % of total gross loans and advances
	Loans and advances for which the allowance is collectively assessed	For which the allowance is individually assessed		
Gross loans and advances (restated)	257,208,642	556,902	257,765,544	0.22%
Allowances for impairment losses (restated)	(1,109,849)	(287,187)	(1,397,036)	
Net loans and advances to customers (restated)	256,098,793	269,715	256,368,508	

17.4 Credit quality of loans and advances to customers

(a) Loans and advances to customers analyzed by security type

	As at 30 June 2018	As at 31 December 2017 (restated)
Unsecured loans	2,551,202	125,095,630
Loan secured by guarantee	1,376,622	58,485,985
Collateralised and other secured loans	33,593,545	74,183,929
Gross amount of loans and advances to customers before impairment allowances	37,521,369	257,765,544

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018
(All amounts expressed in thousands of HK\$ unless otherwise stated)

17 Loans And Advances To Customers *(continued)*

17.4 Credit quality of loans and advances to customers *(continued)*

(b) Movement in gross carrying amount of loans and advances to customers

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at 1 January 2018	253,945,174	3,263,468	556,902	257,765,544
Transfers:				
Transfer from Stage 1 to Stage 2	(233,420)	233,420	–	–
Transfer from Stage 1 to Stage 3	(2,925)	–	2,925	–
Transfer from Stage 2 to Stage 1	112,745	(112,745)	–	–
Transfer from Stage 2 to Stage 3	–	(628)	628	–
Transfer from Stage 3 to Stage 1	780	–	(780)	–
New financial assets originated or purchased, assets derecognized, repayments and further lending	(15,914,216)	(533,121)	(80,272)	(16,527,609)
Write-offs	(306)	(290)	(2,709)	(3,305)
Foreign Exchange and other movements	4,459	10	–	4,469
Transfer of Excluded Business to HKBR (Note 2)	(200,702,708)	(2,566,843)	(448,179)	(203,717,730)
Gross carrying amount as at 30 June 2018	37,209,583	283,271	28,515	37,521,369

(c) Collateral held for credit impaired loans and advances to customers

As at 30 June 2018, impaired loans and advances to customers before taking into consideration the collaterals held is HK\$28,515,000 (31 December 2017: HK\$556,902,000).

The breakdown of the gross amount of impaired loans and advances to customers by class, along with the fair value of related collaterals held by the Company as security, are as follows:

As at 30 June 2018:

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Loans to individuals	20,272	14,534	5,738	5,296
Loans to corporate entities	8,243	8,243	–	–
	28,515	22,777	5,738	5,296

As at 31 December 2017 (restated):

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Loans to individuals	22,149	15,012	7,137	5,385
Loans to corporate entities	534,753	272,175	262,578	398,639
	556,902	287,187	269,715	404,024

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018
(All amounts expressed in thousands of HK\$ unless otherwise stated)

18 Financial Investments

	As at 30 June 2018
Debt securities at fair value through other comprehensive income	
– Unlisted	75,761,472
Equity securities at fair value through other comprehensive income	
– Unlisted	10,673
	75,772,145
	As at 31 December 2017 (restated)
Available-for-sale debt securities – at fair value	
– Listed in Hong Kong	49,319,157
– Listed outside Hong Kong	54,193,369
– Unlisted	78,905,157
	182,417,683
Available-for-sale equity securities – at cost	
– Unlisted	36,774
Total available-for-sale financial assets	182,454,457
Held-to-maturity debt securities – at amortised cost	
– Listed outside Hong Kong	3,895,864

(a) Financial investments analyzed by issuer are as follows:

	As at 30 June 2018
Debt securities at fair value through other comprehensive income	
– Governments and central banks	50,438,407
– Banks and other financial institutions	25,323,065
Equity securities at fair value through other comprehensive income	
– Banks and other financial institutions	10,673
	75,772,145
	As at 31 December 2017 (restated)
Available-for-sale financial assets	
– Governments and central banks	10,325,010
– Public sector entities	193,833
– Banks and other financial institutions	131,360,329
– Corporate entities	40,575,285
Total	182,454,457
Held-to-maturity investments	
– Governments and central banks	3,895,864

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018
(All amounts expressed in thousands of HK\$ unless otherwise stated)

18 Financial Investments *(continued)*

(b) The table below presents an analysis of debt investments by independent rating agencies designation as at 30 June 2018 and 31 December 2017

	As at 30 June 2018 Financial assets at fair value through other comprehensive income
HK\$ securities	
AAA	–
AA- to AA+	–
A- to A+	–
Below A-	–
Unrated (1)	48,261,871
Sub-total	48,261,871
Foreign currency securities	
AAA	98,563
AA- to AA+	9,706,018
A- to A+	7,391,540
Below A-	3,980,051
Unrated (1)	6,323,429
Sub-total	27,499,601
Total	75,761,472

As at 31 December 2017

	Financial investments – available-for-sales (restated)	Financial investments – held-to-maturity (restated)	Total (restated)
HK\$ securities			
AAA	–	–	–
AA- to AA+	947,551	–	947,551
A- to A+	1,796,951	–	1,796,951
Below A-	–	–	–
Unrated (1)	31,806,582	–	31,806,582
Sub-total	34,551,084	–	34,551,084
Foreign currency securities			
AAA	1,857,582	–	1,857,582
AA- to AA+	23,606,131	–	23,606,131
A- to A+	50,798,910	3,895,864	54,694,774
Below A-	27,242,370	–	27,242,370
Unrated (1)	44,361,606	–	44,361,606
Sub-total	147,866,599	3,895,864	151,762,463
Total	182,417,683	3,895,864	186,313,547

(1) These mainly represent investments and trading securities issued by “MOF”, “PBOC” and policy banks which are not rated by independent agencies.

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018
(All amounts expressed in thousands of HK\$ unless otherwise stated)

19 Property And Equipment

	Buildings	Equipment	Transportation equipment	Property improvement	Total
Cost					
As at 1 January 2018	518,182	298,827	4,118	134,165	955,292
Additions	–	8,532	–	–	8,532
Transfer of Excluded Business to HKBR (Note 2)	(518,182)	(248,794)	(4,118)	(48,047)	(819,141)
As at 30 June 2018	–	58,565	–	86,118	144,683
Accumulated depreciation					
As at 1 January 2018	(328,893)	(173,908)	(1,533)	(59,512)	(563,846)
Charge for the period	(961)	(8,494)	(104)	(9,335)	(18,894)
Transfer of Excluded Business to HKBR (Note 2)	329,854	151,370	1,637	21,426	504,287
As at 30 June 2018	–	(31,032)	–	(47,421)	(78,453)
Net book value					
As at 30 June 2018	–	27,533	–	38,697	66,230

	Buildings (restated)	Equipment (restated)	Transportation equipment (restated)	Property improvement (restated)	Total (restated)
Cost					
As at 1 January 2017	518,182	262,279	5,781	119,871	906,113
Additions	–	43,959	1,818	29,961	75,738
Disposals	–	(7,411)	(3,481)	(15,667)	(26,559)
As at 31 December 2017	518,182	298,827	4,118	134,165	955,292
Accumulated depreciation					
As at 1 January 2017	(317,354)	(130,891)	(3,087)	(51,208)	(502,540)
Charge for the year	(11,539)	(50,428)	(1,927)	(23,971)	(87,865)
Disposals	–	7,411	3,481	15,667	26,559
As at 31 December 2017	(328,893)	(173,908)	(1,533)	(59,512)	(563,846)
Net book value					
As at 31 December 2017	189,289	124,919	2,585	74,653	391,446

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018
(All amounts expressed in thousands of HK\$ unless otherwise stated)

20 Other Assets

	As at 30 June 2018	As at 31 December 2017 (restated)
Interest receivable	409,160	2,865,486
Settlement accounts	1,620,978	1,334,495
Other receivables and prepayments	610,507	1,314,932
Investment properties (a)	–	361,003
Intangible assets (b)	–	1,875
	2,640,645	5,877,791

(a) Investment properties

	Six months ended 30 June 2018	Year ended 31 December 2017 (restated)
Balance at the beginning of the period/year	361,003	312,483
Gains on property revaluation	–	48,520
Transfer of Excluded business to HKBR (Note 2)	(361,003)	–
Balance at the end of the period/year	–	361,003

The Company's investment properties are located in active real estate markets. The external appraiser makes reasonable estimation of fair value using market prices of the similar properties.

As at 31 December 2017, fair value hierarchies of the investment properties of the Company were as follows:

	Level 1	Level 2	Level 3	Fair value as at 31 December 2017 (restated)
Commercial property units located in Hong Kong	–	–	361,003	361,003

The valuation of these investment properties located in Hong Kong as at 31 December 2017 were performed by RHL Appraisal Limited, an independent qualified professional valuer not connected to the Company. Valuation methodologies include "Rental Income Approach" and "Direct Comparison Approach". The inputs to these models mainly include growth rate of rental, capitalization rate and unit price.

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018
(All amounts expressed in thousands of HK\$ unless otherwise stated)

20 Other Assets (continued)

(b) Intangible assets

The Company holds the rights to connect its Automated Teller Machine (ATM) to the central data processing system of Joint Electronic Teller Services Limited (JETCO).

	Six months ended 30 June 2018	Year ended 31 December 2017 (restated)
Balance at the beginning of the period/year	1,875	1,875
Transfer of Excluded business to HKBR (Note 2)	(1,875)	–
Balance at the end of the period/year	–	1,875

The above intangible assets are considered by the directors as having an indefinite useful life because the rights to use JETCO's central data processing system are expected to contribute to net cash inflow indefinitely. The intangible assets will not be amortised until their useful lives are determined to be finite. Instead, the intangible assets will be tested for impairment annually.

For the purpose of impairment testing on the intangible assets held by the Company as at 31 December 2017, the recoverable amount have been determined based on the fair value less costs of disposal. For the year ended 31 December 2017, no impairment loss for intangible asset was recognized.

21 Due To Banks And Other Financial Institutions

	As at 30 June 2018	As at 31 December 2017 (restated)
Deposits from banks and other financial institutions	1,349,218	2,210,433
Subordinated loan from the ultimate holding company	2,000,000	11,513,103
Financial assets sold under repurchase agreements (Note 30)	–	7,384,549
Total	3,349,218	21,108,085

22 Financial Liabilities At Fair Value Through Profit Or Loss

	As at 30 June 2018	As at 31 December 2017 (restated)
Derivative financial instruments (Note 16)	232,869	8,082,521
Short position of securities held for trading	–	2,972,678
Total	232,869	11,055,199

For the six months ended 30 June 2018 and the year ended 31 December 2017, there were no significant changes in the fair value of the Company's financial liabilities designated as at fair value through profit or loss that were attributable to the changes in credit risk.

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018
(All amounts expressed in thousands of HK\$ unless otherwise stated)

23 Due To Customers

	As at 30 June 2018	As at 31 December 2017 (restated)
Demand deposits and current accounts	8,381,853	16,743,737
Saving deposits	55,370,771	88,130,005
Time, call, notice and other deposits	90,705,256	336,840,442
	154,457,880	441,714,184
Including:		
Deposits pledged as collateral	728,179	1,540,392

24 Certificates Of Deposit Issued

	As at 30 June 2018	As at 31 December 2017 (restated)
At fair value	–	13,836,549
At amortised cost	–	8,178,169
	–	22,014,718

25 Debt Securities Issued

	As at 30 June 2018	As at 31 December 2017 (restated)
At fair value (a)	–	21,578,563
At amortised cost	–	17,310,104
	–	38,888,667

(a) These debt securities were designated as fair value through profit and loss upon initiation as the management considers such designation could eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise result from measuring the corresponding financial assets or recognizing the gains or loss on them on different basis. Accordingly, the debts are designated as fair value through profit and loss with changes in fair values charged to profit and loss account. For the year ended 31 December 2017, there were no significant changes due to the Company's changes in credit risks.

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018
(All amounts expressed in thousands of HK\$ unless otherwise stated)

26 Other Liabilities

	As at 30 June 2018	As at 31 December 2017 (restated)
Interest payable	575,319	2,527,171
Settlement accounts	6,263,587	1,384,587
Withholding tax	2,334	27,091
Others	602,289	634,666
Total	7,443,529	4,573,515

27 Share Capital

	Number of shares	Share capital HK\$
As at 31 December 2017 (restated) and 1 January 2018	300,000,000	300,000
As at 30 June 2018	17,900,000,000	17,900,000

28 Financial Guarantees And Credit Related Commitments, Other Commitments And Contingent Liabilities

Financial guarantees and credit related commitments

The following tables indicate the contractual amounts of the Company's financial guarantees and credit related commitments which the Company has committed to its customers:

	As at 30 June 2018	As at 31 December 2017 (restated)
Letters of guarantee	132,681	5,750,686
Letters of credit commitments	96,668	3,520,515
Acceptances bills	61,995	3,301,476
Credit card commitments	6,550,475	6,500,384
Other commitments		
– Under 1 year	702,552	6,352,755
– More than 1 year	3,038,893	17,002,128
	10,583,264	42,427,944

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018
(All amounts expressed in thousands of HK\$ unless otherwise stated)

28 Financial Guarantees And Credit Related Commitments, Other Commitments And Contingent Liabilities *(continued)*

Capital expenditure commitments

	As at 30 June 2018	As at 31 December 2017 (restated)
Contracted but not provided for	1,364	1,340

Operating lease commitments

Where the Company is the lessee, the future minimum lease payments on certain property, plant and equipment under non-cancellable operating leases are as follows:

	As at 30 June 2018	As at 31 December 2017 (restated)
Within 1 year (inclusive)	12,733	246,760
Beyond 1 year but no more than 2 years (inclusive)	–	106,574
Beyond 2 years but no more than 3 years (inclusive)	–	32,004
	12,733	385,338

As at 30 June 2018, certain lease agreements have been signed by HKBR. The Company does not have any commitment with respect to these operating lease agreements.

29 Notes To Statement Of Cash Flows

Analysis of the balance of cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances with original maturities of less than or equal to 90 days used for the purpose of meeting short-term cash commitments:

	As at 30 June 2018	As at 31 December 2017 (restated)
Cash and balances with central bank (Note 13)	2,624,627	4,028,414
Due from banks and other financial institutions (Note 14)	48,320,023	3,583,379
	50,944,650	7,611,793

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018
(All amounts expressed in thousands of HK\$ unless otherwise stated)

30 Collaterals

Assets pledged

Assets pledged are mainly collaterals under repurchase arrangement and loans from banks and other financial institutions.

	Pledged assets		Associated liabilities	
	As at 30 June 2018	As at 31 December 2017 (restated)	As at 30 June 2018	As at 31 December 2017 (restated)
Investment securities	–	7,715,369	–	(7,384,549)

Financial assets sold under repurchase agreements included certain transactions under which, title of the pledged securities has been transferred to counterparties.

Sales and repurchase agreements are transactions in which the Company sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. Since the repurchase prices are fixed, the Company is still exposed to substantially all the credit risks and market risks and rewards of those securities sold. These securities, which the Company does not have the ability to use during the term of the arrangements, are not derecognized from the financial statements but regarded as “collateral” for the secured lending from these because the Company retains substantially all the risks and rewards of these securities. In addition, it recognizes a financial liability for cash received.

As at 31 December 2017, the Company entered into repurchase agreements with certain counterparties. The proceeds from selling such securities were presented as “financial assets sold under repurchase agreements” (see Note 21).

31 Related Party Transactions

(a) Transactions with the MOF

As at 30 June 2018, the MOF holds 19,703 million (31 December 2017: 19,703 million) shares of the ultimate holding company of the Company which represents 26.53% (31 December 2017: 26.53%) of equity interest of the ultimate holding company of the Company.

The MOF is a Chinese government ministry, primarily responsible for managing state fiscal revenue and expenditures, and establishing and enforcing taxation policies. The Company enters into banking transactions with the MOF under normal course of business and they mainly include the purchase and redemption of financial investments issued by the MOF and the deposits from the MOF.

Details of transactions and outstanding balances are summarized below:

	As at 30 June 2018	As at 31 December 2017
Bonds issued by MOF	1,996,607	14,576,507
Interest receivable	8,707	164,342
	Six months ended 30 June	
	2018	2017
Interest income	69,044	172,677

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018
(All amounts expressed in thousands of HK\$ unless otherwise stated)

31 Related Party Transactions *(continued)*

(a) Transactions with the MOF *(continued)*

The interest rates of the transactions between the Company and MOF are summarized below:

	Six months ended 30 June	
	2018	2017
	%	%
Bonds issued by MOF	3.42	3.39

(b) Transactions with The Hong Kong and Shanghai Banking Corporation Limited and its subsidiaries ("HSBC")

As at 30 June 2018, HSBC holds 13,886 million (31 December 2017: 13,886 million) shares of the ultimate holding company of the Company which represents 18.70% (31 December 2017: 18.70%) of total share capital of the Company. Transactions between the Company and HSBC are carried out under normal commercial terms and paid at market rates.

Details of transactions and outstanding balances are summarized below:

	As at 30 June 2018	As at 31 December 2017
On-balance sheet items		
Due from banks and other financial institutions	1,571,376	88,012
Financial assets at fair value through other comprehensive income	388,635	1,345,478
Derivative financial assets	1,193	1,311,450
Interest receivable	8,050	16,418
Due to banks and other financial institutions	–	234,448
Derivative financial liabilities	7,165	549,458
Off-balance sheet items		
Notional principal of derivative financial instruments	855,271	96,808,798
	Six months ended 30 June	
	2018	2017
Interest income	7,876	17,952
Interest expense	990	18,043
Fee and commission expense	–	83

The interest rates of the transactions between the Company and HSBC are summarized below:

	Six months ended 30 June	
	2018	2017
	%	%
Financial assets at fair value through other comprehensive income	4.75	4.04
Due from banks and other financial institutions	0.01	0.02
Due to banks and other financial institutions	0.02	0.04

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018
(All amounts expressed in thousands of HK\$ unless otherwise stated)

31 Related Party Transactions *(continued)*

(c) Transactions with fellow subsidiaries

The pricing of the transactions with fellow subsidiaries is determined based on normal commercial banks.

Details of transactions and outstanding balances are summarized below:

	As at 30 June 2018	As at 31 December 2017
Other assets	39	–
Due to banks and other financial institutions	34,717	327,145
Due to customers	903,109	1,050,139
Interest payable	5	–
Derivative financial liabilities	2,553	2,864
	Six months ended 30 June	
	2018	2017
Fee and commission income	7,060	13,495
Interest expense	873	251
Fee and commission expense	7,871	7,930
Other operating expenses	55,836	66,756

The interest rates of the transactions between the Company and its fellow subsidiaries are summarized below:

	Six months ended 30 June	
	2018	2017
	%	%
Due to customers	0.1	0.01
Due to banks and other financial institutions	0.04	0.01

(d) Transactions with directors and senior management

	As at 30 June 2018	As at 31 December 2017
Loans and advances to customers	691	1,481
Due to customers	53,118	51,743
	Six months ended 30 June	
	2018	2017
Interest income	5	7
Interest expenses	302	284
Fee and commission income	42	96

Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2018
(All amounts expressed in thousands of HK\$ unless otherwise stated)

31 Related Party Transactions *(continued)*

(e) Transactions with the ultimate holding company

Transactions between the Company and the ultimate holding company are carried out under normal commercial terms and paid at market price.

Details of transactions and outstanding balances are summarized below:

	As at 30 June 2018	As at 31 December 2017
Due from banks and other financial institutions	48,599,939	347,885
Interest receivable	1,727	84,934
Derivative financial assets	27,248	40,924
Due to banks and other financial institutions	3,336,553	18,872,051
Interest payable	11,346	85,453
Derivative financial liabilities	182,309	113,020
	Six months ended 30 June	
	2018	2017
Interest income	283,725	128,786
Interest expense	33,870	276,767
Other operating expenses	82,855	–

The interest rates of the transactions between the Company and the ultimate holding company are summarized below:

	Six months ended 30 June	
	2018	2017
	%	%
Due from banks and other financial institutions	0.02	0.04
Due to banks and other financial institutions	0.03	0.02

32 Non-Adjusting Event After Reporting Period

The Company has no other significant subsequent events.

33 Comparative Figures

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