

FOR IMMEDIATE RELEASE



**China Construction Bank (Asia) Announces
Consolidated Net Profit after Tax of HKD1,809 Million for the First Half Year of 2019**

HONG KONG – September 27, 2019 – China Construction Bank (Asia) Corporation Limited [“CCB (Asia)”] today announced its consolidated net profit after tax to reach HKD1,809 million for the first six months ended June 30, 2019, a decrease of HKD537 million or 22.9%, as compared with the same period in 2018. Set out below are the highlights:

Total operating income of CCB (Asia) for the first half year of 2019 amounted to HKD3,862 million, a decrease of 8.1% as compared with the first half year of 2018. If including the interest income of trading advances to customers and trade bills of HKD44 million and the hedging FX and interest rate swaps expense of HKD207 million, net interest income amounted to HKD2,896 million, decreased by 7.4% as compared with the same period of 2018. Non-interest income after excluding the aforesaid interest income and hedging expense was HKD966 million, representing a decrease of 10.1% as compared with the same period of 2018, mainly attributable to the reduction in net trading income of HKD104 million.

Total operating expenses rose by 3.1% to HKD1,543 million and the cost-to-income ratio increased by 4.4 percentage points to 40.0%.

In the first half year of 2019, the amount of impairment allowance charges was HKD138 million, versus a release of HKD170 million for the first half year of 2018. Due to the lingering and worsening Sino-US trade disputes and the gloomy economic outlook of the Greater China, an uplift of probability of occurrence of pessimistic scenario in corporate, financial institution and sovereign assets is considered as a countercyclical measure.

Taxation expenses decreased by 24.4% to HKD378 million, which was mainly due to a reduction in profit before tax.

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Total consolidated assets as at June 30, 2019 stood at HKD479.5 billion, representing a slightly decrease of 0.3% from HKD481.0 billion at the end of 2018 but the asset structure had been persistently enhanced. While CCB (Asia) reduced the relatively lower-yield assets such as cash, balances with banks and central banks, and placements with banks from HKD110.0 billion at the end of 2018 to HKD85.9 billion as at the end of June 2019, it increased the advances of customers and trade bills by 4.8% to HKD266.8 billion as compared with the end of 2018. In addition, the financial assets at fair value through other comprehensive income and financial assets at amortised cost increased in aggregate by 2.6% to HKD101.4 billion. Asset quality continuously maintained at a satisfactory level, with the impaired advances to customers and trade bills representing 0.12% of the total advances to customers and trade bills.

Deposits from customers increased by 2.0% to HKD361.1 billion as compared with that at the end of 2018. Deposits from other banks decreased by 23.6% to HKD24.6 billion, and other debt securities issued also reduced by 16.6% to HKD12.1 billion.

As at June 30, 2019, CCB (Asia)'s Total Capital Ratio was 19.53%, Net Stable Funding Ratio was 131.34% and Leverage Ratio was 12.54%. The average Liquidity Coverage Ratios for the first and second quarters of 2019 were 289.62% and 228.56% respectively. All these ratios were maintained at sound levels and above the regulatory requirements.

CCB (Asia)'s interim financial disclosure statements of 2019 have been compiled in compliance with the Banking (Disclosure) Rules and are available on the Bank's website at www.asia.ccb.com.

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About China Construction Bank (Asia) Corporation Limited

China Construction Bank (Asia) Corporation Limited ["CCB (Asia)"] is the comprehensive and integrated commercial banking business platform of China Construction Bank Corporation in Hong Kong. Currently, CCB (Asia) has over 50 outlets in Hong Kong and offers a wide array of banking products and services to customers, including consumer banking services, commercial banking services, corporate banking services, private banking services, treasury business and cross-border financial services, etc.

For more information about CCB (Asia), please visit www.asia.ccb.com.

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CHINA CONSTRUCTION BANK (ASIA) CORPORATION LIMITED
UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
FOR THE SIX MONTHS ENDED JUNE 30, 2019

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	6 months ended June 30, 2019	6 months ended June 30, 2018
Interest income		6,723,019	6,398,360
Interest expense		(3,690,835)	(3,253,545)
Net interest income	9	3,032,184	3,144,815
Fees and commission income		800,098	889,543
Fees and commission expense		(47,112)	(69,899)
Net fees and commission income	10	752,986	819,644
Net trading (losses)/ income	11	(58,108)	192,908
Net gains from financial instruments designated at fair value through profit or loss	12	20,303	17,004
Net gains from disposal of financial assets measured at fair value through other comprehensive income		85,987	41
Other operating income	13	29,141	28,677
Total operating income		3,862,493	4,203,089
Operating expenses	14	(1,543,725)	(1,496,093)
Operating profit before net charges on expected credit losses		2,318,768	2,706,996
Net (charge)/ release of expected credit losses	15	(138,188)	170,355
Operating profit		2,180,580	2,877,351
Losses on disposal of fixed assets		(61)	(79)
Share of profit/(losses) of joint venture/associate		6,270	(32,118)
Profit before taxation		2,186,789	2,845,154
Taxation	16	(377,888)	(499,439)
Profit for the period		1,808,901	2,345,715

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	6 months ended June 30, 2019	6 months ended June 30, 2018
Profit for the period	<u>1,808,901</u>	<u>2,345,715</u>
Other comprehensive income		
Items that will be reclassified subsequently to profit or loss:		
Debt instruments measured at fair value through other comprehensive income:		
Changes in fair value recognized during the period	492,023	5,701
Reclassification adjustments for amounts transferred to profit or loss	(29,486)	7,238
Expected credit losses recognized in profit or loss	1,237	(3,466)
Tax effect	(74,903)	1,385
Item that will not be reclassified subsequently to profit or loss:		
Equity instruments designated at fair value through other comprehensive income	<u>6,649</u>	<u>4,023</u>
Other comprehensive income for the period, net of tax	<u>395,520</u>	<u>14,881</u>
Total comprehensive income for the period	<u>2,204,421</u>	<u>2,360,596</u>

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	June 30, 2019	December 31, 2018
Assets			
Cash and balances with banks and central banks	17	49,070,766	78,238,697
Placements with banks	18	36,789,053	31,753,841
Advances to banks		1,921,965	-
Advances to customers and trade bills	19	266,842,056	254,471,410
Financial assets held under resale agreements	20	1,562,203	1,514,983
Financial assets measured at fair value through profit or loss	21	4,545,197	3,816,227
Financial assets measured at fair value through other comprehensive income	22	82,098,235	86,744,559
Financial assets measured at amortised costs	23	19,313,851	12,065,832
Derivative financial instruments	24	1,890,971	2,756,470
Interest in a joint venture		1,885,533	1,955,713
Interest in an associate		45,673	69,223
Deferred tax assets		329,569	396,042
Fixed assets	25	2,621,647	3,200,961
Right-of-use assets	26	2,256,776	-
Other assets		8,293,410	3,985,945
Total assets		479,466,905	480,969,903
Liabilities			
Deposits and balances of banks	27	24,557,900	32,167,403
Deposits from customers	28	361,066,856	354,129,879
Financial assets sold under repurchase agreements	29	-	2,420,859
Financial liabilities designated at fair value through profit or loss	30	246,296	-
Other debt securities issued	31	12,081,530	14,515,909
Derivative financial instruments	24	1,122,972	2,142,242
Lease liabilities	26	1,801,342	-
Current tax payable		636,712	252,269
Deferred tax liabilities		21,508	21,508
Other liabilities		7,602,966	7,008,032
Subordinated debt		5,830,005	5,833,798
Total liabilities		414,968,087	418,491,899
Equity			
Share capital		28,827,843	28,827,843
Other equity instruments	32	7,811,732	7,811,732
Reserves	33	27,859,243	25,838,429
Total equity		64,498,818	62,478,004
Total equity and liabilities		479,466,905	480,969,903

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

6 months ended June 30, 2019

	Note	Share capital	Other equity instruments	General reserve	Investment revaluation reserve	Regulatory reserve	Other reserve	Merger reserve	Retained earnings	Total
Balance as at December 31, 2018 and restated balance as at January 1, 2019		28,827,843	7,811,732	750,956	(173,930)	576,966	15,913	62,262	24,606,262	62,478,004
Changes in equity for 2019:										
Profit for the period		-	-	-	-	-	-	-	1,808,901	1,808,901
Other comprehensive income, net of tax		-	-	-	395,520	-	-	-	-	395,520
Total comprehensive income for the period		-	-	-	395,520	-	-	-	1,808,901	2,204,421
Coupon paid for other equity instruments		-	-	-	-	-	-	-	(183,607)	(183,607)
Regulatory reserve		-	-	-	-	127,076	-	-	(127,076)	-
Balance as at June 30, 2019		28,827,843	7,811,732	750,956	221,590	704,042	15,913	62,262	26,104,480	64,498,818

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	6 months ended June 30, 2018								
Note	Share capital	Other equity instruments	General reserve	Investment revaluation reserve	Regulatory reserve	Other reserve	Merger reserve	Retained earnings	Total
Balance as at December 31, 2017	28,827,843	7,812,200	750,956	(562,295)	2,307,924	15,913	62,262	20,102,632	59,317,435
Impact on transition to HKFRS 9	-	-	-	118,890	-	-	-	(433,450)	(314,560)
Restated balance as at January 1, 2018	28,827,843	7,812,200	750,956	(443,405)	2,307,924	15,913	62,262	19,669,182	59,002,875
Changes in equity for 2018:									
Profit for the period	-	-	-	-	-	-	-	2,345,715	2,345,715
Other comprehensive income, net of tax	-	-	-	14,881	-	-	-	-	14,881
Total comprehensive income for the period	-	-	-	14,881	-	-	-	2,345,715	2,360,596
Cost for issuance of other equity instruments	-	(468)	-	-	-	-	-	-	(468)
Coupon paid for other equity instruments	-	-	-	-	-	-	-	(184,767)	(184,767)
Regulatory reserve	-	-	-	-	(671,360)	-	-	671,360	-
Balance as at June 30, 2018	28,827,843	7,811,732	750,956	(428,524)	1,636,564	15,913	62,262	22,501,490	61,178,236

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	6 months ended June 30, 2019	6 months ended June 30, 2018
Operating activities		
Operating profit	2,180,580	2,877,351
Adjustments for:		
Dividend income	(3,262)	(3,777)
Depreciation	273,248	155,204
Net interest income	(3,032,184)	(3,144,815)
Net charges/ (release) of expected credit losses	138,188	(170,355)
Written-off of loans and advances, net of recoveries	(50,361)	(34,855)
Fair value adjustment on financial investments	(19,200)	(23,423)
Interest received	6,941,367	6,358,290
Interest paid	(3,700,666)	(3,261,054)
Effect of foreign exchange rate changes	(344,837)	1,101,419
	<u>2,382,873</u>	<u>3,853,985</u>
(Increase)/ decrease in operating assets		
Balances and placements with banks with original maturity beyond three months and remaining maturity beyond one month and balances with central banks	(16,120,056)	(129,499)
Financial assets held under resale agreements	(47,562)	(2,305,060)
Advances to banks	(1,921,965)	262,498
Advances to customers and trade bills	(12,386,635)	4,012,185
Financial assets measured at fair value through profit or loss with original maturity beyond three months	(678,032)	1,503,240
Derivative financial instruments	865,499	2,232,438
Other assets	(4,398,255)	(2,103,226)
	<u>(34,687,006)</u>	<u>3,472,576</u>
Decrease in operating liabilities		
Deposits and balances of banks	(7,609,503)	2,144,607
Financial assets sold under repurchase agreements	(2,420,859)	1,137,918
Deposits from customers	6,936,977	(7,713,895)
Derivative financial instruments	(1,019,270)	(3,205,516)
Other debt securities issued	(2,726,065)	(176,427)
Financial liabilities measured at fair value through profit or loss	246,296	-
Other liabilities	774,395	1,780,805
	<u>(5,818,029)</u>	<u>(6,032,508)</u>
Net cash (outflow)/ inflow from operations	<u><u>(38,122,162)</u></u>	<u><u>1,294,053</u></u>

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

	6 months ended June 30, 2019	6 months ended June 30, 2018
Net cash (outflow)/ inflow from operations	(38,122,162)	1,294,053
Withholding tax paid	<u>(1,874)</u>	<u>(32,497)</u>
Net cash (outflow)/ inflow from operating activities	(38,124,036)	1,261,556
Purchase of financial assets measured at fair value through other comprehensive income	(15,122,811)	(10,430,607)
Purchase of financial assets measured at amortised costs	(15,579,127)	(2,759,934)
Proceeds received from redemption and disposal of financial assets measured at fair value through other comprehensive income	32,534,027	18,281,355
Proceeds received from redemption and disposal of financial assets measured at amortised costs	8,386,980	3,028,587
Purchase of property and equipment	(96,715)	(42,676)
Dividends received from listed and unlisted investments	<u>103,262</u>	<u>153,678</u>
Net cash inflow from investing activities	10,225,616	8,230,403
Cost paid for issuance for other equity instruments	-	(468)
Interest paid on subordinated debt	(124,521)	(124,682)
Coupon paid for other equity instruments	(183,607)	(184,767)
Principal portion of lease payments	<u>107,414</u>	<u>-</u>
Net cash outflow from financing activities	(200,714)	(309,917)
(Decrease)/ increase in cash and cash equivalents	(28,099,134)	9,182,042
Cash and cash equivalents as at January 1	98,236,963	90,139,671
Effect of foreign exchange rate changes	<u>9,379</u>	<u>(807,751)</u>
Cash and cash equivalents as at June 30	70,147,208	98,513,962

CHINA CONSTRUCTION BANK (ASIA) CORPORATION LIMITED
UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
FOR THE SIX MONTHS ENDED JUNE 30, 2019

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS

(1) BASIS OF PREPARATION

These condensed consolidated interim financial information disclosure statements were authorised for issue on September 20, 2019 and have been prepared in accordance with the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority ("HKMA") and in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants. The accounting policies applied are consistent with those of the consolidated financial statements for the year ended December 31, 2018, except for those described in Note 5.

(2) BASIS OF CONSOLIDATION

The condensed consolidated interim financial information disclosure statements cover the consolidated position of China Construction Bank (Asia) Corporation Limited ("the Bank") and its subsidiaries (together referred to as "the Group"), the Group's interest in an associate and a joint venture up to June 30, 2019.

Unless otherwise stated, all financial information contained is prepared according to the consolidation basis for accounting purposes.

In preparing the capital adequacy ratios of the Group, they are prepared according to the basis of consolidation for regulatory purposes. The main difference between the consolidation basis for accounting and regulatory purposes is that the former includes the Bank and all its subsidiaries, an associate and a joint venture whereas the latter excludes CCB Securities Limited ("CCBS"), CCB Nominees Limited ("CCBN") and CCB (Asia) Trustee Company Limited ("CCBT") which conduct non-banking related business.

(3) STATEMENT OF COMPLIANCE

In preparing the unaudited condensed consolidated interim financial information disclosure statements for the first six months ended June 30, 2019, the Bank has fully complied with the disclosure provisions of the Banking (Disclosure) Rules.

(4) STATUTORY FINANCIAL STATEMENTS AND ACCOUNTING POLICIES

The financial information relating to the year ended December 31, 2018 that is included in the condensed consolidated interim financial information for the six months ended June 30, 2019 as comparative information does not constitute the Group's statutory annual consolidated financial statements for that year but is extracted from those financial statements which have been delivered 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) and to the HKMA.

The Group's previous 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 accounting policies applied, Hong Kong Financial Reporting Standards ("HKFRS"s), are consistent with those of the annual financial statements, except for the adoption of HKFRS 16 effective for the financial year ending December 31, 2019.

The Group has not applied any new standards or interpretations that are not yet effective for the current accounting period.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(5) CHANGES IN ACCOUNTING POLICIES

HKFRS 16 replaces HKAS 17 “Leases”, HK(IFRIC)-Int 4 “Determining whether an Arrangement contains a Lease”, HK(SIC)-Int 15 “Operating Leases – Incentives” and HK(SIC)-Int 27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

This note explains the impact of the adoption of HKFRS 16 leases on the Group’s financial statements and also discloses the new accounting policies that have been initially applied from January 1, 2019, where they are different to the comparative figures applied in prior periods, which to be reported continuously under HKAS17.

(a) New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset.

On transition to HKFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied HKFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC) 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under HKFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

(b) As a lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under HKFRS 16, the Group recognizes right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

The Group decided to apply recognition exemptions to short-term leases of machinery and leases of information technology equipment. For leases of other assets, which were classified as operating under HKAS 17, the Group recognized right-of-use assets and lease liabilities.

(i) Leases classified as operating leases under HKAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group’s incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Group applied this approach to all other leases.

The Group used the following practical expedients when applying HKFRS 16 to leases previously classified as operating leases under HKAS 17.

- applied a single discount rate to a portfolio of leases with similar characteristics.
- adjusted the right-of-use assets by the amount of HKAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(5) CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) As a lessee (continued)

(i) Leases classified as operating leases under HKAS 17 (continued)

- applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

(ii) Leases previously classified as finance leases

For leases that were classified as finance leases under HKAS 17, the carrying amount of the right-of-use asset and lease liability at January 1, 2019 are determined at the carrying amount of the lease asset and lease liability under HKAS 17 immediately before that date.

(c) As a lessor

The Group is not required to make any adjustments on transition to HKFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Group accounted for its leases in accordance with HKFRS 16 from the date of initial application.

Using HKFRS 16, the Group is required to assess the classification of a sub-lease with reference to the right-of-use asset, not the underlying asset. On transition, the Group reassessed the classification of a sub-lease contract previously classified as an operating lease under HKAS 17. The Group concluded that the sub-lease is a finance lease under HKFRS 16.

The Group applied HKFRS 15 "Revenue from Contracts with Customers" to allocate consideration in the contract to each lease and non-lease component.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(5) CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(d) Impacts on financial statements

The transition effects arising from the adoption of HKFRS 16 are presented below.

The following tables analyse the impact of transition to HKFRS 16 on the statement of financial position of the Group.

	December 31, 2018	Reclassification	Remeasurement	January 1, 2019
Assets				
Cash and balances with banks and central banks	78,238,697	-	-	78,238,697
Placements with banks	31,753,841	-	-	31,753,841
Advances to customers and trade bills	254,471,410	-	-	254,471,410
Financial assets held under resale agreements	1,514,983	-	-	1,514,983
Financial assets measured at fair value through profit or loss	3,816,227	-	-	3,816,227
Financial assets measured at fair value through other comprehensive income	86,744,559	-	-	86,744,559
Financial assets measured at amortised costs	12,065,832	-	-	12,065,832
Derivative financial instruments	2,756,470	-	-	2,756,470
Interest in a joint venture	1,955,713	-	-	1,955,713
Interest in an associate	69,223	-	-	69,223
Deferred tax assets	396,042	-	-	396,042
Fixed assets	3,200,961	(531,581)	-	2,669,380
Right-of-use assets	-	531,581	1,899,988	2,431,569
Other assets	3,985,945	-	-	3,985,945
Total assets	480,969,903	-	1,899,988	482,869,891
Liabilities				
Deposits and balances of banks	32,167,403	-	-	32,167,403
Financial assets sold under repurchase agreements	2,420,859	-	-	2,420,859
Deposits from customers	354,129,879	-	-	354,129,879
Other debt securities issued	14,515,909	-	-	14,515,909
Derivative financial instruments	2,142,242	-	-	2,142,242
Lease liabilities	-	-	1,954,697	1,954,697
Current tax payable	252,269	-	-	252,269
Deferred tax liabilities	21,508	-	-	21,508
Other liabilities	7,008,032	-	(54,709)	6,953,323
Subordinated debt	5,833,798	-	-	5,833,798
Total liabilities	418,491,899	-	1,899,988	420,391,887
Equity				
Share capital	28,827,843	-	-	28,827,843
Other equity instruments	7,811,732	-	-	7,811,732
Reserves	25,838,429	-	-	25,838,429
Total equity	62,478,004	-	-	62,478,004
Total equity and liabilities	480,969,903	-	1,899,988	482,869,891

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(5) CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(d) Impacts on financial statements (continued)

On transition to HKFRS 16, the Group recognized an additional \$2,431,569 of right-of-use assets and \$1,954,697 of lease liabilities, recognizing the difference in retained earnings.

When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019, on a lease-by-lease basis.

The lease liabilities as of January 1, 2019 can be reconciled to the operating lease commitments as of December 31, 2018 as follows:

Operating lease commitment at December 31, 2018 as disclosed in the Group's financial statements	2,331,604
Weighted average incremental borrowing rate at January 1, 2019	3.82%
Lease liabilities and discounted operating lease commitments recognised on January 1, 2019	<u>1,954,697</u>

(e) New HKFRSs not yet effective for the year ended December 31, 2019

The Group has not applied any new standards or interpretations that are not yet effective for the current accounting period.

HKAS 1 "Presentation of Financial Statements" and HKAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

HKFRS 3 "Business Combinations"

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered as a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

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(5) CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(e) New HKFRSs not yet effective for the year ended December 31, 2019 (continued)

HKAS 28 “Investments in Associates and Joint Ventures” and HKFRS 10 “Consolidated Financial Statements”

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor’s profit or loss only to the extent of the unrelated investor’s interest in that associate or joint venture. The amendments are to be applied prospectively.

HKFRS 17 “Insurance Contracts”

HKFRS 17 supersedes HKFRS 4 “Insurance Contracts”. The new standard aims to provide a common global insurance accounting standard that makes the insurers’ financial statements more useful and consistent.

(6) ESTIMATES

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

In preparing this condensed consolidated interim financial information, the significant judgment made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2018.

(7) FINANCIAL RISK MANAGEMENT

The Group continuously monitors and identifies risks. Our principal risks are credit risk, liquidity risk, market risk, operational risk, regulatory compliance risk, financial crime risk, reputational risk, pension risk and sustainability risk. There is no material change in the principal risks and uncertainties for the remaining six months of the financial year, the description of which can be found in the risk report of the consolidated financial statements for the year ended December 31, 2018. A summary of our current policies and practices regarding the management of risk is set out in the “Financial risk management” section of the Annual Report 2018.

(a) Credit risk

Credit risk is the risk of loss arising from a borrower’s or counterparty’s inability to meet its obligations. Credit risk exists in the Group’s loans, leases, credit cards, trade finance and treasury transactions. There is also credit risk in off-balance sheet financial arrangements such as loan commitments, trade-related contingencies and transaction-related contingencies.

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(7) FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(i) Expected credit loss measurement

Distribution of financial instruments to which the impairment requirements in HKFRS 9 are applied, by credit quality and by staging:

As at June 30, 2019	Gross carrying/ notional amount					Total	ECL allowances	Net amount
	Normal	Special mentioned	Sub-standard	Doubtful	Loss			
On balance sheet:								
Placements with and advances to bank at amortised cost – stage 1	<u>36,793,580</u>	-	-	-	-	<u>36,793,580</u>	<u>(4,527)</u>	<u>36,789,053</u>
Advances to customers and trade bills at amortised cost:								
Advances to customers	<u>263,907,623</u>	<u>3,354,252</u>	<u>89,126</u>	<u>114,417</u>	<u>123,143</u>	<u>267,588,561</u>	<u>(2,081,503)</u>	<u>265,507,058</u>
Stage 1	258,108,857	20	-	-	-	258,108,877	(1,128,137)	256,980,740
Stage 2	5,798,766	3,354,111	-	-	-	9,152,877	(737,606)	8,415,271
Stage 3	-	121	89,126	114,417	123,143	326,807	(215,760)	111,047
Trade bills	<u>1,336,420</u>	-	-	-	<u>3,045</u>	<u>1,339,465</u>	<u>(4,467)</u>	<u>1,334,998</u>
Stage 1	1,336,420	-	-	-	-	1,336,420	(1,422)	1,334,998
Stage 3	-	-	-	-	3,045	3,045	(3,045)	-
Other financial assets measured at amortised cost:								
Cash and balances with banks and central banks – stage 1	<u>49,071,547</u>	-	-	-	-	<u>49,071,547</u>	<u>(781)</u>	<u>49,070,766</u>
Financial assets held under resale agreements – stage 1	<u>1,562,545</u>	-	-	-	-	<u>1,562,545</u>	<u>(342)</u>	<u>1,562,203</u>
Financial assets measured at amortised cost – stage 1	<u>19,346,096</u>	-	-	-	-	<u>19,346,096</u>	<u>(32,245)</u>	<u>19,313,851</u>

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(7) FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(i) Expected credit loss measurement (continued)

Distribution of financial instruments to which the impairment requirements in HKFRS 9 are applied, by credit quality and by staging: (continued)

As at June 30, 2019 (continued)	Gross carrying/ notional amount					Total	ECL	Net amount
	Normal	Special mentioned	Sub-standard	Doubtful	Loss		allowances	
On balance sheet: (continued)								
Other assets	<u>8,284,194</u>	<u>2,765</u>	<u>955</u>	<u>5,969</u>	<u>6,059</u>	<u>8,299,942</u>	<u>(6,532)</u>	<u>8,293,410</u>
Stage 1	8,263,897	-	-	-	-	8,263,897	(4,780)	8,259,117
Stage 2	20,297	2,765	-	-	-	23,062	(1,549)	21,513
Stage 3	-	-	955	5,969	6,059	12,983	(203)	12,780
Financial assets measured at fair value through other comprehensive income – stage 1	<u>82,098,235</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>82,098,235</u>	<u>(67,937)</u>	<u>82,030,298</u>
Total gross carrying amount/ fair value on balance sheet	<u>462,400,240</u>	<u>3,357,017</u>	<u>90,081</u>	<u>120,386</u>	<u>132,247</u>	<u>466,099,971</u>	<u>(2,198,334)</u>	<u>463,901,637</u>
Off balance sheet:								
Loans and other credit related commitments – stage 1	<u>90,044,390</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>90,044,390</u>	<u>(264,989)</u>	<u>89,779,401</u>
Total nominal amount off balance sheet	<u>90,044,390</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>90,044,390</u>	<u>(264,989)</u>	<u>89,779,401</u>
Total at as June 30, 2019	<u>552,444,630</u>	<u>3,357,017</u>	<u>90,081</u>	<u>120,386</u>	<u>132,247</u>	<u>556,144,361</u>	<u>(2,463,323)</u>	<u>553,681,038</u>

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(7) FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(i) Expected credit loss measurement (continued)

Distribution of financial instruments to which the impairment requirements in HKFRS 9 are applied, by credit quality and by staging: (continued)

As at December 31, 2018	Gross carrying/ notional amount					ECL allowances	Net amount	
	Normal	Special mentioned	Sub-standard	Doubtful	Loss			Total
On balance sheet:								
Placements with and advances to bank at amortised cost – stage 1	31,758,244	-	-	-	-	31,758,244	(4,403)	31,753,841
Advances to customer and trade bills at amortised cost:								
Advances to customers	252,552,166	2,990,087	659,381	7,148	121,801	256,330,583	(2,066,893)	254,263,690
Stage 1	240,561,546	939	-	-	-	240,562,485	(1,089,388)	239,473,097
Stage 2	11,990,620	2,988,755	-	-	-	14,979,375	(780,326)	14,199,049
Stage 3	-	393	659,381	7,148	121,801	788,723	(197,179)	591,544
Trade bills	207,756	-	-	-	3,052	210,808	(3,088)	207,720
Stage 1	207,756	-	-	-	-	207,756	(36)	207,720
Stage 3	-	-	-	-	3,052	3,052	(3,052)	-
Other financial assets measured at amortised cost:								
Cash and balances with banks and central banks – stage 1	78,240,159	-	-	-	-	78,240,159	(1,462)	78,238,697
Financial assets held under resale agreements – stage 1	1,514,983	-	-	-	-	1,514,983	-	1,514,983
Financial assets measured at amortised cost – stage 1	12,090,571	-	-	-	-	12,090,571	(24,739)	12,065,832

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(7) FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(i) Expected credit loss measurement (continued)

Distribution of financial instruments to which the impairment requirements in HKFRS 9 are applied, by credit quality and by staging: (continued)

As at December 31, 2018 (continued)	Gross carrying/ notional amount						ECL	Net amount
	Normal	Special mentioned	Sub-standard	Doubtful	Loss	Total	allowances	
On balance sheet: (continued)								
Other assets	3,982,469	3,580	4,646	1	1,566	3,992,262	(6,317)	3,985,945
Stage 1	3,980,726	1	-	-	-	3,980,727	(4,783)	3,975,944
Stage 2	1,743	3,534	-	-	-	5,277	(1,483)	3,794
Stage 3	-	45	4,646	1	1,566	6,258	(51)	6,207
Financial assets measured at fair value through other comprehensive income – stage 1	86,744,559	-	-	-	-	86,744,559	(66,700)	86,677,859
Total gross carrying amount/ fair value on balance sheet	467,090,907	2,993,667	664,027	7,149	126,419	470,882,169	(2,173,602)	468,708,567
Off balance sheet:								
Loans and other credit related commitments – stage 1	88,609,788	-	-	-	-	88,609,788	(201,896)	88,407,892
Total nominal amount off balance sheet	88,609,788	-	-	-	-	88,609,788	(201,896)	88,407,892
Total at as December 31, 2018	555,700,695	2,993,667	664,027	7,149	126,419	559,491,957	(2,375,498)	557,116,459

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(7) FINANCIAL RISK MANAGEMENT

(b) Liquidity risk

The table below sets out the maturity profile of assets and liabilities analysed by the remaining period to repayment as at the reporting date:

As at June 30, 2019

	Repayable on demand	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated	Total
Assets								
Cash and balances with banks and central banks	6,980,437	42,090,329	-	-	-	-	-	49,070,766
Placements with banks	-	-	14,806,725	21,982,328	-	-	-	36,789,053
Advances to banks	-	-	-	1,921,965	-	-	-	1,921,965
Advances to customers and trade bills	241,636	76,081,971	24,244,890	39,626,117	91,847,965	34,799,477	-	266,842,056
Financial assets held under resale agreements	-	-	1,562,203	-	-	-	-	1,562,203
Financial assets measured at fair value through profit or loss	2,981	333,334	710,000	310,950	2,610,864	296,035	281,033	4,545,197
Financial assets measured at fair value through other comprehensive income	-	5,405,486	22,148,296	18,229,872	33,886,430	2,373,633	54,518	82,098,235
Financial assets measured at amortised costs	-	4,119,324	2,410,742	6,762,010	6,021,775	-	-	19,313,851
Derivative financial instruments	-	504,279	242,569	993,340	95,244	55,539	-	1,890,971
Interest in a joint venture	-	-	-	-	-	-	1,885,533	1,885,533
Interest in an associate	-	-	-	-	-	-	45,673	45,673
Deferred tax assets	-	-	-	-	-	-	329,569	329,569
Fixed assets	-	-	-	-	-	-	2,621,647	2,621,647
Right-of-use assets	-	-	-	12,015	215,467	1,498,720	530,574	2,256,776
Other assets	34,476	6,133,858	901,823	405,951	594,400	6,150	216,752	8,293,410
Total assets	7,259,530	134,668,581	67,027,248	90,244,548	135,272,145	39,029,554	5,965,299	479,466,905

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(7) FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

As at June 30, 2019 (continued)

	Repayable on demand	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated	Total
Liabilities								
Deposits and balances of banks	2,414,109	22,121,730	22,061	-	-	-	-	24,557,900
Deposits from customers	92,493,978	87,239,007	108,108,983	71,752,607	1,472,281	-	-	361,066,856
Financial liabilities designated at fair value through profit or loss	512	192,888	33,742	19,154	-	-	-	246,296
Other debt securities issued	-	4,686,990	-	5,577,693	1,135,230	681,617	-	12,081,530
Derivative financial instruments	-	435,011	147,363	338,160	90,604	111,834	-	1,122,972
Lease liabilities	-	32,188	57,146	155,210	790,008	766,790	-	1,801,342
Current tax payable	-	-	-	636,712	-	-	-	636,712
Deferred tax liabilities	-	-	-	-	-	-	21,508	21,508
Other liabilities	121,921	2,652,853	1,062,262	1,075,687	45,405	-	2,644,838	7,602,966
Subordinated debts	-	-	-	-	-	5,830,005	-	5,830,005
Total liabilities	95,030,520	117,360,667	109,431,557	79,555,223	3,533,528	7,390,246	2,666,346	414,968,087
Net (liabilities)/ assets gap	(87,770,990)	17,307,914	(42,404,309)	10,689,325	131,738,617	31,639,308	3,298,953	64,498,818
Of which:								
Debt securities included in:								
Financial assets measured at fair value through other comprehensive income	-	5,405,486	22,148,296	18,229,872	33,886,430	2,373,633	-	82,043,717
Financial assets measured at amortised costs	-	4,119,324	2,410,742	6,762,010	6,021,775	-	-	19,313,851

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(7) FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

The table below sets out the maturity profile of assets and liabilities analysed by the remaining period to repayment as at the reporting date: (continued)

As at December 31, 2018

	Repayable on demand	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated	Total
Assets								
Cash and balances with banks and central banks	9,471,052	68,767,645	-	-	-	-	-	78,238,697
Placements with banks	-	-	26,196,110	5,557,731	-	-	-	31,753,841
Advances to customers and trade bills	1,644,755	49,217,967	16,427,878	44,863,650	103,427,172	38,889,988	-	254,471,410
Financial assets held under resale agreements	-	-	1,514,983	-	-	-	-	1,514,983
Financial assets measured at fair value through profit or loss	9,689	264,048	20,571	788,294	2,143,168	314,103	276,354	3,816,227
Financial assets measured at fair value through other comprehensive income	-	1,057,630	10,403,539	27,225,936	46,161,867	1,847,718	47,869	86,744,559
Financial assets measured at amortised cost	-	-	751,662	5,447,284	5,866,886	-	-	12,065,832
Derivative financial instruments	-	737,855	325,626	668,824	998,584	25,581	-	2,756,470
Interest in a joint venture	-	-	-	-	-	-	1,955,713	1,955,713
Interest in an associate	-	-	-	-	-	-	69,223	69,223
Deferred tax assets	-	-	-	-	-	-	396,042	396,042
Fixed assets	-	-	-	-	-	-	3,200,961	3,200,961
Other assets	1,404	1,848,740	755,679	750,819	553,379	19,616	56,308	3,985,945
Total assets	11,126,900	121,893,885	56,396,048	85,302,538	159,151,056	41,097,006	6,002,470	480,969,903

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(7) FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

As at December 31, 2018 (continued)

	Repayable on demand	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated	Total
Liabilities								
Deposits and balances of banks	1,729,630	24,873,698	3,178,640	2,385,435	-	-	-	32,167,403
Deposits from customers	96,556,754	86,723,205	93,877,086	75,642,642	1,330,192	-	-	354,129,879
Financial assets sold under repurchase agreements	-	-	2,420,859	-	-	-	-	2,420,859
Other debt securities issued	-	-	-	8,221,574	5,612,326	682,009	-	14,515,909
Derivative financial instruments	-	690,699	402,967	1,023,782	8,942	15,852	-	2,142,242
Current tax payable	-	-	-	252,269	-	-	-	252,269
Deferred tax liabilities	-	-	-	-	-	-	21,508	21,508
Other liabilities	37,618	1,845,481	825,038	1,618,255	28,597	-	2,653,043	7,008,032
Subordinated debt	-	-	-	-	-	5,833,798	-	5,833,798
Total liabilities	<u>98,324,002</u>	<u>114,133,083</u>	<u>100,704,590</u>	<u>89,143,957</u>	<u>6,980,057</u>	<u>6,531,659</u>	<u>2,674,551</u>	<u>418,491,899</u>
Net (liabilities)/ assets gap	<u>(87,197,102)</u>	<u>7,760,802</u>	<u>(44,308,542)</u>	<u>(3,841,419)</u>	<u>152,170,999</u>	<u>34,565,347</u>	<u>3,327,919</u>	<u>62,478,004</u>
Of which:								
Debt securities included in:								
Financial assets measured at fair value through other comprehensive income	-	1,057,630	10,403,539	27,225,936	46,161,867	1,847,718	-	86,696,690
Financial assets measured at amortised cost	-	-	751,662	5,447,284	5,866,886	-	-	12,065,832

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STATEMENTS (CONTINUED)**

(7) FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Fair value of financial assets and liabilities

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group measures fair value using the following hierarchy method:

- Level 1: fair values measured using quoted market prices (unadjusted) in active markets for identical financial instruments.
- Level 2: fair values measured using valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes quoted prices in active markets for similar financial instruments, or quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: fair values measured using significant unobservable inputs. This category includes inputs to valuation techniques not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Where available, the most suitable measure for fair value is the quoted market price. In the absence of organised secondary markets for most of the unlisted securities and over-the-counter derivatives, direct market prices of these financial instruments may not be available. The fair values of such instruments are therefore calculated based on established valuation techniques using current market parameters or market prices provided by counterparties.

Options traded over the counter are valued using broker quotes price. Structured deposits are valued using discounted cash flows and its option value are quoted from brokers with similar terms and conditions. Other derivative financial instruments, including interest rate swaps and currency swaps, are valued through estimated discounted cash flows to determine their fair value and the discount rate used is a market rate at the end of the reporting period applicable for an instrument with similar terms and conditions. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the reporting date.

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(7) FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Fair value of financial assets and liabilities (continued)

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value treatment is categorised:

As at June 30, 2019	Level 1	Level 2	Level 3	Total
Assets				
Financial assets measured at fair value through profit or loss				
Fund investments	28,646	92,752	-	121,398
Other debt instruments	-	4,423,799	-	4,423,799
Financial assets measured at fair value through other comprehensive income				
Treasury bills	11,313,072	23,438,339	-	34,751,411
Certificates of deposit	-	3,146,460	-	3,146,460
Debt securities	38,232,696	5,913,150	-	44,145,846
Equity securities	37,276	-	17,242	54,518
Derivative financial instruments				
Exchange rate contracts				
Forwards	-	1,084,922	-	1,084,922
Options purchased	-	10,012	-	10,012
Interest rate swaps	-	155,670	-	155,670
Currency swaps	-	637,358	-	637,358
Equity options purchased	-	2,810	-	2,810
Equity swaps	-	199	-	199
	49,611,690	38,905,471	17,242	88,534,403
Liabilities				
Financial liabilities designated at fair value through profit or loss	-	246,296	-	246,296
Other debt securities issued	-	2,343,823	-	2,343,823
Derivative financial instruments				
Exchange rate contracts				
Forwards	-	896,581	-	896,581
Options written	-	10,012	-	10,012
Interest rate swaps	-	203,109	-	203,109
Currency swaps	-	10,261	-	10,261
Equity options issued	-	199	-	199
Equity swaps	-	2,810	-	2,810
Subordinated debt	-	5,830,005	-	5,830,005
	-	9,543,096	-	9,543,096

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(7) FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Fair value of financial assets and liabilities (continued)

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value treatment is categorised:

As at December 31, 2018	Level 1	Level 2	Level 3	Total
Assets				
Financial assets measured at fair value through profit or loss				
Fund investments	27,611	90,386	-	117,997
Other debt instruments	-	3,698,230	-	3,698,230
Financial assets measured at fair value through other comprehensive income				
Treasury bills	18,272,499	5,726,713	-	23,999,212
Certificates of deposit	-	3,148,734	-	3,148,734
Debt securities	43,965,645	15,583,099	-	59,548,744
Equity securities	30,627	-	17,242	47,869
Derivative financial instruments				
Exchange rate contracts				
Forwards	-	1,702,391	-	1,702,391
Options purchased	-	7,812	-	7,812
Interest rate swaps	-	394,072	-	394,072
Currency swaps	-	652,195	-	652,195
	<u>62,296,382</u>	<u>31,003,632</u>	<u>17,242</u>	<u>93,317,256</u>
Liabilities				
Other debt securities issued	-	4,737,909	-	4,737,909
Derivative financial instruments				
Exchange rate contracts				
Forwards	-	1,756,689	-	1,756,689
Options written	-	7,812	-	7,812
Interest rate swaps	-	86,832	-	86,832
Currency swaps	-	290,909	-	290,909
Subordinated debt	-	5,833,798	-	5,833,798
	<u>-</u>	<u>12,713,949</u>	<u>-</u>	<u>12,713,949</u>

There were no significant transfers between instruments in Level 1, Level 2 and Level 3 for the year ended June 30, 2019 and December 31, 2018.

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(8) SEGMENTAL INFORMATION

(a) Reportable segments

The Group manages its businesses by divisions, which are organized by products services and customer types. In a manner consistent with the way in which information is reported internally to the executive management for the purposes of resource allocation and performance assessment, the Group has presented the following four reportable segments, under which there was a change in the grouping of commercial banking in 2019. Engaged mainly in businesses with small and medium sized enterprises, commercial banking was previously grouped with consumer banking. In 2019, to further align with the internal management structure and reporting information, it was grouped with corporate and institutional banking. Comparatives amounts have been restated to ensure consistent basis with the revised segment information.

- (i) Corporate, institutional and commercial banking
This segment mainly represents the provision of a range of financial products and services to corporations, financial institutions and small and medium sized enterprises. The products and services mainly include commercial loans, syndicated loans, commercial mortgages, trade financing, foreign exchange and deposit-taking activities.
- (ii) Consumer banking
This segment mainly represents the provision of a range of financial products and services to individual customers. The products and services mainly comprise residential mortgages, personal loans, credit cards, auto-financing, deposit-taking activities, foreign exchange, wealth management, insurance and securities agency services.
- (iii) Treasury
This segment covers the Bank's treasury operations. The Treasury Division enters into inter-bank money market transactions and invests in debt instruments. It also trades in debt instruments, derivatives and foreign currency for its own account and carries out customer driven derivatives such as foreign currency transactions. Its function also includes the management of the Group's overall liquidity position, including the issuance of certificates of deposit.
- (iv) Others
This segment mainly represents management of shareholders' funds and investments in premises, subsidiaries and others.

Segment assets and liabilities are mainly composed of placement with banks, advances to banks and customers, investment securities, derivatives financial instruments, deposits and certificates of deposit and other debt securities issued.

Revenue and expenses are allocated to the reportable segments with reference to interest and fee and commission income generated by these segments and the expenses incurred by these segments or which otherwise arise from the depreciation or amortisation of assets attributable to these segments.

The primary revenue stream of the Group is derived from net interest income and net fees and commission income. The executive management relies to a large extent on net interest income and net fees and commission income in managing its business. Hence, net interest income and net fees and commission income for all reportable segments are presented under segmental information.

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(8) SEGMENTAL INFORMATION (CONTINUED)

(a) Reportable segments (continued)

	Corporate, Institutional and Commercial Banking	Consumer Banking	Treasury	Others	Inter- segment elimination	Total
<u>Six months ended June 30, 2019</u>						
Net interest income	1,172,221	1,028,134	(76,717)	908,546	-	3,032,184
Net fees and commission income	190,548	275,235	8,331	278,872	-	752,986
Total operating income						
– External	3,071,694	(1,190,106)	1,679,664	301,241	-	3,862,493
– Inter-segment	(1,605,221)	2,540,145	(1,842,488)	907,564	-	-
Total operating income	1,466,473	1,350,039	(162,824)	1,208,805	-	3,862,493
Depreciation	(62,236)	(156,183)	(11,043)	(43,786)	-	(273,248)
Total operating expenses	(394,515)	(787,721)	(86,222)	(275,267)	-	(1,543,725)
Operating profit before net charges on expected credit losses	1,071,958	562,318	(249,046)	933,538	-	2,318,768
Net (charge)/ release of expected credit losses	(143,413)	1,466	3,609	150	-	(138,188)
Non-operating (losses)/ income	(42)	-	-	6,251	-	6,209
Profit before taxation	928,503	563,784	(245,437)	939,939	-	2,186,789
<u>As at June 30, 2019</u>						
Total assets	243,626,980	42,407,232	185,505,348	8,584,775	(657,430)	479,466,905
Total liabilities	131,030,106	237,556,677	42,177,494	4,861,240	(657,430)	414,968,087

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(8) SEGMENTAL INFORMATION (CONTINUED)

(a) Reportable segments (continued)

	Corporate, Institutional and Commercial Banking	Consumer Banking	Treasury	Others	Inter- segment elimination	Total
<u>Six months ended June 30, 2018</u> (restated)						
Net interest income	1,197,774	1,152,070	186,955	608,016	-	3,144,815
Net fees and commission income	235,381	315,906	(1,171)	269,528	-	819,644
Total operating income						
– External	2,968,950	(504,676)	1,539,009	199,806	-	4,203,089
– Inter-segment	(1,402,564)	2,041,850	(1,381,184)	741,898	-	-
Total operating income	1,566,386	1,537,174	157,825	941,704	-	4,203,089
Depreciation	(31,518)	(81,105)	(5,227)	(37,354)	-	(155,204)
Total operating expenses	(374,045)	(765,448)	(71,648)	(284,952)	-	(1,496,093)
Operating profit before net charges on expected credit losses	1,192,341	771,726	86,177	656,752	-	2,706,996
Net (charge)/ release of expected credit losses	176,773	6,354	(12,772)	-	-	170,355
Non-operating losses	-	(79)	-	(32,118)	-	(32,197)
Profit before taxation	1,369,114	778,001	73,405	624,634	-	2,845,154
<u>As at December 31, 2018</u>						
Total assets	223,537,465	43,724,169	206,646,632	7,609,711	(548,074)	480,969,903
Total liabilities	131,637,169	226,999,463	56,048,668	4,354,673	(548,074)	418,491,899

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(8) SEGMENTAL INFORMATION (CONTINUED)

(b) Geographical information

The following table sets out information about the geographical location of the Group's revenue from external customers, profit before taxation, total assets, total liabilities, specified non-current assets, contingent liabilities and commitments. The geographical location of customers is based on the location at which the services were provided. Segment assets or liabilities are based on the geographical location of the asset or liabilities. Specified non-current assets comprise fixed assets, right-of-use assets, interest in a joint venture and interest in an associate and the geographical location is based on the physical location of the asset for fixed assets, and the location of the operation to which they are allocated for intangible assets, interest in a joint venture and interest in an associate.

	6 months ended June 30, 2019		As at June 30, 2019			
	Revenue from external customers	Profit before taxation	Total assets	Total liabilities	Specified non- current assets	Contingent liabilities and commitments
Hong Kong (place of domicile)	<u>3,862,493</u>	<u>2,186,789</u>	<u>479,466,905</u>	<u>414,968,087</u>	<u>6,809,629</u>	<u>90,044,390</u>
	6 months ended June 30, 2018		As at December 31, 2018			
	Revenue from external customers	Profit before taxation	Total assets	Total liabilities	Specified non- current assets	Contingent liabilities and commitments
Hong Kong (place of domicile)	<u>4,203,089</u>	<u>2,845,154</u>	<u>480,969,903</u>	<u>418,491,899</u>	<u>5,225,897</u>	<u>88,609,788</u>

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(9) NET INTEREST INCOME

	6 months ended June 30, 2019	6 months ended June 30, 2018
Interest income		
<i>Interest income arising from financial assets that are not measured at fair value through profit or loss</i>		
Placements and advances to banks	1,102,810	756,090
Advances to customers and trade bills	4,351,911	4,254,135
Financial assets measured at fair value through other comprehensive income	1,015,394	1,162,604
Financial assets measured at amortised cost	252,904	225,531
Total interest income	6,723,019	6,398,360
Interest expense		
<i>Interest expense arising from financial liabilities that are not measured at fair value through profit or loss</i>		
Deposits and balances of banks	139,834	212,163
Deposits from customers	3,205,939	2,716,930
Certificates of deposit and other debt securities issued	132,307	140,156
	3,478,080	3,069,249
<i>Interest expense arising from financial liabilities that are measured at fair value through profit or loss</i>		
Other debt securities issued	14,139	18,475
	14,139	18,475
<i>Interest expense arising from financial liabilities under fair value hedge</i>		
Other debt securities issued	38,227	38,407
Subordinated debt	127,589	127,414
	165,816	165,821
<i>Interest expense arising from lease liabilities</i>	32,800	-
Total interest expense	3,690,835	3,253,545
Net interest income	3,032,184	3,144,815

There were no interest income accrued on impaired financial assets for the six months ended June 30, 2019 and June 30, 2018.

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(10) NET FEES AND COMMISSION INCOME

	6 months ended June 30, 2019	6 months ended June 30, 2018
Fees and commission income		
Investment services	74,097	91,775
Securities broking and related services	58,903	85,622
Insurance	95,519	95,503
Remittance, settlement and account management fees	61,306	64,332
Fee received from intermediate holding company (Note 35)	263,387	263,117
Trade finance	23,554	25,966
Cards	77,345	82,862
Credit facilities	128,195	177,532
Others	17,792	2,834
Total fees and commission income	800,098	889,543
Fees and commission expense		
Cards	(10,623)	(19,288)
Brokerage	(3,253)	(4,221)
Fee paid to intermediate holding company (Note 35)	(9,545)	(16,324)
Settlement accounts	(3,061)	(7,411)
Others	(20,630)	(22,655)
Total fees and commission expense	(47,112)	(69,899)
Net fees and commission income	752,986	819,644

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(11) NET TRADING (LOSSES)/ INCOME

	6 months ended June 30, 2019	6 months ended June 30, 2018
(Losses)/ gains from trading activities		
Foreign exchange	(136,705)	121,733
Interest rate derivatives	(4,316)	(36,805)
Other debt instruments	58,567	94,593
Other trading	10,765	7,504
	(71,689)	187,025
Net gain from hedging activities		
Fair value hedges		
- Net (loss)/ gain on hedging instruments	(345,787)	252,611
- Net gain/ (loss) on hedged items	359,368	(246,728)
	13,581	5,883
Net trading (losses)/ income	(58,108)	192,908

(12) NET GAINS FROM FINANCIAL INSTRUMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	6 months ended June 30, 2019	6 months ended June 30, 2018
Net gains from other debt securities issued	20,303	17,004

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(13) OTHER OPERATING INCOME

	6 months ended June 30, 2019	6 months ended June 30, 2018
Dividend income from equity financial assets measured at fair value through other comprehensive income		
Unlisted	3,183	3,678
Listed	79	99
	3,262	3,777
Others	25,879	24,900
	29,141	28,677

(14) OPERATING EXPENSES

	6 months ended June 30, 2019	6 months ended June 30, 2018
Staff costs		
Salaries and other benefits	882,637	812,556
Pension and provident fund costs	50,049	53,749
	932,686	866,305
General and administrative expenses		
Rental expense	70,450	200,683
Other premises and equipment	56,533	55,115
Marketing expenses	68,182	70,384
Auditors' remuneration	3,704	4,392
Professional fees	23,288	15,883
Other operating expenses	115,634	128,127
	337,791	474,584
Depreciation		
Fixed assets	144,387	155,204
Right-of-use assets	128,861	-
	273,248	155,204
	1,543,725	1,496,093

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(15) NET CHARGE/ (RELEASE) OF EXPECTED CREDIT LOSSES

	6 months ended June 30, 2019	6 months ended June 30, 2018
New allowances charged/ (released), net of allowance releases	150,250	(145,954)
Recoveries of amounts previously written off	(12,062)	(24,401)
Net charge/ (release) of expected credit losses	138,188	(170,355)
Attributable to:		
Balances with banks and central banks and placements with banks	(557)	(1,274)
Financial assets held under resale agreements	342	-
Advances to customers and trade bills	66,350	(114,882)
Financial assets measured at fair value through other comprehensive income	1,237	(2,955)
Financial assets measured at amortised cost	7,506	16,215
Other assets	216	(25,134)
Loan and other credit related commitments	63,094	(42,325)
Net charge/ (release) of expected credit losses	138,188	(170,355)

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(16) TAXATION

(a) Taxation in the consolidated statement of profit or loss represents:

	6 months ended June 30, 2019	6 months ended June 30, 2018
Current tax – Hong Kong Profits Tax		
Provision for the period	<u>384,339</u>	<u>450,799</u>
Current tax – Overseas		
Provision for the period	107	473
Withholding tax for the period	<u>1,872</u>	<u>29,678</u>
	<u>1,979</u>	<u>30,151</u>
Deferred tax		
Origination and reversal of temporary differences	<u>(8,430)</u>	<u>18,489</u>
	<u>377,888</u>	<u>499,439</u>

The provision for Hong Kong Profits Tax is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the period. Taxation for overseas transactions are charged at the appropriate current rates of taxation in the countries in which the transactions took place.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	6 months ended June 30, 2019	6 months ended June 30, 2018
Profit before taxation	<u>2,186,789</u>	<u>2,845,154</u>
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	360,820	469,450
Income not subject to taxation	(15,025)	(6,520)
Expenses not deductible for taxation purposes	30,221	6,831
Foreign withholding tax	1,872	29,678
Actual tax expense	<u>377,888</u>	<u>499,439</u>

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(17) CASH AND BALANCES WITH BANKS AND CENTRAL BANKS

	June 30, 2019	December 31, 2018
Cash in hand	253,437	256,638
Balances with banks	3,653,225	2,539,639
Balances with central banks	3,073,782	6,674,775
Placement with banks maturing within one month	42,091,103	68,769,107
Gross cash and balances with banks and central banks	49,071,547	78,240,159
Less: Expected credit loss allowances		
Stage 1: 12-month ECL	(781)	(1,462)
Net cash and balances with banks and central banks	49,070,766	78,238,697

(18) PLACEMENTS WITH BANKS

	June 30, 2019	December 31, 2018
Maturing between one and twelve months	14,808,547	31,758,244
Maturing more than twelve months	21,985,033	-
Gross placements with banks	36,793,580	31,758,244
Less: Expected credit loss allowances		
Stage 1: 12-month ECL	(4,527)	(4,403)
Net placements with banks	36,789,053	31,753,841

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(19) ADVANCES TO CUSTOMERS AND TRADE BILLS

(a) Advances to customers and trade bills

	June 30, 2019	December 31, 2018
Advances to customers		
Gross advances to corporate customers	223,793,662	213,679,459
Gross advances to personal customers	43,794,899	42,651,124
	267,588,561	256,330,583
Less: Expected credit loss allowances		
Stage 1: 12-month ECL	(1,128,137)	(1,089,388)
Stage 2: Lifetime ECL but not credit-impaired	(737,606)	(780,326)
Stage 3: Lifetime ECL and credit-impaired	(215,760)	(197,179)
Net advances to customers	265,507,058	254,263,690
Trade bills		
Gross trade bills	1,339,465	210,808
Less: Expected credit loss allowances		
Stage 1: 12-month ECL	(1,422)	(36)
Stage 3: Lifetime ECL and credit-impaired	(3,045)	(3,052)
Net trade bills	1,334,998	207,720
Net advances to customers and trade bills	266,842,056	254,471,410

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(19) ADVANCES TO CUSTOMERS AND TRADE BILLS (CONTINUED)

(b) Movement in gross carrying amount and expected credit loss allowances on advances to customers and trade bills

Reconciliation of changes in gross carrying amount and expected credit loss allowances on advances to customers and trade bills for the six months ended June 30, 2019:

Six months ended June 30, 2019	Non-credit impaired				Credit impaired		Total	
	Stage 1		Stage 2		Stage 3		Gross carrying amount	ECL allowance
	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance		
Balance as at January 1, 2019	240,770,241	1,089,424	14,979,375	780,326	791,775	200,231	256,541,391	2,069,981
Transfer to stage 1: 12-month ECL	4,665,419	74,686	(4,528,690)	(74,686)	(136,729)	-	-	-
Transfer to stage 2: lifetime ECL not credit-impaired	(821,722)	(6,872)	1,053,869	6,872	(232,147)	-	-	-
Transfer to stage 3: lifetime ECL credit-impaired	(16,413)	(92)	(5,611)	(71)	22,024	163	-	-
Net remeasurement of loss allowances	-	22,563	-	(8,008)	-	(3,318)	-	11,237
New financial assets originated or purchased*	107,937,118	196,548	2,909,806	79,674	74,765	5,764	110,921,689	281,986
Financial assets that have been derecognised	(93,089,346)	(118,131)	(5,255,872)	(96,698)	(127,413)	(4,983)	(98,472,631)	(219,812)
Write-offs	-	-	-	-	(62,423)	(62,423)	(62,423)	(62,423)
Recoveries of amounts previously written-offs	-	-	-	-	-	12,062	-	12,062
Changes in risk parameters	-	(127,278)	-	52,841	-	71,326	-	(3,111)
Foreign exchange and other movements	-	(1,289)	-	(2,644)	-	(17)	-	(3,950)
Balance as at June 30, 2019	259,445,297	1,129,559	9,152,877	737,606	329,852	218,805	268,928,026	2,085,970

* During the period, all advances to customers and trade bills were initially classified in Stage 1 and were not considered as credit-impaired at the time of origination or purchase. Some were subsequently transferred into Stage 2 or Stage 3 based on the result of credit assessments.

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(19) ADVANCES TO CUSTOMERS AND TRADE BILLS (CONTINUED)

(b) Movement in gross carrying amount and expected credit loss allowances on advances to customers and trade bills (continued)

Reconciliation of changes in gross carrying amount and expected credit loss allowances on advances to customers and trade bills for the period ended June 30, 2018:

Six months ended June 30, 2018	Non-credit impaired				Credit impaired		Total	
	Stage 1		Stage 2		Stage 3		Gross carrying amount	ECL allowance
	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance
Balance as at January 1, 2018	275,535,158	803,570	7,447,652	339,949	832,209	379,784	283,815,019	1,523,303
Transfer to stage 1: 12-month ECL	9,153	1,614	(9,142)	(1,603)	(11)	(11)	-	-
Transfer to stage 2: lifetime ECL not credit-impaired	(101,249)	(424)	101,249	424	-	-	-	-
Transfer to stage 3: lifetime ECL credit-impaired	(400,685)	(625)	(193,172)	(9,406)	593,857	10,031	-	-
Net remeasurement of loss allowances	-	29,924	-	(25,475)	-	145	-	4,594
New financial assets originated or purchased*	88,729,077	193,280	22,579	1	178,858	34,462	88,930,514	227,743
Financial assets that have been derecognised	(88,339,753)	(161,166)	(4,090,318)	(88,950)	(453,373)	(106,160)	(92,883,444)	(356,276)
Write-offs	-	-	-	-	(59,256)	(59,256)	(59,256)	(59,256)
Recoveries of amounts previously written-offs	-	-	-	-	-	24,401	-	24,401
Changes in risk parameters	-	(60,230)	-	71,323	-	1,202	-	12,295
Foreign exchange and other movements	-	(2,641)	-	(1,107)	-	510	-	(3,238)
Balance as at June 30, 2018	<u>275,431,701</u>	<u>803,302</u>	<u>3,278,848</u>	<u>285,156</u>	<u>1,092,284</u>	<u>285,108</u>	<u>279,802,833</u>	<u>1,373,566</u>

* During the period, all advances to customers and trade bills were initially classified in Stage 1 and were not considered as credit-impaired at the time of origination or purchase. Some were subsequently transferred into Stage 2 or Stage 3 based on the result of credit assessments.

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(19) ADVANCES TO CUSTOMERS AND TRADE BILLS (CONTINUED)

(c) Impaired advances to customers and trade bills and impairment allowances

(i) Impaired advances to customers and allowances are analysed as follows:

	<u>June 30, 2019</u>		<u>December 31, 2018</u>	
		% of gross advances		% of gross advances
Gross impaired advances	326,686	0.12	788,330	0.31
Less: Expected credit loss allowances	(215,639)		(196,841)	
	<u>111,047</u>		<u>591,489</u>	
Net realisable value of collateral held against the impaired advances	<u>105,986</u>		<u>549,723</u>	

(ii) Impaired trade bills and allowances are analysed as follows:

	<u>June 30, 2019</u>		<u>December 31, 2018</u>	
		% of gross trade bills		% of gross trade bills
Gross impaired trade bills	3,045	0.23	3,052	1.45
Less: Expected credit loss allowances	(3,045)		(3,052)	
	<u>-</u>		<u>-</u>	
Net realisable value of collateral held against the impaired trade bills	<u>-</u>		<u>-</u>	

(20) FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

Financial assets held under resale agreements by underlying assets are shown as follows:

	<u>June 30, 2019</u>	<u>December 31, 2018</u>
Debt securities issued by government	1,562,545	-
Debt securities issued by policy banks	-	1,514,983
Gross financial assets held under resale agreements	<u>1,562,545</u>	<u>1,514,983</u>
Less: Expected credit loss allowances		
Stage 1: 12-month ECL	(342)	-
Net financial assets held under resale agreements	<u>1,562,203</u>	<u>1,514,983</u>

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(21) FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	June 30, 2019	December 31, 2018
Fund investments issued by non-bank financial institutions	121,398	117,997
Other debt securities issued by corporate	159,635	158,357
Trading loans	4,264,164	3,539,873
	4,545,197	3,816,227
Analysed by place of listing		
Debt securities listed outside Hong Kong	28,646	27,611
Unlisted		
Fund investments	92,752	90,386
Debt securities	159,635	158,357
Trading loans	4,264,164	3,539,873
	4,516,551	3,788,616
	4,545,197	3,816,227

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

	June 30, 2019	December 31, 2018
Debt investments		
Treasury bills/ bonds issued by central banks/governments	34,751,411	23,999,212
Certificates of deposit issued by banks	3,146,460	3,148,734
Other debt securities issued by		
Banks	20,859,704	34,767,953
Corporate	23,286,142	24,780,791
	<u>82,043,717</u>	<u>86,696,690</u>
Equity investments		
Equity shares issued by corporates	54,518	47,869
	<u>82,098,235</u>	<u>86,744,559</u>
Analysed by place of listing		
Listed in Hong Kong		
Debt investments	<u>38,530,928</u>	46,918,046
Listed outside Hong Kong		
Debt investments	11,014,840	15,320,098
Equity investments	37,276	30,627
	<u>11,052,116</u>	<u>15,350,725</u>
Unlisted		
Debt investments	32,497,949	24,458,546
Equity investments	17,242	17,242
	<u>32,515,191</u>	<u>24,475,788</u>
	<u>82,098,235</u>	<u>86,744,559</u>

The unlisted equity investment is made by the Group for being members of the electronic payment system in Hong Kong. Management has no intention to dispose of this investment as at June 30, 2019.

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(23) FINANCIAL ASSETS MEASURED AT AMORTISED COSTS

	June 30, 2019	December 31, 2018
Treasury bills issued by central banks	4,833,208	-
Certificates of deposit issued by banks	2,831,641	4,286,457
Other debt securities issued by		
Banks	5,564,046	1,912,771
Corporate	6,117,201	5,891,343
	19,346,096	12,090,571
Less: Expected credit loss allowances	(32,245)	(24,739)
	19,313,851	12,065,832
Analysed by place of listing		
Listed in Hong Kong	2,646,924	2,745,816
Listed outside Hong Kong	935,091	937,772
Unlisted	15,764,081	8,406,983
	19,346,096	12,090,571
Market value		
Listed securities	3,589,206	3,574,792
Unlisted securities	15,777,787	8,397,308
	19,366,993	11,972,100

The fair value of financial assets measured at amortised costs is based on quoted market bid prices.

There were no overdue financial investments at June 30, 2019 for the Group. The Group did not hold any asset-backed securities, mortgage-backed securities and collateralised debt obligations.

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(24) DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives include forward, swap and option transactions undertaken by the Group in the foreign exchange and interest rate markets. The Group uses derivatives for trading activities and sale to customers as risk management products. These positions are actively managed through entering into offsetting deals with external parties to ensure the Group's net exposures are within acceptable risk levels. No significant proprietary positions were maintained by the Group as at the reporting date. The Group also uses these derivatives in the management of its own asset and liability portfolios and structural positions.

(a) Notional amounts of derivatives

	June 30, 2019				December 31, 2018			
	Managed in conjunction with financial instruments measured at fair value through profit or loss	Held for trading	Used for hedging	Total	Managed in conjunction with financial instruments measured at fair value through profit or loss	Held for trading	Used for hedging	Total
Exchange rate contracts								
Forwards	87,591,618	149,721,960	-	237,313,578	12,378,124	270,200,698	-	282,578,822
Options purchased	-	1,326,692	-	1,326,692	-	975,701	-	975,701
Options written	-	1,326,692	-	1,326,692	-	975,701	-	975,701
Interest rate swaps	3,561,203	3,166,451	30,986,557	37,714,211	3,644,679	1,276,013	33,763,759	38,684,451
Currency swaps	3,562,830	1,195,589	-	4,758,419	7,754,708	-	-	7,754,708
Equity options purchased/ issued	-	97,853	-	97,853	-	-	-	-
Equity swaps	-	97,853	-	97,853	-	-	-	-
	94,715,651	156,933,090	30,986,557	282,635,298	23,777,511	273,428,113	33,763,759	330,969,383

The principal derivative instruments used by the Group are interest and foreign exchange rate related contracts, which are primarily over-the-counter derivatives. The Group also participates in exchange traded derivatives.

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(24) DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(b) Notional amounts of derivatives by remaining maturity analysis

The following table provides an analysis of the notional amounts of derivatives of the Group by relevant maturity grouping based on the remaining periods to settlement at the reporting date.

	June 30, 2019				December 31, 2018			
	1 year or less	Over 1 year to 5 years	Over 5 years	Total	1 year or less	Over 1 year to 5 years	Over 5 years	Total
Exchange rate contracts								
Forwards	237,078,194	235,384	-	237,313,578	282,578,822	-	-	282,578,822
Options purchased	1,326,692	-	-	1,326,692	975,701	-	-	975,701
Options written	1,326,692	-	-	1,326,692	975,701	-	-	975,701
Interest rate swaps	16,662,655	17,365,330	3,686,226	37,714,211	14,009,265	21,110,803	3,564,383	38,684,451
Currency swaps	3,109,497	1,648,922	-	4,758,419	4,165,315	3,589,393	-	7,754,708
Equity options purchased/ issued	97,853	-	-	97,853	-	-	-	-
Equity swaps	97,853	-	-	97,853	-	-	-	-
	<u>259,699,436</u>	<u>19,249,636</u>	<u>3,686,226</u>	<u>282,635,298</u>	<u>302,704,804</u>	<u>24,700,196</u>	<u>3,564,383</u>	<u>330,969,383</u>

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(24) DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair values and credit risk weighted amounts of derivatives

	June 30, 2019			December 31, 2018		
	Fair value assets	Fair value liabilities	Credit risk weighted amount	Fair value assets	Fair value liabilities	Credit risk weighted amount
Exchange rate contracts						
Forwards	1,084,922	896,581	1,115,304	1,702,391	1,756,689	1,353,456
Options purchased	10,012	-	-	7,812	-	-
Options written	-	10,012	3,665	-	7,812	3,592
Interest rate swaps	155,670	203,109	161,946	394,072	86,832	152,239
Currency swaps	637,358	10,261	239,540	652,195	290,909	278,563
Equity options purchased/ issued	2,810	199	-	-	-	-
Equity swaps	199	2,810	2,921	-	-	-
	<u>1,890,971</u>	<u>1,122,972</u>	<u>1,523,376</u>	<u>2,756,470</u>	<u>2,142,242</u>	<u>1,787,850</u>

As at June 30, 2019 and December 31, 2018, the credit risk weighted amount was calculated in accordance with the Capital Rules and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 20% to 100% (December 31, 2018: 20% to 100%) for all derivatives.

Derivative financial instruments are presented in net when there is legally enforceable right to set off the recognised amounts, and there is an intention to settle them on a net basis or realise the asset and settle the liability simultaneously. As at June 30, 2019, no derivative financial instruments have fulfilled the above criteria, and therefore no derivative financial instruments were offset on the statement of financial position (December 31, 2018: Nil).

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(24) DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(d) Fair values of derivatives designated as hedging instruments

	June 30, 2019		December 31, 2018	
	Assets	Liabilities	Assets	Liabilities
Interest rate contracts	<u>86,672</u>	<u>152,587</u>	<u>347,621</u>	<u>82,049</u>

Fair value hedges

Fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of available for sale debt securities held, certificates of deposit, medium term notes and sub-ordinated debts issued due to movements in market interest rates. As at June 30, 2019, the net fair value of interest rate swaps was liabilities of \$65,915 while at December 31, 2018, the net fair value of interest rate swaps was assets of \$265,572.

(25) FIXED ASSETS

	Buildings	Leasehold improvements	Furniture and equipment	Total
Cost:				
As at January 1, 2019	2,818,069	586,626	1,019,932	4,424,627
Additions	-	10,190	86,525	96,715
Disposals	-	(2,085)	(175)	(2,260)
As at June 30, 2019	<u>2,818,069</u>	<u>594,731</u>	<u>1,106,282</u>	<u>4,519,082</u>
Accumulated depreciation:				
As at January 1, 2019	525,308	428,431	801,508	1,755,247
Charge for the period	38,907	37,388	68,092	144,387
Disposals	-	(2,085)	(114)	(2,199)
As at June 30, 2019	<u>564,215</u>	<u>463,734</u>	<u>869,486</u>	<u>1,897,435</u>
Net book value:				
As at June 30, 2019	<u>2,253,854</u>	<u>130,997</u>	<u>236,796</u>	<u>2,621,647</u>

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(25) FIXED ASSETS (CONTINUED)

	Leasehold land (*)	Buildings	Leasehold improvements	Furniture and equipment	Total
Cost:					
As at January 1, 2018	610,110	2,806,556	566,136	877,860	4,860,662
Additions	-	11,513	32,286	147,836	191,635
Disposals	-	-	(11,796)	(5,764)	(17,560)
As at December 31, 2018	<u>610,110</u>	<u>2,818,069</u>	<u>586,626</u>	<u>1,019,932</u>	<u>5,034,737</u>
Accumulated depreciation:					
As at January 1, 2018	76,514	445,953	354,254	658,846	1,535,567
Charge for the year	2,015	79,355	84,583	148,211	314,164
Disposals	-	-	(10,406)	(5,549)	(15,955)
As at December 31, 2018	<u>78,529</u>	<u>525,308</u>	<u>428,431</u>	<u>801,508</u>	<u>1,833,776</u>
Net book value:					
As at December 31, 2018	<u>531,581</u>	<u>2,292,761</u>	<u>158,195</u>	<u>218,424</u>	<u>3,200,961</u>

(*) All leasehold land are held under finance leases.

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(26) RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The carrying amounts and the movement during the period of the Group's right-of-use assets and lease liabilities, are as follow:

	Right-of-use assets				Lease liabilities
	Leasehold land	Buildings	Equipment	Total	Total
As at January 1, 2019	531,581	1,858,502	41,486	2,431,569	1,954,697
Additions	-	13,331	1,549	14,880	14,880
Remeasurement	-	(60,812)	-	(60,812)	(60,812)
Depreciation charge	(1,007)	(123,043)	(4,811)	(128,861)	-
Interest expense	-	-	-	-	32,800
Payment	-	-	-	-	(140,223)
As at June 30, 2019	530,574	1,687,978	38,224	2,256,776	1,801,342

The Group recognised rental expenses from short-term leases and leases of low-value assets of \$25,712 for the six months ended June 30, 2019.

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(27) DEPOSITS AND BALANCES OF BANKS

	June 30, 2019	December 31, 2018
Deposits from banks	2,414,109	1,729,630
Takings from banks	22,143,791	30,437,773
	<u>24,557,900</u>	<u>32,167,403</u>

(28) DEPOSITS FROM CUSTOMERS

	June 30, 2019	December 31, 2018
Demand deposits and current accounts	24,694,374	31,115,147
Savings deposits	67,280,800	64,736,188
Time and call deposits	268,572,878	257,573,125
Other deposits	518,804	705,419
	<u>361,066,856</u>	<u>354,129,879</u>

(29) FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

Financial assets sold under repurchase agreements by underlying assets are shown as follows:

	June 30, 2019	December 31, 2018
Government bonds	-	2,420,859
	<u>-</u>	<u>2,420,859</u>

(30) FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	June 30, 2019	December 31, 2018
Structured deposits	246,296	-
	<u>246,296</u>	<u>-</u>

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(31) OTHER DEBT SECURITIES ISSUED

	June 30, 2019	December 31, 2018
Other debt securities issued at amortised cost	9,737,707	9,778,000
Other debt securities issued at fair value	-	2,404,220
Other debt securities under fair value hedge	2,343,823	2,333,689
	12,081,530	14,515,909

As at June 30, 2019, the fair values of other debt securities issued at amortised cost were at \$9,808,053 (December 31, 2018: \$9,797,381).

(32) OTHER EQUITY INSTRUMENTS

Nominal value	Description	June 30, 2019	December 31, 2018
USD1 billion	Fixed rate perpetual capital instrument callable from December 29, 2022	7,811,732	7,811,732

The additional tier 1 capital instruments are perpetual and subordinated, and the coupon payments may be cancelled at the sole discretion of the Group. The capital instruments will be written down at the point of non-viability on the occurrence of a trigger event as defined in the Banking (Capital) Rule. They rank higher than ordinary shares in the event of a winding-up.

(33) RESERVES

	June 30, 2019	December 31, 2018
Regulatory reserve (note i)	704,042	576,966
Investment revaluation reserve	221,590	(173,930)
Merger reserve	62,262	62,262
Other reserve	15,913	15,913
General reserve (note ii)	750,956	750,956
Retained earnings	26,104,480	24,606,262
	27,859,243	25,838,429

All reserves, except for general reserve and retained profits, are not available for distribution.

- (i) Regulatory reserve comprises reserves maintained in accordance with Hong Kong regulations. It includes a regulatory reserve of \$704,042 (December 31, 2018: \$576,966) to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes. Movement in this reserve is made directly through retained profits and in consultation with HKMA.
- (ii) General reserve is appropriated from the retained profits for future use.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENTS (CONTINUED)

(34) CONTINGENT LIABILITIES AND COMMITMENTS

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

	June 30, 2019	December 31, 2018
Direct credit substitutes	602,948	628,195
Transaction-related contingencies	6,363,719	8,365,482
Trade-related contingencies	1,373,872	1,040,083
Other commitments:		
which are unconditionally cancellable or automatically cancellable due to the deterioration in the credit worthiness of the borrower	52,569,480	53,713,318
with an original maturity up to one year	2,334,982	836,818
with an original maturity over one year	26,799,389	24,025,892
	90,044,390	88,609,788

Contingent liabilities and commitments are credit-related instruments which include letter of credits, guarantees and commitments to extend credit. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for the loans. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client defaults. As the facilities may expire without being drawn upon, the contractual amounts do not represent expected future cash flows.

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(35) MATERIAL RELATED PARTY TRANSACTIONS

During the period, the Group entered into transactions with related parties in the normal course of its banking business including lending, acceptance and placement of inter-bank deposits, correspondent banking transactions, securities brokerage and derivative transactions. The transactions were priced at the relevant market rates at the time of each transaction.

The amount of material related party transactions during the period and outstanding balances at the reporting date are set out below:

	Intermediate holding company		Fellow subsidiaries		Associate	
	For the six months ended	For the six months ended	For the six months ended	For the six months ended	For the six months ended	For the six months ended
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Interest income	433,469	394,490	54,348	71,835	-	-
Interest expense	135,756	170,770	20,380	3,745	10,392	5,306
Fees and commission income	263,387	263,117	-	-	-	-
Fees and commission expense	9,545	16,324	-	-	-	-
Other operating income	10,106	23,531	-	-	-	-
Operating expenses	169	118	-	-	-	-
	As at June 30, 2019	As at December 31, 2018	As at June 30, 2019	As at December 31, 2018	As at June 30, 2019	As at December 31, 2018
Amounts due from:						
Cash and balances with banks and central banks	29,196,811	30,839,686	-	-	-	-
Placements with banks	26,312,518	13,807,830	-	-	-	-
Advances to banks	1,921,965	-	-	-	-	-
Advance to customers and trade bills	99,398	42,194	1,563,402	1,317,425	-	-
Financial assets held under resale agreements	-	1,514,983	-	-	-	-
Financial assets measured at fair value through other comprehensive income	936,138	929,240	1,302,733	1,900,521	-	-
Derivative financial instruments	145,881	311,943	-	-	-	-
Other assets	3,916,687	656,074	15,209	26,458	-	-
Amounts due to:						
Deposits and balances of banks	23,719,725	29,379,049	159,634	6,475	-	-
Deposits from customers	2,850	2,849	3,992,900	5,902,536	749,904	614,342
Financial assets sold under repurchase agreements	-	2,420,859	-	-	-	-
Derivative financial instruments	57,907	317,562	-	-	-	-
Other liabilities	2,741,911	2,682,674	10,708	4,987	9,887	8,293

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(35) MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

The amount of material related party transactions during the period and outstanding balances at the reporting date are set out below: (continued)

	Intermediate holding company		Fellow subsidiaries		Associate	
	As at June 30, 2019	As at December 31, 2018	As at June 30, 2019	As at December 31, 2018	As at June 30, 2019	As at December 31, 2018
Contingencies and commitments:						
Direct credit substitutes	85,000	85,000	-	-	-	-
Transaction-related contingencies	11,346	19,299	-	-	-	-
Other commitments	-	-	1,757,620	2,210,770	-	-
Derivative financial instrument: (notional amount)						
Exchange rate contracts	57,232,161	67,325,878	-	-	-	-
Interest rate swaps	1,284,981	273,560	-	-	-	-

(36) DISCONTINUED OPERATION

On December 14, 2018, the directors of CCB Hong Kong Property Management Company Limited ("CCBPM") made an assessment of the ability of CCBPM to continue as going concern. It is the intention of the directors to liquidate CCBPM after December 14, 2018 subject to the approval of shareholders.

The financial performance and net cash flows of this discontinued operation for the period of six month ended June 30, 2019 and June 30, 2018 are nil.

(37) EVENTS AFTER THE REPORTING PERIOD

On August 20, 2019, the Group has exercised the option to redeem the subordinated debt issued in August 2014, bearing a fixed interest rate of 4.25% per annum and with an aggregate nominal amount of USD750 million.

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SUPPLEMENTARY FINANCIAL INFORMATION

(1) OVERDUE AND RESCHEDULED ASSETS

(a) Gross advances to customers overdue for more than three months

	<u>June 30, 2019</u>		<u>December 31, 2018</u>	
		% on total advances to customers		% on total advances to customers
Six months or less but over three months	39,480	0.01	78,691	0.03
One year or less but over six months	75,145	0.03	16,323	0.01
Over one year	146,562	0.05	111,048	0.04
Total gross amount of advances overdue for more than three months	<u>261,187</u>	<u>0.09</u>	<u>206,062</u>	<u>0.08</u>
Expected credit losses allowances made in respect of the above overdue advances	<u>175,520</u>		<u>142,613</u>	
Net realisable value of collateral held against the overdue advances	<u>104,183</u>		<u>132,400</u>	
Covered portion of overdue advances	104,183		132,400	
Uncovered portion of overdue advances	<u>157,004</u>		<u>73,662</u>	
	<u>261,187</u>		<u>206,062</u>	

As at June 30, 2019, collaterals held with respect of overdue advances to customers was mainly residential properties (December 31, 2018: residential properties).

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SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(1) OVERDUE AND RESCHEDULED ASSETS (CONTINUED)

(b) Gross trade bills overdue for more than three months

	<u>June 30, 2019</u>		<u>December 31, 2018</u>	
		% on total trade bills		% on total trade bills
Six months or less but over three months	-	-	-	-
One year or less but over six months	-	-	-	-
Over one year	<u>3,045</u>	<u>0.23</u>	<u>3,052</u>	<u>1.45</u>
Total gross amount of trade bills overdue for more than three months	<u>3,045</u>	<u>0.23</u>	<u>3,052</u>	<u>1.45</u>
Expected credit losses allowances made in respect of the above overdue trade bills	<u>3,045</u>		<u>3,052</u>	
Net realisable value of collateral held against the overdue trade bills	<u>-</u>		<u>-</u>	
Covered portion of overdue trade bills	-		-	
Uncovered portion of overdue trade bills	<u>3,045</u>		<u>3,052</u>	
	<u>3,045</u>		<u>3,052</u>	

As at June 30, 2019 and December 31, 2018, there were no overdue advances to banks.

(c) Rescheduled advances to customers

	<u>June 30, 2019</u>		<u>December 31, 2018</u>	
		% on total advances to customers		% on total advances to customers
Rescheduled advances to customers	<u>57,353</u>	<u>0.02</u>	<u>56,346</u>	<u>0.02</u>

Rescheduled advances are those advances which have been restructured or renegotiated because of deterioration in the financial position of the borrower, or the inability of the borrower to meet the original repayment schedule and for which the revised payment terms are non-commercial to the Bank. The rescheduled advances are stated net of any advances that have subsequently become overdue for over three months and reported as overdue advances as above.

As at June 30, 2019 and December 31, 2018, there were no rescheduled advances to banks and trade bills.

(d) Other overdue and rescheduled assets

As at June 30, 2019 and December 31, 2018, there were no other overdue and rescheduled assets.

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SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(2) GROSS ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS

	<u>June 30, 2019</u>		<u>December 31, 2018</u>	
	Outstanding balance	% of advances covered by collateral	Outstanding balance	% of advances covered by collateral
Advances for use in Hong Kong				
Industrial, commercial and financial				
Property development	18,029,989	89.09	18,744,581	94.75
Property investment	29,714,025	93.31	32,567,682	83.04
Financial concerns	36,747,055	48.21	33,809,319	72.73
Stockbrokers	957,774	0.02	1,070,347	93.46
Wholesale and retail trade	5,583,695	89.18	5,549,307	67.52
Manufacturing	5,722,192	80.65	4,767,472	43.62
Transport and transport equipment	7,032,990	86.29	8,326,221	76.18
Recreational activities	32,810	100.00	354,518	8.84
Information technology	5,714,110	56.79	3,190,770	98.41
Others	20,163,005	49.19	13,545,491	51.81
	129,697,645		121,925,708	
Individuals				
Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	3,339	100.00	3,699	100.00
Loans for the purchase of other residential properties	16,368,755	100.00	16,633,839	99.58
Credit card advances	4,159,132	0.00	4,324,556	0.00
Others	16,105,713	16.22	17,982,997	33.27
	36,636,939		38,945,091	
Trade finance	3,442,985	83.91	3,722,133	51.57
Advances for use outside Hong Kong	98,161,486	65.58	92,020,855	74.25
Gross advances to customers	267,939,055	65.92	256,613,787	72.31

Hong Kong, September 20, 2019