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創興銀行有限公司 Chong Hing Bank Limited

*(a Hong Kong-incorporated limited liability company)
(Stock Code: 01111)*

2013 INTERIM RESULTS

RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2013

Highlights

- Net operating profit before impairment was HK\$335 million and improved by 30.4% from the corresponding period in previous year
- Profit attributable to shareholders amounted to HK\$276 million, an increase of 6% over that for the corresponding period in previous year, translating into earnings of HK\$0.64 per share and annualised return on equity of 7.4%
- Net interest income increased by 18.8% as total assets rose by 2.3% year on year and net interest margin widened 13 basis points from 1.06% for the first half of 2012 to 1.19%. Net interest margin continued to improve and rose by 6 basis points from the second half of 2012
- Net fee and commission income increased by 15.2% year on year
- Net losses on financial instruments at fair value through profit or loss were HK\$116 million in the first half of 2013 and included revaluation losses on foreign currency forward contracts of HK\$124 million which should be offset by net exchange gains and net gains from foreign currency contracts of HK\$159 million included under other operating income. The Bank entered into these contracts mainly to exploit interest income with little or no exchange risk
- Total loans and advances to customers increased by 8.8% in the first half of 2013 to HK\$42,625 million. Through ongoing close monitoring, the quality of loans and advances continued to be good with impaired loan ratio continued to be at a considerably low level of 0.08% and rescheduled loan ratio at 0.62%, while provision coverage of impaired loans and advances stood at a solidly comfortable level of 637.35%
- New impairment allowances on loans and advances increased by HK\$23 million year on year to HK\$28 million in the first half of 2013 mainly in collective impairment allowances
- Capital adequacy ratio decreased from 15.34% in December 2012 to 14.63% in June 2013 after the increases in advances to customers and investments in debt securities, the Tier 1 capital ratio was at 10.79% and the Common Equity Tier 1 capital ratio was also at 10.79%
- The Bank's core business lines and overall financial health are strong and sound, overall asset quality good, impaired loan ratio low, provision coverage high, and capital adequacy and liquidity ratios well above the relevant statutory requirements
- An interim cash dividend of HK\$0.14 per share is declared for the six months ended 30 June 2013 (2012 interim cash dividend: HK\$0.11 per share)

The Board of directors of Chong Hing Bank Limited (the “Bank”) are pleased to announce the unaudited consolidated results of the Bank and its subsidiaries (the “Group”) for the six months ended 30 June 2013, together with the comparative figures for the last correspondence period. The financial information in this results announcement is extracted from the interim financial information for the six months ended 30 June 2013. The interim financial information is unaudited, but has been reviewed by Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Equity” issued by the Hong Kong Institute of Certified Public Accountants, and the Bank’s Audit Committee.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2013

		Six months ended 30 June		
		2013	2012	
		HK\$'000	HK\$'000	Variance
	Notes	(Unaudited)	(Unaudited)	%
Interest income		762,101	782,675	-2.63
Interest expense		(286,363)	(382,124)	-25.06
Net interest income	6	475,738	400,551	+18.77
Fee and commission income		140,228	122,059	+14.89
Fee and commission expenses		(34,351)	(30,182)	+13.81
Net fee and commission income	7	105,877	91,877	+15.24
Net (losses) gains on financial instruments				
at fair value through profit or loss	8	(116,056)	28,358	-509.25
Net (losses) gains on fair value hedge	8	(262)	727	-136.04
Other operating income	9	228,147	122,660	+86.00
Operating expenses	10	(358,253)	(387,075)	-7.45
		335,191	257,098	+30.37
Impairment allowances on loans and advances				
- New allowances		(28,269)	(4,716)	+499.43
- Amounts reversed		10,677	39,148	-72.73
		(17,592)	34,432	-151.09
Net losses on disposal of property and equipment		(978)	(8)	+12,125.00
Net gains on disposal of available-for-sale securities		51	468	-89.10
Net gains on disposal of and fair value adjustments on				
investment properties	20	4,237	6,646	-36.25
Share of profits of associates		8,348	10,387	-19.63
Profit before taxation		329,257	309,023	+6.55
Taxation	12			
- Hong Kong		(43,691)	(39,828)	+9.70
- Overseas		(9,093)	(9,006)	+0.97
- Deferred tax		(166)	(440)	-62.27
		(52,950)	(49,274)	+7.46
Profit for the period - attributable to owners of the Bank		276,307	259,749	+6.37
Earnings per share - basic	13	HK\$0.64	HK\$0.60	+6.37

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2013

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit for the period	<u>276,307</u>	<u>259,749</u>
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation	8,268	(3,628)
Fair value (losses) gains on available-for-sale securities arising during the period	(70,701)	66,158
Share of other comprehensive (expense) income of associates	(230)	250
Amount reclassified to the profit or loss upon disposal of available-for-sale securities	(51)	(468)
Income tax effect relating to disposal of available-for-sale securities	8	77
Income tax effect relating to fair value change of available-for-sale securities	<u>11,873</u>	<u>(10,733)</u>
Other comprehensive (expenses) income for the period (net of tax)	<u>(50,833)</u>	<u>51,656</u>
Total comprehensive income for the period	<u>225,474</u>	<u>311,405</u>
Total comprehensive income for the period attributable to:		
Owners of the Bank	<u>225,474</u>	<u>311,405</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2013

	Notes	30 June 2013 HK\$'000 (Unaudited)	31 December 2012 HK\$'000 (Audited)	Variance %
Assets				
Cash and short-term funds	15	11,960,197	17,331,877	-30.99
Placements with banks and other financial institutions maturing between one to twelve months		8,423,633	4,789,513	+75.88
Derivative financial instruments	16	107,669	187,911	-42.70
Financial assets at fair value through profit or loss	17	91,350	1,213,410	-92.47
Available-for-sale securities	17	4,567,204	4,222,217	+8.17
Held-to-maturity securities	17	11,556,974	9,600,020	+20.38
Advances and other accounts	19	43,665,018	42,109,218	+3.69
Interests in associates		186,888	182,970	+2.14
Investment properties	20	136,162	135,318	+0.62
Property and equipment	21	913,939	928,380	-1.56
Prepaid lease payments for land	22	2,417	2,423	-0.25
Deferred tax assets	27	1,475	1,502	-1.80
Goodwill	11	50,606	50,606	-
Total assets		81,663,532	80,755,365	+1.12
Liabilities				
Deposits and balances of banks and other financial institutions		2,080,049	1,843,477	+12.83
Financial assets sold under repurchase agreements	23	437,349	433,681	+0.85
Deposits from customers	24	68,755,915	67,508,748	+1.85
Certificates of deposit	25	177,511	667,636	-73.41
Derivative financial instruments	16	194,445	248,656	-21.80
Other accounts and accruals		707,528	740,229	-4.42
Current tax liabilities		57,449	16,327	+251.87
Loan capital	26	1,794,150	1,898,957	-5.52
Deferred tax liabilities	27	11,832	23,574	-49.81
Total liabilities		74,216,228	73,381,285	+1.14
Equity attributable to owners of the Bank				
Share capital		217,500	217,500	-
Reserves		7,229,804	7,156,580	+1.02
Total equity		7,447,304	7,374,080	+0.99
Total liabilities and equity		81,663,532	80,755,365	+1.12

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2013

		Share capital	Share premium	Goodwill	Investment revaluation reserve	General reserve	Translation reserve	Regulatory reserve	Retained profits	Total
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2013		217,500	1,542,817	(182)	187,327	1,388,500	26,236	387,000	3,624,882	7,374,080
Profit for the period		-	-	-	-	-	-	-	276,307	276,307
Other comprehensive (expense) income for the period		-	-	-	(59,101)	-	8,268	-	-	(50,833)
Total comprehensive (expense) income for the period		-	-	-	(59,101)	-	8,268	-	276,307	225,474
Final dividend for financial year 2012	14	-	-	-	-	-	-	-	(152,250)	(152,250)
Earmark of retained profits as regulatory reserve		-	-	-	-	-	-	36,000	(36,000)	-
At 30 June 2013 (unaudited)		217,500	1,542,817	(182)	128,226	1,388,500	34,504	423,000	3,712,939	7,447,304
At 1 January 2012		217,500	1,542,817	(182)	33,807	1,388,500	21,648	408,000	3,260,642	6,872,732
Profit for the period		-	-	-	-	-	-	-	259,749	259,749
Other comprehensive income (expense) for the period		-	-	-	55,284	-	(3,628)	-	-	51,656
Total comprehensive income (expense) for the period		-	-	-	55,284	-	(3,628)	-	259,749	311,405
Final dividend for financial year 2011	14	-	-	-	-	-	-	-	(152,250)	(152,250)
Release of regulatory reserve to retained profits		-	-	-	-	-	-	(12,000)	12,000	-
At 30 June 2012 (unaudited)		217,500	1,542,817	(182)	89,091	1,388,500	18,020	396,000	3,380,141	7,031,887

The retained profits of the Group included retained profits of HK\$70,712,000 (30 June 2012: retained profits of HK\$48,283,000) retained by the associates of the Group.

The regulatory reserve is set up in compliance with the Hong Kong Monetary Authority's requirements and is distributable to the shareholders of the Bank subject to consultation with the Hong Kong Monetary Authority (the "HKMA").

The general reserve comprises transfers from previous years' retained profits.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 30 June 2013

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES		
Profit before taxation	329,257	309,023
Adjustments for:		
Net interest income	(475,738)	(400,551)
Net charge (reversal) of impairment allowances on loans and advances	17,592	(34,432)
Net losses on disposal of property and equipment	978	8
Net gains on disposal of available-for-sale securities	(51)	(468)
Net gains on disposal of and fair value adjustments on investment properties	(4,237)	(6,646)
Share of profits of associates	(8,348)	(10,387)
Net losses (gains) on fair value hedge	262	(727)
Dividend income from investments	(5,246)	(6,036)
Depreciation	27,787	29,175
Release of prepaid lease payments for land	33	33
Exchange adjustments	8,745	(5,170)
Operating cash flows before movements in operating assets and liabilities	(108,966)	(126,178)
Decrease (increase) in operating assets:		
Money at call and short notice with original maturity over three months	1,332,145	263,579
Exchange fund bills with original maturity over three months	50,028	(56)
Placements with banks and other financial institutions with original maturity over three months	(4,116,070)	(661,431)
Financial assets at fair value through profit or loss	1,122,060	329,766
Bills receivable	(76,519)	10,376
Trade bills	(206,910)	101,568
Other advances to customers	(3,149,892)	1,004,711
Advances to banks and other financial institutions	1,746,471	(2,152,219)
Other accounts	63,246	(72,184)
(Decrease) increase in operating liabilities:		
Deposits and balances of banks and other financial institutions with original maturity over three months	(771,531)	1,388,924
Financial assets sold under repurchase agreements	3,668	(53,677)
Deposits from customers	1,247,167	193,295
Certificates of deposit	(490,125)	70,015
Derivative financial instruments	39,156	(88,161)
Other accounts and accruals	(13,113)	70,034
Cash (used in) generated from operations	(3,329,185)	278,362
Hong Kong Profits Tax paid	(2,486)	(5,640)
Overseas tax paid	(9,176)	(9,006)
Interest received	641,460	622,913
Interest paid	(273,295)	(324,545)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(2,972,682)	562,084

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS - continued

for the six months ended 30 June 2013

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
INVESTING ACTIVITIES		
Interest received on available-for-sale securities and held-to-maturity securities	170,783	112,589
Dividends received on investments	5,246	6,036
Dividends received from associates	4,200	—
Purchase of held-to-maturity securities	(12,987,556)	(10,512,040)
Purchase of available-for-sale securities	(535,943)	(1,048,593)
Purchase of property and equipment	(14,479)	(62,141)
Proceeds from redemption of held-to-maturity securities	11,030,602	8,101,919
Proceeds from sale and redemption of available-for-sale securities	199	468
Proceeds from disposals of property and equipment	199	3
Proceeds from disposal of investment properties	3,927	4,316
NET CASH USED IN INVESTING ACTIVITIES	(2,322,822)	(3,397,443)
FINANCING ACTIVITIES		
Interest paid on loan capital	(31,806)	(32,820)
Dividends paid	(152,250)	(152,250)
NET CASH USED IN FINANCING ACTIVITIES	(184,056)	(185,070)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,479,560)	(3,020,429)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	14,868,955	17,092,730
CASH AND CASH EQUIVALENTS AT 30 JUNE	9,389,395	14,072,301
Represented by:		
Cash and balances with banks and other financial institutions	3,597,412	5,646,106
Money at call and short notice with original maturity of three months or less	6,489,238	6,466,078
Exchange fund bills with original maturity of three months or less	49,999	1,799,972
Placements with banks and other financial institutions with original maturity of three months or less	827,166	1,462,188
Deposits and balances of banks and other financial institutions with original maturity of three months or less	(1,574,420)	(1,302,043)
	9,389,395	14,072,301

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2013

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (“HKAS 34”) “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2013 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2012.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants that are relevant for the preparation of the Group’s condensed consolidated financial statements:

- HKFRS 13 Fair Value Measurement;
- Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income;
- Amendments to HKFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities; and
- Amendments to HKFRSs Annual Improvements to HKFRSs 2009-2011 Cycle

HKFRS 13 Fair Value Measurement

The Group has applied HKFRS 13 for the first time in the current interim period. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements, and replaces those requirements previously included in various HKFRSs. Consequential amendments have been made to HKAS 34 to require certain disclosures to be made in the interim condensed consolidated financial statements.

The scope of HKFRS 13 is broad, and applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions. HKFRS 13 contains a new definition for “fair value” and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

In accordance with the transitional provisions of HKFRS 13, the Group has applied the new fair value measurement and disclosure requirements prospectively. Disclosures of fair value information of financial instruments are set out in note 4.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2013

2. PRINCIPAL ACCOUNTING POLICIES - continued

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 introduce new terminology for the statement of comprehensive income and the income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements.

However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

Amendments to HKFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement. Disclosures are set out in note 5.

Except as described above, the application of the other new or revised HKFRSs in the current interim period has had no material effect on the amounts reported and / or disclosures set out in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

The Group's operating segments, which are also the reportable segments, based on information regularly reviewed by the chief operating decision maker (Executive Committee of the Group) for the purpose of allocating resources to segments and assessing their performance on business divisions of the Group, are as follows:

1. Corporate and retail banking
2. Treasury activities
3. Securities business
4. Others comprising investment holding, insurance, other investment advisory services and property investments.

No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2013

3. SEGMENT INFORMATION - continued

The following is an analysis of the Group's revenue and results by reportable and operating segment for the periods under review:

Six months ended 30 June 2013

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	501,680	258,484	1,937	–	–	762,101
Interest expense to external customers	(238,428)	(47,935)	–	–	–	(286,363)
Inter-segment interest income (Note 1)	116,010	–	–	–	(116,010)	–
Inter-segment interest expense (Note 1)	–	(116,010)	–	–	116,010	–
Net interest income	379,262	94,539	1,937	–	–	475,738
Fee and commission income	75,788	–	64,440	–	–	140,228
Fee and commission expenses	(34,150)	–	(201)	–	–	(34,351)
Net gains (losses) on financial instruments at fair value through profit or loss	257	(116,268)	–	(45)	–	(116,056)
Net losses on fair value hedge	–	(262)	–	–	–	(262)
Other operating income	45,015	158,881	–	24,251	–	228,147
Segment revenue						
Total operating income	466,172	136,890	66,176	24,206	–	693,444
Comprising:						
- segment revenue from external customers	350,162	252,900	66,176	24,206		
- inter-segment transactions	116,010	(116,010)	–	–		
Operating expenses (Note 2)	(224,714)	(15,010)	(31,932)	(5,441)	–	(277,097)
Net charge of impairment allowances on loans and advances	(17,592)	–	–	–	–	(17,592)
Net losses on disposal of property and equipment	(978)	–	–	–	–	(978)
Net gains on disposal of available-for-sale securities	–	–	–	51	–	51
Net gains on disposal of and fair value adjustments on investment properties	–	–	–	4,237	–	4,237
Segment profit	222,888	121,880	34,244	23,053	–	402,065
Unallocated corporate expenses						(81,156)
Share of profits of associates						8,348
Profit before taxation						329,257

Notes: 1. Inter-segment pricing for funding transactions is charged at prevailing customer deposits interest rates.

2. The difference between the operating expenses in the condensed consolidated statement of profit or loss and the operating expenses in the operating segments is the unallocated corporate expenses.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2013

3. SEGMENT INFORMATION - continued

As at 30 June 2013

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Consolidated HK\$'000
Assets					
Segment assets	47,417,846	32,976,737	269,528	444,050	81,108,161
Interests in associates					186,888
Unallocated corporate assets					368,483
Consolidated total assets					81,663,532
Liabilities					
Segment liabilities	69,037,905	4,743,555	196,649	77,287	74,055,396
Unallocated corporate liabilities					160,832
Consolidated total liabilities					74,216,228

Other information

Six months ended 30 June 2013

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital expenditure	4,888	280	70	79	9,162	14,479
Depreciation	17,642	687	1,805	187	7,466	27,787
Release of prepaid lease payments for land	33	—	—	—	—	33

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2013

3. SEGMENT INFORMATION - continued

Six months ended 30 June 2012

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	503,064	278,642	969	–	–	782,675
Interest expense to external customers	(289,973)	(92,151)	–	–	–	(382,124)
Inter-segment interest income (Note 1)	123,363	–	–	–	(123,363)	–
Inter-segment interest expense (Note 1)	–	(123,363)	–	–	123,363	–
Net interest income	336,454	63,128	969	–	–	400,551
Fee and commission income	65,368	–	56,691	–	–	122,059
Fee and commission expenses	(29,885)	–	(297)	–	–	(30,182)
Net gains on financial instruments at fair value through profit or loss	218	28,105	–	35	–	28,358
Net gains on fair value hedge	–	727	–	–	–	727
Other operating income	39,960	60,328	–	22,372	–	122,660
Segment revenue						
Total operating income	412,115	152,288	57,363	22,407	–	644,173
Comprising:						
- segment revenue from external customers	288,752	275,651	57,363	22,407		
- inter-segment transactions	123,363	(123,363)	–	–		
Operating expenses (Note 2)	(230,296)	(14,289)	(32,904)	(5,225)	–	(282,714)
Net reversal of impairment allowances on loans and advances	34,432	–	–	–	–	34,432
Net losses on disposal of property and equipment	–	–	–	(8)	–	(8)
Net gains on disposal of available-for-sale securities	–	–	–	468	–	468
Net gains on disposal of and fair value adjustments on investment properties	–	–	–	6,646	–	6,646
Segment profit	216,251	137,999	24,459	24,288	–	402,997
Unallocated corporate expenses						(104,361)
Share of profits of associates						10,387
Profit before taxation						309,023

Notes: 1. Inter-segment pricing for funding transactions is charged at prevailing customer deposits interest rates.

2. The difference between the operating expenses in the condensed consolidated statement of profit or loss and the operating expenses in the operating segments is the unallocated corporate expenses.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2013

3. SEGMENT INFORMATION - continued

As at 31 December 2012

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Consolidated HK\$'000
Assets					
Segment assets	48,290,655	31,156,460	232,982	437,396	80,117,493
Interests in associates					182,970
Unallocated corporate assets					454,902
Consolidated total assets					<u>80,755,365</u>
Liabilities					
Segment liabilities	67,818,689	5,172,703	174,138	65,204	73,230,734
Unallocated corporate liabilities					150,551
Consolidated total liabilities					<u>73,381,285</u>

Other information

Six months ended 30 June 2012

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital expenditure	27,903	55	234	36	33,913	62,141
Depreciation	17,673	802	2,856	36	7,808	29,175
Release of prepaid lease payments for land	<u>33</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>33</u>

All direct costs incurred by different segments are grouped under respective segments. Indirect costs and support functions' costs are allocated to various segments and products based on effort and time spent while segments' other operating income is allocated depending on the nature of costs incurred. Costs and support functions' costs and income related to corporate activities that cannot be reasonably allocated to segments or products are grouped as unallocated corporate expenses and unallocated corporate income respectively. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of performance.

There is no operating income with a single external customer amounting to or exceeding 10% of the Group's total operating income.

Assets and liabilities related to corporate activities that cannot be reasonably allocated to segments, products and support functions are grouped as unallocated corporate assets and liabilities. All direct segment assets and liabilities are grouped under respective segments.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2013

3. SEGMENT INFORMATION - continued

Geographical information

Geographical information (including geographical analysis of total segment revenue) is analysed by the Group based on the locations of the principal operations of the branches and subsidiaries which are responsible for reporting the results or booking the assets. Non-current assets presented below are based on the location of the entities' country of domicile which is the same as the location of the non-current assets.

	Six months ended 30 June 2013			As at 30 June 2013			
	Total operating income HK\$'000	Profit before taxation HK\$'000	Capital expenditure during the period HK\$'000	Total assets HK\$'000	Total liabilities HK\$'000	Total contingent liabilities and commitments HK\$'000	Non- current assets HK\$'000
Hong Kong	637,458	284,557	13,709	79,580,719	73,628,936	17,995,003	1,276,982
Macau and Shantou, Mainland China	47,639	39,429	268	1,472,070	535,647	457,745	12,396
America	8,347	5,271	502	610,743	51,645	89,364	601
Total	<u>693,444</u>	<u>329,257</u>	<u>14,479</u>	<u>81,663,532</u>	<u>74,216,228</u>	<u>18,542,112</u>	<u>1,289,979</u>

	Six months ended 30 June 2012			As at 31 December 2012			
	Total operating income HK\$'000	Profit before taxation HK\$'000	Capital expenditure during th period HK\$'000	Total assets HK\$'000	Total liabilities HK\$'000	Total contingent liabilities and commitments HK\$'000	Non- current assets HK\$'000
Hong Kong	591,532	267,533	61,841	78,627,449	72,677,568	18,599,496	1,286,546
Macau and Shantou, Mainland China	44,782	36,361	291	1,533,533	631,873	372,143	12,915
America	7,859	5,129	9	594,383	71,844	10,383	170
Total	<u>644,173</u>	<u>309,023</u>	<u>62,141</u>	<u>80,755,365</u>	<u>73,381,285</u>	<u>18,982,022</u>	<u>1,299,631</u>

Note: Total operating income consists of net interest income, net fee and commission income, net gains (losses) on financial instruments at fair value through profit or loss, net gains (losses) on fair value hedge and other operating income.

Non-current assets consist of interests in associates, investment properties, property and equipment, prepaid lease payments for land (non-current portion) and goodwill.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2013

4. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value measurements recognised in the condensed consolidated statement of financial position

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table and paragraph give information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 30 June 2013

	Fair value hierarchy			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Financial assets held for trading	201	–	–	201
Financial assets designated at fair value through profit or loss	–	91,149	–	91,149
Available-for-sale securities				
Equity securities	195,126	–	1,451	196,577
Other debt securities	–	4,330,389	4,169	4,334,558
Derivative financial assets not used for hedging	–	2,359	–	2,359
Derivative financial assets used for hedging	–	105,310	–	105,310
Derivative financial liabilities not used for hedging	–	(140,291)	–	(140,291)
Derivative financial liabilities used for hedging	–	(54,154)	–	(54,154)
Total	<u>195,327</u>	<u>4,334,762</u>	<u>5,620</u>	<u>4,535,709</u>

There were no transfers between Levels 1, 2 and 3 during the six-month period ended 30 June 2013.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2013

4. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS - continued

Fair value measurements recognised in the condensed consolidated statement of financial position - continued

Except as detailed in the following table, the directors of the Group consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

At 30 June 2013

	Carrying value HK\$'000	Fair value HK\$'000
Financial assets		
- Held-to-maturity securities	<u>11,556,974</u>	<u>11,570,770</u>
Financial liabilities		
- Loan capital	<u>1,794,150</u>	<u>1,771,024</u>

The fair value of listed securities is determined with reference to quoted market bid prices from relevant stock exchanges.

The fair values of convertible bonds designated as financial assets at fair value through profit or loss, debt securities classified as available-for-sale securities, held-to-maturity securities and loan capital are calculated based on indicative prices provided by pricing service provider, dealers, brokers and other service providers. Valuation models using discounted cash flows are derived to substantiate the indicative prices of the debt securities. Inputs to valuation models are determined from observable market interest rate data, whenever possible.

The fair value of foreign currency forward contracts is measured by comparing the contracted forward rates and the quoted forward exchange rates, which are observable at the end of the reporting period.

The fair value of interest rate swaps and cross-currency interest rate swaps are measured by the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates, which are observable at the end of the reporting period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2013

4. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS - continued

Fair value measurements recognised in the condensed consolidated statement of financial position - continued

Reconciliation of Level 3 fair value measurements of financial assets as at 30 June 2013

	Financial assets designated at fair value through profit or loss HK\$'000	Available- for-sale securities HK\$'000	Total HK\$'000
Balance at 1 January 2013	419,101	2,711	421,812
Total net losses recognised in profit or loss	(493)	–	(493)
Total net gains recognised in other comprehensive income	–	2,909	2,909
Disposals	<u>(418,608)</u>	<u>–</u>	<u>(418,608)</u>
Balance at 30 June 2013	<u>–</u>	<u>5,620</u>	<u>5,620</u>

Included in other comprehensive income is an amount of HK\$2,909,000 related to equity and other debt securities classified as available-for-sale held at the end of the current reporting period and reported as fair value gains on available-for-sale securities arising during the period.

The majority of the Group's investments are valued based on quoted market information or observable market data. A small percentage, 0.01% of total assets recorded at fair value, are based on estimates and recorded as Level 3 investments. Whilst such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not have a material impact on the Group's financial position.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2013

5. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group has financial assets and financial liabilities that:

- are offset in the Group's condensed consolidated statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the condensed consolidated statement of financial position.

The Group entered into International Swaps and Derivatives Association ("ISDA") Master Agreements and Global Master Repurchase Agreements ("GMRA") for derivatives and sale and repurchase agreements. In addition, the Group receives and pledges collateral in the form of cash in respect of its derivative transactions and sale and repurchase agreements. Such collateral is subject to the standard industry terms of ISDA Credit Support Annex or GMRA. Collateral received or pledged must be returned on maturity of the transactions, giving each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral.

Under the Continuous Net Settlement, money obligations receivable and payable with the Hong Kong Securities Clearing Company Limited on the same settlement date are settled on a net basis.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2013

6. NET INTEREST INCOME

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
Interest income		
Balances and placements with banks and other financial institutions	119,853	168,401
Investments in securities	146,717	135,176
Loans and advances	481,028	435,549
Interest rate swaps	14,503	43,549
	<u>762,101</u>	<u>782,675</u>
Interest expense		
Deposits and balances from banks and customers	(244,436)	(299,790)
Financial assets sold under repurchase agreements	(928)	(3,759)
Certificates of deposit	(2,408)	(17,861)
Loan capital	(31,761)	(33,653)
Interest rate swaps	(6,830)	(27,061)
	<u>(286,363)</u>	<u>(382,124)</u>
Net interest income	<u>475,738</u>	<u>400,551</u>
Included within interest income		
Interest income on impaired loans and advances	<u>99</u>	<u>312</u>

Included within interest income and interest expense are HK\$749,420,000 (2012: HK\$735,029,000) and HK\$279,533,000 (2012: HK\$355,063,000) earned and incurred from financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

Included above is interest income from unlisted investments in debt securities of HK\$146,717,000 (2012: HK\$135,176,000).

7. NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
Fee and commission income		
Securities dealings	64,440	56,691
Credit lines	7,799	7,445
Trade finance	5,829	5,425
Credit card services	37,137	32,863
Agency services	17,219	12,095
Others	7,804	7,540
Total fee and commission income	<u>140,228</u>	<u>122,059</u>
Less: Fee and commission expenses	<u>(34,351)</u>	<u>(30,182)</u>
Net fee and commission income	<u>105,877</u>	<u>91,877</u>
Net fee and commission, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities, that are not held for trading nor designed at fair value through profit or loss		
- fee income	54,289	50,438
- fee expenses	<u>(33,956)</u>	<u>(29,645)</u>
	<u>20,333</u>	<u>20,793</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2013

8. NET (LOSSES) GAINS ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS / NET (LOSSES) GAINS ON FAIR VALUE HEDGE

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
Net (losses) gains on financial instruments at fair value through profit or loss		
- designated at fair value through profit or loss (<i>Note 1</i>)	(76,898)	(59,825)
- held for trading (<i>Note 2</i>)	(39,158)	88,183
	<u>(116,056)</u>	<u>28,358</u>
Net (losses) gains on fair value hedge		
- net losses on hedged items attributable to the hedged risk	(13,387)	(21,004)
- net gains on hedging instruments	13,125	21,731
	<u>(262)</u>	<u>727</u>

Notes: 1. The net losses on financial instruments designated at fair value through profit or loss in both periods were primarily attributable to the changes in fair value of the structured products and the convertible bonds.

2. The net (losses) gains mainly related to foreign currency forward contracts, interest rate swaps and a cross-currency interest rate swap held for trading. Details of the outstanding contracts are set out in note 16. The net losses for the six months ended 30 June 2013 included revaluation losses on the foreign currency forward contracts of HK\$124 million which should be offset by net exchange gains and net gains from foreign currency contracts of HK\$159 million included under other operating income. The Bank entered into these contracts mainly to exchange surplus funds from customer deposits in Australian dollars and New Zealand dollars into United States dollars, which created the spot positions, and placed them in the interbank market to earn extra return for the Bank. The foreign exchange risk was covered by entering into foreign currency forward contracts which matched the maturity dates of the interbank placements. The spot positions and forward contracts were revalued and disclosed separately as required by the accounting standards.

9. OTHER OPERATING INCOME

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
Dividend income		
- Listed investments	2,446	3,336
- Unlisted investments	2,800	2,700
	5,246	6,036
Net exchange gains and net gains from foreign currency contracts	158,881	60,328
Gross rents from investment properties	8,452	6,028
Less: Outgoings	(543)	(524)
Net rental income	7,909	5,504
Safe deposit box rentals	19,072	16,366
Insurance underwriting premium less claims and commission expense	11,095	10,616
Other banking services income	24,411	22,220
Others	1,533	1,590
	<u>228,147</u>	<u>122,660</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2013

10. OPERATING EXPENSES

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
Auditor's remuneration	2,033	1,950
Staff costs (including directors' emoluments)		
- Salaries and other costs	214,506	209,466
- Retirement benefits scheme contributions	15,508	15,189
Total staff costs	230,014	224,655
Depreciation	27,787	29,175
Release of prepaid lease payments for land	33	33
Premises and equipment expenses, excluding depreciation / release of prepaid lease payments for land:		
- Rentals and rates for premises	20,430	21,574
- Others	9,568	10,629
Other operating expenses	68,388	99,059
	<u>358,253</u>	<u>387,075</u>

Included in the premises and equipment expenses are minimum lease payments under operating leases of HK\$16,842,000 (2012: HK\$18,138,000).

11. IMPAIRMENT LOSS ON GOODWILL

For the six-month period ended 30 June 2013, the management has reviewed goodwill for impairment testing purposes. The review comprised a comparison of the carrying amount and the value in use of an acquired subsidiary (the cash-generating unit) to which the goodwill has been allocated. The acquired subsidiary is involved in the insurance business.

The value in use calculations primarily use cash flow projections based on the five-year financial budgets approved by the management of the subsidiary and with a stable growth beyond the five-year projection period. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget and estimated value. Key assumptions include the expected growth in revenues (growth rate at 3.5% to 4%) and the selection of the discount rate of 12% (2012: 12%).

Value in use is derived by discounting the expected future cash flows.

The management of the Group determines that there was no impairment loss on the goodwill for the six-month period ended 30 June 2013 and 30 June 2012.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2013

12. TAXATION

Hong Kong Profits Tax is calculated at 16.5% (2012: 16.5%) of the estimated assessable profit for the period.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

13. EARNINGS PER SHARE - BASIC

The calculation of basic earnings per share is based on the profit attributable to owners of the Bank of HK\$276,307,000 (2012: HK\$259,749,000) and on 435,000,000 (2012: 435,000,000) ordinary shares in issue during the period.

No diluted earnings per share was presented as there was no potential ordinary shares in issue during both periods.

14. DIVIDENDS

On 24 May 2013, a dividend of HK\$0.35 per share totalling HK\$152,250,000 was paid to shareholders as the final dividend for 2012.

On 24 May 2012, a dividend of HK\$0.35 per share totalling HK\$152,250,000 was paid to shareholders as the final dividend for 2011.

Subsequent to the end of the interim period, the board of directors has declared that a total amount of interim dividend in respect of the financial year ending 31 December 2013 of HK\$60,900,000 (2012: HK\$47,850,000) at a rate of HK\$0.14 (2012: HK\$0.11) per share should be paid to the shareholders of the Bank whose names appear in the Register of Members on 19 September 2013.

15. CASH AND SHORT-TERM FUNDS

	30 June 2013 HK\$'000	31 December 2012 HK\$'000
Cash and balances with banks and other financial institutions	3,597,412	6,060,810
Money at call and short notice	8,064,296	10,472,554
Exchange fund bills	298,489	798,513
	<u>11,960,197</u>	<u>17,331,877</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2013

16. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2013		
	Notional amount HK\$'000	Fair values	
		Assets HK\$'000	Liabilities HK\$'000
Derivatives held for trading			
- Foreign currency forward contracts	5,015,635	760	129,106
- Interest rate swaps	170,000	1,599	11,185
Derivatives designated as hedging instruments			
- Interest rate swaps	5,809,619	105,310	47,573
- Cross-currency interest rate swaps	233,306	—	6,581
		<u>107,669</u>	<u>194,445</u>

	31 December 2012		
	Notional amount HK\$'000	Fair values	
		Assets HK\$'000	Liabilities HK\$'000
Derivatives held for trading			
- Foreign currency forward contracts	6,037,758	16,584	21,380
- Interest rate swaps	796,280	4,562	95,192
- Cross-currency interest rate swap	36,040	—	1,582
Derivatives designated as hedging instruments			
- Interest rate swaps	5,286,864	166,765	120,792
- Cross-currency interest rate swaps	233,306	—	9,710
		<u>187,911</u>	<u>248,656</u>

As at 30 June 2013, the currencies of foreign currency forward buy contracts mainly comprise Hong Kong dollars and Australian dollars (2012: Hong Kong dollars and Australian dollars) and the currencies of foreign currency forward sale contracts mainly comprise United States dollars (2012: Renminbi and United States dollars). As at 30 June 2013 and 31 December 2012, all of these contracts have a settlement date within one year from the end of the reporting period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2013

17. INVESTMENTS IN SECURITIES

	Financial assets at fair value through profit or loss		Available- for-sale securities	Held-to- maturity securities	Total
	Held for trading HK\$'000	Designated at fair value HK\$'000	HK\$'000	HK\$'000	HK\$'000
30 June 2013					
Equity securities:					
Listed in Hong Kong	201	–	186,465	–	186,666
Listed overseas	–	–	8,661	–	8,661
	<u>201</u>	<u>–</u>	<u>195,126</u>	<u>–</u>	<u>195,327</u>
Unlisted	–	–	37,520	–	37,520
	<u>201</u>	<u>–</u>	<u>232,646</u>	<u>–</u>	<u>232,847</u>
Debt securities:					
Certificates of deposit	–	–	–	6,865,282	6,865,282
Convertible bonds	–	91,149	–	–	91,149
Other debt securities - Unlisted	–	–	4,334,558	4,691,692	9,026,250
	<u>–</u>	<u>91,149</u>	<u>4,334,558</u>	<u>11,556,974</u>	<u>15,982,681</u>
Total:					
Listed in Hong Kong	201	–	186,465	–	186,666
Listed overseas	–	–	8,661	–	8,661
Unlisted	–	91,149	4,372,078	11,556,974	16,020,201
	<u>201</u>	<u>91,149</u>	<u>4,567,204</u>	<u>11,556,974</u>	<u>16,215,528</u>
Market value of listed securities:					
Listed in Hong Kong	201	–	186,465	–	186,666
Listed overseas	–	–	8,661	–	8,661
	<u>201</u>	<u>–</u>	<u>195,126</u>	<u>–</u>	<u>195,327</u>
As analysed by issuing entities:					
Central governments and central banks	–	–	–	5,740	5,740
Public sector entities	–	–	55,525	191,759	247,284
Banks and other financial institutions	40	–	356,334	9,836,141	10,192,515
Corporate entities	161	91,149	4,149,413	1,523,334	5,764,057
Others	–	–	5,932	–	5,932
	<u>201</u>	<u>91,149</u>	<u>4,567,204</u>	<u>11,556,974</u>	<u>16,215,528</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2013

17. INVESTMENTS IN SECURITIES - continued

	Financial assets at fair value through profit or loss		Available- for-sale securities	Held-to- maturity securities	Total
	Held for trading HK\$'000	Designated at fair value HK\$'000	HK\$'000	HK\$'000	HK\$'000
31 December 2012					
Equity securities:					
Listed in Hong Kong	261	—	184,012	—	184,273
Listed overseas	—	—	9,055	—	9,055
	261	—	193,067	—	193,328
Unlisted	—	—	35,610	—	35,610
	261	—	228,677	—	228,938
Debt securities:					
Certificates of deposit	—	—	—	3,693,321	3,693,321
Structured products	—	419,101	—	—	419,101
Convertible bonds	—	794,048	—	—	794,048
Other debt securities - Unlisted	—	—	3,993,540	5,906,699	9,900,239
	—	1,213,149	3,993,540	9,600,020	14,806,709
Total:					
Listed in Hong Kong	261	—	184,012	—	184,273
Listed overseas	—	—	9,055	—	9,055
Unlisted	—	1,213,149	4,029,150	9,600,020	14,842,319
	261	1,213,149	4,222,217	9,600,020	15,035,647
Market value of listed securities:					
Listed in Hong Kong	261	—	184,012	—	184,273
Listed overseas	—	—	9,055	—	9,055
	261	—	193,067	—	193,328
As analysed by issuing entities:					
Central governments and central banks	—	—	—	3,382	3,382
Public sector entities	—	—	56,016	196,401	252,417
Banks and other financial institutions	43	419,101	353,885	7,809,345	8,582,374
Corporate entities	218	794,048	3,807,796	1,590,892	6,192,954
Others	—	—	4,520	—	4,520
	261	1,213,149	4,222,217	9,600,020	15,035,647

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2013

17. INVESTMENTS IN SECURITIES - continued

For the equity securities classified as available-for-sale financial instruments, accumulated impairment losses in respect of such equity securities as at 30 June 2013 amounting to HK\$44,879,000 (2012: HK\$44,879,000) has been provided by the Group.

All structured products have been disposed during the six months ended 30 June 2013. As at 31 December 2012, included in structured products are credit linked notes of HK\$419,101,000. The credit linked notes held by the Group bore three-month LIBOR with spreads ranging from 1.3% to 2.0% per annum and maturity dates ranging from 2015 to 2016. The note issuers were not obligated to repay the debt to the Group if the reference entities (rated A1 or above by Moody's as at 31 December 2012) defaulted.

Unlisted equity securities classified as available-for-sale held by the Group amounting to HK\$36,069,000 (2012: HK\$35,571,000) are measured at cost less impairment at the end of the reporting period because the range of reasonable fair estimate is so significant that the management are of the opinion that the fair values cannot be measured reliably, and the management has no plan to dispose the unlisted equity securities. No impairment has been recognised in respect of these securities.

Certain held-to-maturity certificates of deposit of HK\$17,064,000 (2012: HK\$17,054,000) held by the San Francisco Branch of the Bank have been pledged to the State of California of the United States of America in compliance with the requirements of the California Financial Code.

Debt securities classified as held-to-maturity amounting to HK\$5,740,000 (2012: HK\$3,382,000) were issued by the Government of Hong Kong Special Administrative Region and the Government of the People's Republic of China ("PRC").

The convertible bonds and the debt securities classified as available-for-sale securities and held-to-maturity securities held by the Group are mainly guaranteed or issued by corporates and financial institutions from the PRC, Hong Kong and Australia.

The certificates of deposit classified as held-to-maturity securities held by the Group are mainly issued by banks from the PRC, Japan and Hong Kong. Of the above, held-to-maturity certificates of deposit amounting to HK\$2,313,005,000 (2012: HK\$1,731,693,000) and held-to-maturity debt securities amounting to HK\$806,273,000 (2012: HK\$900,850,000) held by the Group are with credit exposures to the PRC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2013

18. TRANSFER OF FINANCIAL ASSETS

The following were the Group's debt securities classified as held-to-maturity and available-for-sale as at 30 June 2013 and 31 December 2012 that were transferred to an entity with terms to repurchase these debt securities at the agreed dates and prices. As the Group has not transferred the significant risks and rewards relating to these debt securities to the entity, the full carrying amount of these debt securities continued to be recognised. The cash received on the transfer was reported as liabilities under "Financial assets sold under repurchase agreements" (see note 23). The transferred debt securities serve as collateral to secure these liabilities. During the covered period, the legal title of the debt securities is transferred to the counterparty entity and there is no restriction for the counterparty entity to sell or repledge the collateral. These debt securities are either measured at amortised cost or carried at fair value in the Group's condensed consolidated statement of financial position.

	30 June 2013		
	Available- for-sale debt securities HK\$'000	Held-to- maturity debt securities HK\$'000	Total HK\$'000
Carrying amount of transferred assets	378,479	117,528	496,007
Carrying amount of associated liabilities (<i>Note 23</i>)	<u>329,313</u>	<u>108,036</u>	<u>437,349</u>

	31 December 2012		
	Available- for-sale debt securities HK\$'000	Held-to- maturity debt securities HK\$'000	Total HK\$'000
Carrying amount of transferred assets	393,490	117,621	511,111
Carrying amount of associated liabilities (<i>Note 23</i>)	<u>326,687</u>	<u>106,994</u>	<u>433,681</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2013

19. ADVANCES AND OTHER ACCOUNTS

	30 June 2013 HK\$'000	31 December 2012 HK\$'000
Advances to customers		
Bills receivable	449,920	373,401
Trade bills	660,579	453,669
Other advances to customers	41,514,016	38,365,119
	<u>42,624,515</u>	<u>39,192,189</u>
Interest receivable	182,128	232,270
Impairment allowances		
- Individually assessed	(26,339)	(24,054)
- Collectively assessed	(178,888)	(164,506)
	<u>42,601,416</u>	<u>39,235,899</u>
Advances to banks and other financial institutions	418,371	2,164,842
	<u>43,019,787</u>	<u>41,400,741</u>
Other accounts	645,231	708,477
	<u>43,665,018</u>	<u>42,109,218</u>

Included in the “Other Accounts” of the Group is an amount of approximately HK\$246,957,000 (2012: HK\$246,484,000) placed as reserve funds with the financial institutions in the PRC by the Shantou Branch of the Bank. Such reserve funds include the mandatory reserve deposits and surplus reserve deposits placed with the People’s Bank of China, amounting to HK\$50,629,000 (2012: HK\$64,861,000) and HK\$26,613,000 (2012: HK\$13,699,000) respectively. The mandatory reserve deposits are not available for the Group’s daily operation. The balance of HK\$169,715,000 (2012: HK\$167,924,000) comprises fixed deposits placed with other financial institutions in the PRC in compliance with the requirements of Regulations Governing Foreign Financial Institutions of the PRC.

The remaining balance of “Other Accounts” of the Group amounting to HK\$398,274,000 (2012: HK\$461,993,000) mainly comprised accounts receivable from customers in relation to securities dealing of HK\$230,854,000 (2012: HK\$200,377,000) and a variation margin of HK\$21,015,000 (2012: HK\$94,479,000) deposited in a bank for certain interest rate swaps, foreign currency forward contracts and repurchase agreements.

Details of the impaired loans are as follows:

	30 June 2013 HK\$'000	31 December 2012 HK\$'000
Gross impaired loans	32,200	24,194
Less: Impairment allowances under individual assessment	(26,339)	(24,054)
Net impaired loans	<u>5,861</u>	<u>140</u>
Gross impaired loans as a percentage of gross advances to customers	<u>0.08%</u>	<u>0.06%</u>
Market value of collateral pledged	<u>64,524</u>	<u>76,635</u>

In addition to the individually assessed loans impairment allowance, the Group has also provided collectively assessed loans impairment allowance for loans that are individually insignificant or advances where no impairment has been identified individually.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2013

20. INVESTMENT PROPERTIES

	2013 HK\$'000	2012 HK\$'000
At 1 January	135,318	127,171
Net increase in fair value recognised in profit or loss	1,910	9,390
Disposals	(1,600)	(1,500)
Exchange difference	534	257
At 30 June / 31 December	<u>136,162</u>	<u>135,318</u>

All of the Group's property interests held under operating leases to earn rentals and / or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

Net gains on disposal of and fair value adjustments on investment properties:

	Six months ended 30 June	
	2013 HK\$'000	2012 HK\$'000
Net gains on disposal of investment properties	2,327	2,816
Net gains on fair value adjustments on investment properties	<u>1,910</u>	<u>3,830</u>
	<u>4,237</u>	<u>6,646</u>

Investment properties owned by the Group were revalued at 30 June 2013 by adopting the direct comparison approach and which reference to the recent transactions for similar premises by Vigers Appraisal & Consulting Limited, independent professional qualified valuers. The fair value is mainly arrived at by reference to comparable market transactions for similar properties.

The fair value of investment properties were estimated based on assumptions that there would be no forced sale situation in any manner for these investment properties and the structure of these investment properties were in a reasonable condition at the end of the reporting period.

The investment properties are rented out under operating leases.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2013

21. PROPERTY AND EQUIPMENT

	Leasehold land HK\$'000	Buildings HK\$'000	Equipment HK\$'000	Total HK\$'000
COST				
At 1 January 2013	575,421	375,285	546,606	1,497,312
Additions	–	–	14,479	14,479
Disposals	–	–	(3,067)	(3,067)
Exchange adjustments	–	–	79	79
At 30 June 2013	575,421	375,285	558,097	1,508,803
ACCUMULATED DEPRECIATION				
At 1 January 2013	101,005	62,214	405,713	568,932
Depreciation	5,495	4,081	18,211	27,787
Eliminated on disposals	–	–	(1,890)	(1,890)
Exchange adjustments	–	–	35	35
At 30 June 2013	106,500	66,295	422,069	594,864
CARRYING AMOUNTS				
At 30 June 2013	468,921	308,990	136,028	913,939
COST				
At 1 January 2012	562,418	372,392	505,334	1,440,144
Additions	13,003	2,893	54,209	70,105
Disposals	–	–	(13,308)	(13,308)
Exchange adjustments	–	–	371	371
At 31 December 2012	575,421	375,285	546,606	1,497,312
ACCUMULATED DEPRECIATION				
At 1 January 2012	90,078	53,963	377,135	521,176
Depreciation	10,927	8,251	40,031	59,209
Eliminated on disposals	–	–	(11,441)	(11,441)
Exchange adjustments	–	–	(12)	(12)
At 31 December 2012	101,005	62,214	405,713	568,932
CARRYING AMOUNTS				
At 31 December 2012	474,416	313,071	140,893	928,380

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2013

22. PREPAID LEASE PAYMENTS FOR LAND

The Group's prepaid lease payments for land comprise:

	2013 HK\$'000	2012 HK\$'000
At 1 January and 30 June / 31 December		
COST		
Outside Hong Kong held on:		
Leases of between 10 to 50 years	<u>2,850</u>	<u>2,850</u>
Net book value at 1 January	2,423	2,483
Release of prepaid operating lease payments	(33)	(66)
Exchange adjustments	<u>27</u>	<u>6</u>
Net book value at 30 June / 31 December	<u>2,417</u>	<u>2,423</u>
Analysed as:		
Current portion	33	66
Non-current portion	<u>2,384</u>	<u>2,357</u>
Total	<u>2,417</u>	<u>2,423</u>

23. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	30 June 2013 HK\$'000	31 December 2012 HK\$'000
Analysed by collateral type:		
Debt securities classified as:		
Available-for-sale	329,313	326,687
Held-to-maturity	<u>108,036</u>	<u>106,994</u>
	<u>437,349</u>	<u>433,681</u>

As at 30 June 2013, debt securities which are classified as available-for-sale and held-to-maturity with carrying amounts of HK\$378,479,000 (2012: HK\$393,490,000) and HK\$117,528,000 (2012: HK\$117,621,000) respectively were sold under repurchase agreements with other banks. All repurchase agreements are due within 12 months from the end of the reporting period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2013

24. DEPOSITS FROM CUSTOMERS

	30 June 2013 HK\$'000	31 December 2012 HK\$'000
Demand deposits and current accounts	5,434,970	5,238,918
Savings deposits	20,703,476	21,557,659
Time, call and notice deposits	42,617,469	40,712,171
	<u>68,755,915</u>	<u>67,508,748</u>

25. CERTIFICATES OF DEPOSIT

The Group has issued certificates of deposit which are measured at amortised cost with a total carrying amount of HK\$177,511,000 as at 30 June 2013 (2012: HK\$667,636,000). Included in certificates of deposit are certificates of deposit of HK\$100,000,000 (2012: HK\$100,000,000) issued at the rate of three-month HIBOR plus 1% which will mature in August 2013 and certificates of deposit of HK\$77,511,000 (2012: HK\$567,636,000) issued at interest rate of 1% (2012: 1.0% to 2.9%) per annum which will mature in October 2013 (2012: January 2013 to October 2013). All certificates of deposit issued are not secured by any collateral.

26. LOAN CAPITAL

	30 June 2013 HK\$'000	31 December 2012 HK\$'000
US\$225 million fixed rate subordinated note due 2020 under fair value hedge (after adjustment of hedged interest rate risk) (Notes (a) & (b))	<u>1,794,150</u>	<u>1,898,957</u>

Notes:

(a) As at 30 June 2013 and 31 December 2012, this represents a subordinated note qualifying as tier 2 capital with face value of US\$225,000,000 issued on 5 November 2010. The note will mature on 4 November 2020. If at any time (on or) after 1 January 2013, the note no longer fully qualifies as term subordinated debt for inclusion in Category II - Supplementary Capital of the Bank upon changes to regulatory requirements, the Bank may, at its option and subject to the prior written approval of the HKMA, exercise a change of the status of the note by serving the "Change in Status Notice" to the noteholders. Upon a "Change in Status Notice" becoming effective, the note shall thereafter constitute unsubordinated obligations and the rate of interest on the note shall be reduced from 6% per annum to 5.5% per annum. As the "Change in Status Notice" has not been served during the reporting period, the rate of interest on the note remains at 6% per annum.

(b) The subordinated note issued is not secured by any collateral.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2013

27. DEFERRED TAXATION

For the purpose of presentation in the condensed consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	30 June 2013 HK\$'000	31 December 2012 HK\$'000
Deferred tax assets	1,475	1,502
Deferred tax liabilities	<u>(11,832)</u>	<u>(23,574)</u>
	<u>(10,357)</u>	<u>(22,072)</u>

The following are the major deferred tax assets (liabilities) recognised and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation HK\$'000	Collectively assessed impairment allowance HK\$'000	Investment properties HK\$'000	Revaluation of available- for-sale securities HK\$'000	Remeasurement of retirement benefits HK\$'000	Total HK\$'000
At 1 January 2013	(11,387)	26,531	(2,909)	(32,613)	(1,694)	(22,072)
(Charge) credit to profit or loss for the period	(2,003)	1,912	(75)	–	–	(166)
Credit to other comprehensive income for the period	–	–	–	11,881	–	11,881
At 30 June 2013	<u>(13,390)</u>	<u>28,443</u>	<u>(2,984)</u>	<u>(20,732)</u>	<u>(1,694)</u>	<u>(10,357)</u>
At 1 January 2012	(10,540)	27,869	(2,874)	(2,797)	(1,694)	9,964
Charge to profit or loss for the year	(847)	(1,338)	(35)	–	–	(2,220)
Charge to other comprehensive income for the year	–	–	–	(29,816)	–	(29,816)
At 31 December 2012	<u>(11,387)</u>	<u>26,531</u>	<u>(2,909)</u>	<u>(32,613)</u>	<u>(1,694)</u>	<u>(22,072)</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2013

28. MATURITY PROFILES

The maturity analysis of financial assets and liabilities shown on the condensed consolidated statement of financial position are presented based on maturity information provided to and reviewed by management, is shown below:

	Repayable on demand HK\$'000	Repayable within 1 month (except those repayable on demand) HK\$'000	Repayable after 1 month but within 3 months HK\$'000	Repayable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
At 30 June 2013								
Assets								
Cash and short-term funds	3,651,708	8,109,998	19,418	179,073	-	-	-	11,960,197
Placements with banks and other financial institutions	-	-	5,389,761	3,033,872	-	-	-	8,423,633
Derivative financial instruments	-	123	43	623	16,798	90,082	-	107,669
Financial assets at fair value through profit or loss	-	-	-	91,149	-	-	201	91,350
Available-for-sale securities	-	-	-	-	3,248,164	1,086,394	232,646	4,567,204
Held-to-maturity securities	-	1,817,246	2,494,888	3,938,535	2,567,225	739,080	-	11,556,974
Advances to customers	2,096,968	2,810,336	4,417,429	7,587,291	12,175,512	13,448,710	88,269	42,624,515
Advances to banks and other financial institutions	-	-	418,371	-	-	-	-	418,371
Other financial assets	348,159	130,801	123,848	198,000	498	-	(179,174)	622,132
Total financial assets	6,096,835	12,868,504	12,863,758	15,028,543	18,008,197	15,364,266	141,942	80,372,045
Liabilities								
Deposits and balances of banks and other financial institutions	14,092	1,833,262	-	232,695	-	-	-	2,080,049
Financial assets sold under repurchase agreements	-	358,423	-	78,926	-	-	-	437,349
Deposits from customers	26,158,876	19,854,312	14,042,266	8,618,689	81,772	-	-	68,755,915
Certificates of deposit	-	-	100,000	77,511	-	-	-	177,511
Derivative financial instruments	-	22,705	88,369	27,818	46,610	8,943	-	194,445
Loan capital	-	-	-	-	-	1,794,150	-	1,794,150
Other financial liabilities	381,841	41,664	87,639	177,311	19,073	-	-	707,528
Total financial liabilities	26,554,809	22,110,366	14,318,274	9,212,950	147,455	1,803,093	-	74,146,947
Net position								
- total financial assets and liabilities	(20,457,974)	(9,241,862)	(1,454,516)	5,815,593	17,860,742	13,561,173	141,942	6,225,098
Of which certificates of deposit included in:								
Held-to-maturity securities	-	1,739,681	2,156,110	2,969,491	-	-	-	6,865,282
Of which debt securities included in:								
Financial assets at fair value through profit or loss	-	-	-	91,149	-	-	-	91,149
- Designated at fair value	-	-	-	-	3,248,164	1,086,394	-	4,334,558
Available-for-sale securities	-	-	-	-	3,248,164	1,086,394	-	4,334,558
Held-to-maturity securities	-	1,817,246	2,494,888	3,938,535	2,567,225	739,080	-	11,556,974
	-	1,817,246	2,494,888	4,029,684	5,815,389	1,825,474	-	15,982,681

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2013

28. MATURITY PROFILES - continued

	Repayable on demand HK\$'000	Repayable within 1 month (except those repayable on demand) HK\$'000	Repayable after 1 month but within 3 months HK\$'000	Repayable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
At 31 December 2012								
Assets								
Cash and short-term funds	6,099,570	11,103,776	30,000	98,531	–	–	–	17,331,877
Placements with banks and other financial institutions	–	–	3,948,937	840,576	–	–	–	4,789,513
Derivative financial instruments	–	6,562	3,987	6,106	–	171,256	–	187,911
Financial assets at fair value through profit or loss	–	–	–	216,196	996,953	–	261	1,213,410
Available-for-sale securities	–	–	–	–	2,625,897	1,367,643	228,677	4,222,217
Held-to-maturity securities	–	1,225,799	2,576,757	2,538,779	2,519,363	739,322	–	9,600,020
Advances to customers	1,634,953	2,284,996	2,398,222	7,369,363	12,717,092	12,619,406	168,157	39,192,189
Advances to banks and other financial institutions	–	105,497	1,364,831	694,514	–	–	–	2,164,842
Other financial assets	327,140	128,130	193,336	181,311	94,216	–	(171,946)	752,187
Total financial assets	8,061,663	14,854,760	10,516,070	11,945,376	18,953,521	14,897,627	225,149	79,454,166
Liabilities								
Deposits and balances of banks and other financial institutions	35,287	803,806	659,900	344,484	–	–	–	1,843,477
Financial assets sold under repurchase agreements	–	354,801	–	78,880	–	–	–	433,681
Deposits from customers	26,837,602	19,872,678	13,961,059	6,748,437	88,972	–	–	67,508,748
Certificates of deposit	–	99,991	390,267	177,378	–	–	–	667,636
Derivative financial instruments	–	3,131	17,943	27,942	142,985	56,655	–	248,656
Loan capital	–	–	–	–	–	1,898,957	–	1,898,957
Other financial liabilities	401,465	59,876	102,005	161,879	15,004	–	–	740,229
Total financial liabilities	27,274,354	21,194,283	15,131,174	7,539,000	246,961	1,955,612	–	73,341,384
Net position								
- total financial assets and liabilities	(19,212,691)	(6,339,523)	(4,615,104)	4,406,376	18,706,560	12,942,015	225,149	6,112,782
Of which certificates of deposit included in:								
Held-to-maturity securities	–	225,243	2,110,648	1,357,430	–	–	–	3,693,321
Of which debt securities included in:								
Financial assets at fair value through profit or loss								
- Designated at fair value	–	–	–	216,196	996,953	–	–	1,213,149
Available-for-sale securities	–	–	–	–	2,625,897	1,367,643	–	3,993,540
Held-to-maturity securities	–	1,225,799	2,576,757	2,538,779	2,519,363	739,322	–	9,600,020
	–	1,225,799	2,576,757	2,754,975	6,142,213	2,106,965	–	14,806,709

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2013

29. RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following material transactions with related parties:

	Interest, commission and rental income		Interest and rental expenses	
	Six months ended 30 June		Six months ended 30 June	
	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Ultimate holding company / immediate holding company / fellow subsidiaries	<u>3,764</u>	<u>3,318</u>	<u>5,172</u>	<u>10,481</u>
Associates	<u>14,339</u>	<u>9,316</u>	<u>1,391</u>	<u>1,414</u>
Key management personnel (<i>Note</i>)	<u>2,704</u>	<u>2,733</u>	<u>5,202</u>	<u>5,385</u>

At the end of the reporting period, the Group had the following material outstanding balances with related parties:

	Loan to related parties		Deposit from related parties	
	30 June 2013	31 December 2012	30 June 2013	31 December 2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Ultimate holding company / immediate holding company / fellow subsidiaries	<u>32,752</u>	<u>34,592</u>	<u>236,786</u>	<u>159,663</u>
Associates	<u>14,337</u>	<u>14,337</u>	<u>153,153</u>	<u>97,147</u>
Key management personnel (<i>Note</i>)	<u>487,178</u>	<u>417,568</u>	<u>675,340</u>	<u>653,558</u>

The above outstanding balances bear interest at rates similar to those made available to non-related parties. A portion of the loans to related parties are secured with properties, securities and fixed deposits.

Note: Includes key management personnel, close family members of key management personnel and entities that are controlled or jointly controlled, directly or indirectly, by key management personnel.

Compensation of key management personnel

The remuneration of directors and other members of the key management during the period are as follows:

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
Short-term benefits	33,717	30,044
Post employment benefits	<u>2,532</u>	<u>2,308</u>
	<u>36,249</u>	<u>32,352</u>

The remuneration of directors and key management is reviewed by Remuneration Committee having regard to the performance of individuals and market trends.

30. COMPARATIVE AMOUNTS

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

SUPPLEMENTARY INFORMATION

for the six months ended 30 June 2013

1. ADVANCES TO CUSTOMERS - BY INDUSTRY SECTORS

The Group's gross advances to customers (including advances booked in overseas branches and subsidiaries) are analysed and reported by industry sectors according to the usage of the loans and / or business activities of the borrowers are as follows:

	30 June 2013				
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	Loans and advances secured by collateral HK\$'000 (Note 1)	Gross impaired advances HK\$'000
Loans for use in Hong Kong					
Industrial, commercial and financial					
- Property development	1,516,475	2	–	1,006,593	–
- Property investment	9,122,185	–	1	8,978,654	1
- Financial concerns	2,014,721	–	–	1,219,312	–
- Stockbrokers	698,765	12	–	524,746	–
- Wholesale and retail trade	1,696,574	6,316	3,320	1,308,580	3,320
- Manufacturing	1,734,913	–	462	1,067,739	885
- Transport and transport equipment	801,256	–	–	711,558	–
- Recreational activities	2,108	2	–	2,108	–
- Information technology	11,683	27	–	3,906	–
- Others (Note 2)	8,219,655	8,036	2,843	4,651,047	4,379
Individuals					
- Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	480,879	–	–	480,879	–
- Loans for the purchase of other residential properties	6,997,270	368	–	6,994,171	–
- Credit card advances	78,794	8,491	524	–	614
- Others (Note 3)	1,894,977	–	11,420	1,428,302	11,420
	35,270,255	23,254	18,570	28,377,595	20,619
Trade finance	1,741,659	41,312	6,980	491,065	9,273
Loans for use outside Hong Kong	5,612,601	114,322	789	2,829,243	2,308
	42,624,515	178,888	26,339	31,697,903	32,200

Notes: 1. Loans and advances secured by collateral are determined as the lower of the market value of collateral or outstanding loan principal.

2. Major items included in "Others" are for electricity and gas, hotels, catering, margin lending and other business purposes.

3. Major items mainly included loans to professionals and other individuals for various private purpose.

SUPPLEMENTARY INFORMATION

for the six months ended 30 June 2013

1. ADVANCES TO CUSTOMERS - BY INDUSTRY SECTORS - continued

	31 December 2012				
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	Loans and advances secured by collateral HK\$'000 (Note 1)	Gross impaired advances HK\$'000
Loans for use in Hong Kong					
Industrial, commercial and financial					
- Property development	1,366,467	1,347	—	769,767	—
- Property investment	8,924,108	—	1,774	8,857,224	1,774
- Financial concerns	1,741,910	—	—	1,131,827	—
- Stockbrokers	594,689	150	—	438,481	—
- Wholesale and retail trade	1,460,007	5,157	3,273	1,085,418	3,273
- Manufacturing	1,677,166	557	1,098	994,699	1,098
- Transport and transport equipment	754,094	—	—	696,577	—
- Recreational activities	2,154	8	—	2,154	—
- Information technology	15,320	108	—	75	—
- Others (Note 2)	7,114,661	25,619	4,669	3,556,824	4,669
Individuals					
- Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	475,392	—	—	475,392	—
- Loans for the purchase of other residential properties	6,613,370	238	—	6,611,275	—
- Credit card advances	109,491	4,883	328	2,947	375
- Others (Note 3)	1,717,229	6,561	2,181	1,354,133	2,181
	32,566,058	44,628	13,323	25,976,793	13,370
Trade finance	1,246,727	29,924	8,516	427,959	8,516
Loans for use outside Hong Kong	5,379,404	89,954	2,215	2,564,067	2,308
	<u>39,192,189</u>	<u>164,506</u>	<u>24,054</u>	<u>28,968,819</u>	<u>24,194</u>

Notes: 1. Loans and advances secured by collateral are determined as the lower of the market value of collateral or outstanding loan principal.

2. Major items included in "Others" are for electricity and gas, hotels, catering, margin lending and other business purposes.

3. Major items mainly included loans to professionals and other individuals for various private purpose.

SUPPLEMENTARY INFORMATION

for the six months ended 30 June 2013

1. ADVANCES TO CUSTOMERS - BY INDUSTRY SECTORS - continued

The Group's advances to customers overdue for over three months as at 30 June 2013 and 31 December 2012, and new impairment allowances and advances written-off during the six months ended 30 June 2013 and 2012 in respect of industry sectors which constitute not less than 10% of gross advances to customers are analysed as follows:

		2013	
	Advances overdue for over three months as at 30 June HK\$'000	New impairment allowances during the six months ended 30 June HK\$'000	Advances written-off during the six months ended 30 June HK\$'000
Loans for use in Hong Kong			
Industrial, commercial and financial			
- Property investment	704	—	—
- Others	4,574	41	15
Individuals			
- Loans for the purchase of other residential properties	432	—	—
Loans for use outside Hong Kong	<u>77,713</u>	<u>61</u>	<u>—</u>
		2012	
	Advances overdue for over three months as at 31 December HK\$'000	New impairment allowances during the six months ended 30 June HK\$'000	Advances written-off during the six months ended 30 June HK\$'000
Loans for use in Hong Kong			
Industrial, commercial and financial			
- Property investment	12,893	1	—
- Others	5,192	146	—
Individuals			
- Loans for the purchase of other residential properties	438	—	—
Loans for use outside Hong Kong	<u>77,716</u>	<u>66</u>	<u>195</u>

SUPPLEMENTARY INFORMATION

for the six months ended 30 June 2013

2. ADVANCES TO CUSTOMERS - BY GEOGRAPHICAL AREAS

The Group's gross advances to customers by countries or geographical areas after taking into account any risk transfers are as follows:

30 June 2013					
	Total advances HK\$'000	Advances overdue for over three months HK\$'000	Impaired advances HK\$'000	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000
Hong Kong	40,998,222	113,518	29,892	25,551	165,666
People's Republic of China	334,269	2,308	2,308	788	3,494
Macau	429,848	—	—	—	4,298
America	499,235	—	—	—	5,430
Others	362,941	—	—	—	—
	<u>42,624,515</u>	<u>115,826</u>	<u>32,200</u>	<u>26,339</u>	<u>178,888</u>

31 December 2012					
	Total advances HK\$'000	Advances overdue for over three months HK\$'000	Impaired advances HK\$'000	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000
Hong Kong	37,188,661	113,460	21,886	23,266	151,692
People's Republic of China	832,593	2,308	2,308	788	5,070
Macau	231,764	—	—	—	2,318
America	535,681	—	—	—	5,426
Others	403,490	—	—	—	—
	<u>39,192,189</u>	<u>115,768</u>	<u>24,194</u>	<u>24,054</u>	<u>164,506</u>

SUPPLEMENTARY INFORMATION

for the six months ended 30 June 2013

3. CROSS-BORDER CLAIMS

The Group's cross-border claims by countries or geographical areas which constitute 10% or more of the relevant disclosure items after taking into account any risk transfers are as follows:

	30 June 2013			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Asia Pacific (Excluding Hong Kong)	19,527,250	84,962	876,971	20,489,183
- of which - China	<u>11,022,105</u>	<u>28,524</u>	<u>392,722</u>	<u>11,443,351</u>
	31 December 2012			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Asia Pacific (Excluding Hong Kong)	20,341,530	90,476	861,630	21,293,636
- of which - China	9,268,912	32,078	580,226	9,881,216
- of which - Japan	<u>3,875,185</u>	<u>3,241</u>	<u>1,679</u>	<u>3,880,105</u>

SUPPLEMENTARY INFORMATION

for the six months ended 30 June 2013

4. OVERDUE AND RESCHEDULED ASSETS

	30 June 2013		31 December 2012	
	Gross amount of advances HK\$'000	Percentage to total advances %	Gross amount of advances HK\$'000	Percentage to total advances %
Advances overdue for				
- 6 months or less but over 3 months	18,429	0.0	78,204	0.2
- 1 year or less but over 6 months	76,287	0.2	5,012	0.0
- Over 1 year	21,110	0.1	32,552	0.1
Total overdue advances	<u>115,826</u>	<u>0.3</u>	<u>115,768</u>	<u>0.3</u>
Rescheduled advances	<u>264,127</u>	<u>0.6</u>	<u>210,821</u>	<u>0.5</u>
Individual impairment allowances made in respect of overdue loans and advances	<u>23,943</u>		<u>23,723</u>	
Covered portion of overdue loans and advances	90,606		99,371	
Uncovered portion of overdue loans and advances	<u>25,220</u>		<u>16,397</u>	
	<u>115,826</u>		<u>115,768</u>	
Market value of collateral held against covered portion of overdue loans and advances	<u>1,610,135</u>		<u>1,487,330</u>	

There were no advances to banks and other financial institutions or other assets which were overdue for over three months as at 30 June 2013 and 31 December 2012, nor were there any rescheduled advances to banks and other financial institutions.

Reposessed assets held by the Group as at 30 June 2013 amounted to HK\$17,820,000 (2012: HK\$48,320,000).

SUPPLEMENTARY INFORMATION

for the six months ended 30 June 2013

5. NON-BANK MAINLAND EXPOSURES

	30 June 2013			
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	Total HK\$'000	Individual impairment allowance HK\$'000
Types of counterparties				
Mainland entities	2,650,772	609,735	3,260,507	–
Companies and individuals outside Mainland where the credit is granted for use in Mainland	5,494,542	1,365,705	6,860,247	3,583
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	100,821	–	100,821	–
	<u>8,246,135</u>	<u>1,975,440</u>	<u>10,221,575</u>	<u>3,583</u>
	31 December 2012			
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	Total HK\$'000	Individual impairment allowance HK\$'000
Types of counterparties				
Mainland entities	2,832,392	710,131	3,542,523	–
Companies and individuals outside Mainland where the credit is granted for use in Mainland	5,373,881	1,206,393	6,580,274	7,445
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	91,659	–	91,659	–
	<u>8,297,932</u>	<u>1,916,524</u>	<u>10,214,456</u>	<u>7,445</u>

SUPPLEMENTARY INFORMATION

for the six months ended 30 June 2013

6. CURRENCY RISK

The Group's foreign currency exposures arising from non-trading and structural position which constitute 10% or more of the total net position in all foreign currencies are as follows:

	30 June 2013		
	US\$	RMB	Total
Equivalent in thousand of HK\$			
Spot assets	14,895,270	5,825,540	20,720,810
Spot liabilities	(9,682,660)	(5,667,840)	(15,350,500)
Forward purchases	77,224	15,595	92,819
Forward sales	(5,361,812)	–	(5,361,812)
Net long position	<u>(71,978)</u>	<u>173,295</u>	<u>101,317</u>
	MOP	RMB	Total
Net structural position	<u>48,545</u>	<u>351,377</u>	<u>399,922</u>

	31 December 2012		
	US\$	RMB	Total
Equivalent in thousand of HK\$			
Spot assets	14,311,091	6,588,766	20,899,857
Spot liabilities	(9,612,043)	(5,364,226)	(14,976,269)
Forward purchases	338,731	18,405	357,136
Forward sales	(5,011,862)	(1,096,712)	(6,108,574)
Net long position	<u>25,917</u>	<u>146,233</u>	<u>172,150</u>
	MOP	RMB	Total
Net structural position	<u>48,545</u>	<u>351,377</u>	<u>399,922</u>

SUPPLEMENTARY INFORMATION

for the six months ended 30 June 2013

7. THE CONTRACTUAL AMOUNTS OF EACH OF THE FOLLOWING CLASSES OF CONTINGENT LIABILITIES AND COMMITMENTS OUTSTANDING ARE:

	30 June 2013 HK\$'000	31 December 2012 HK\$'000
Contingent liabilities and commitments - contractual amounts		
Direct credit substitutes	990,466	1,077,350
Trade-related contingencies	491,771	425,309
Forward asset purchases	7,493	7,864
Undrawn formal standby facilities, credit lines and other commitments:		
Which are unconditionally cancellable without prior notice	6,468,040	6,913,604
With an original maturity of one year and under	8,097,685	8,137,008
With an original maturity of over one year	2,486,657	2,420,887
	<u>18,542,112</u>	<u>18,982,022</u>

Most of contingent liabilities and commitments are denominated in Hong Kong dollars.

The replacement cost and credit risk weighted amounts of the contingent liabilities, commitments and derivatives exposures are as follows:

	30 June 2013		31 December 2012	
	Replacement cost	Credit risk weighted amount	Replacement cost	Credit risk weighted amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contingent liabilities and commitments	–	3,442,602	–	3,507,559
Exchange rate contracts	759	16,467	16,584	22,865
Interest rate contracts	95,647	37,718	171,327	53,978
	<u>96,406</u>	<u>3,496,787</u>	<u>187,911</u>	<u>3,584,402</u>

The above amounts do not take into account the effects of bilateral netting arrangements.

Replacement cost is the cost which would be incurred by the Group if it was required to enter into another contract to replace the existing transaction or existing contract with another counterparty with substantially the same economic consequences for the Group and is calculated by marking-to-market the existing transaction or contract. If the resultant value is positive for the Group, taking the resultant value of the existing transaction or existing contract. If the resultant value is negative for the Group, taking the resultant value of the existing transaction or contract as zero. Replacement cost is a close approximation of the credit risk for these contracts at the end of the reporting period.

The credit risk weighted amount is the amount which has been calculated in accordance with the Banking (Capital) Rules and the guidelines issued by the HKMA.

SUPPLEMENTARY INFORMATION

for the six months ended 30 June 2013

8. CAPITAL ADEQUACY RATIO AND LIQUIDITY RATIOS

	30 June 2013	
	%	
Total capital ratio	14.63	
Tier 1 capital ratio	10.79	
Common Equity Tier 1 (“CET I”) capital ratio	<u>10.79</u>	
	31 December 2012	
	%	
Capital adequacy ratio	15.34	
Core capital ratio	<u>10.57</u>	
	Six months ended 30 June	
	2013	2012
	%	%
Average liquidity ratio for the period	<u>42.28</u>	<u>44.35</u>

Capital adequacy ratios as at 30 June 2013 were compiled in accordance with the Banking (Capital) Rules under Hong Kong Banking Ordinance for the implementation of the “Basel III” capital accord, which became effective on 1 January 2013. In accordance with the Banking (Capital) Rules, the Bank has adopted the “standardised approach” for the calculation of the risk-weighted assets for credit risk, “standardised (market risk) approach” for the calculation of market risk and “basic indicator approach” for the calculation of operational risk. The capital adequacy ratio is consolidated, under the Banking (Capital) Rules, with reference to the financial information of the Bank, Chong Hing Finance Limited, Right Way Investments Limited, Gallbraith Limited, Chong Hing Information Technology Limited, Card Alliance Company Limited, Top Benefit Enterprise Limited and Hero Marker Limited.

The capital adequacy ratio as at 31 December 2012 was complied in accordance with the Banking (Capital) Rules under Hong Kong Banking Ordinance for the implementation of the “Basel II” capital accord.

The average liquidity ratio is calculated as the ratio, expressed as a percentage, of the average of each calendar month’s average ratio, as specified in the Fourth Schedule of the Hong Kong Banking Ordinance, with reference to the financial information of the Bank, Chong Hing Finance Limited, Right Way Investments Limited and Gallbraith Limited.

SUPPLEMENTARY INFORMATION

for the six months ended 30 June 2013

9. BASIS OF CONSOLIDATION

This interim financial information covers the condensed consolidated financial statements of the Bank and all its subsidiaries and includes the attributable share of interest in the Group's associates.

In preparing the capital adequacy ratio and liquidity ratio 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, all its subsidiaries and the attributable share of interests in the Group's associates whereas the latter includes the Bank and only some of the Group's subsidiaries which mainly conduct banking business or other businesses incidental to banking business.

Subsidiaries that are included within the accounting scope of consolidation but are not included within the regulatory scope of consolidation are as follows:

Name of company	Principal activities	Total assets		Total equity	
		30 June 2013 HK\$'000	31 December 2012 HK\$'000	30 June 2013 HK\$'000	31 December 2012 HK\$'000
Chong Hing (Nominees) Limited	Provision of nominee services	355	100	100	100
Chong Hing Securities Limited	Stockbroking	785,810	732,973	595,732	560,393
Chong Hing Commodities and Futures Limited	Investment holding and commodities and futures broking	64,385	62,231	58,428	58,058
Chong Hing Insurance Company Limited	Insurance underwriting	274,865	265,250	181,518	178,382
Chong Hing (Management) Hong Kong Limited	Provision of management services	100	100	100	100

SUPPLEMENTARY INFORMATION

for the six months ended 30 June 2013

10. RISK MANAGEMENT

The Group has established policies, procedures, and controls for measuring, monitoring and controlling risks arising from the banking and related financial services business. These policies, procedures, and controls are implemented by various committees and departments of the Group and are regularly reviewed by the Board of Directors. The internal auditors also play an important role in the risk management process by performing regular, as well as sporadic compliance audits.

The management of assets and liabilities of the Group is conducted under the guidance of the Asset and Liability Management Committee (the “ALCO”). The ALCO holds meetings every two weeks, and more frequent meetings when required, to review and direct the relevant policies, and to monitor the bank-wide positions. The day-to-day management of the liquidity, foreign exchange, interest rate and other market risks, and the compliance with the ALCO and the Risk Management and Compliance Committee (the “RMCC”) policies are monitored by the Treasury Department, the Finance Department and the Finance and Treasury Management Division with the assistance of various qualitative and quantitative analyses.

In addition to complementing the ALCO in the management of assets and liabilities, the RMCC also oversees the implementation of the policies and procedures established for managing the Group’s operational, legal, and reputation risks and compliance requirements.

(i) Capital management

The Group has adopted a policy of maintaining a strong capital base to support its business growth. Capital adequacy ratio has remained well above the statutory minimum ratio of 8% for the past five financial years.

(ii) Credit risk

Credit risk is the risk that a customer or counterparty may fail to meet a commitment when it falls due.

The Group’s lending policy sets out in details the credit approval and monitoring mechanism, the loan classification system and provisioning policy, which is established in accordance with the requirements and provisions of the Hong Kong Banking Ordinance and the guidelines issued by the HKMA.

Day-to-day credit management is performed by the Loans Committee with reference to the creditworthiness, and concentration risk of and the collateral pledged by the counterparties. Decisions made by the Loans Committee are reviewed regularly by the Executive Loans Committee comprising executive directors and deputy chief executive officers.

(iii) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its current obligations when they fall due.

The Group has laid down liquidity policy which is reviewed regularly by the Board of Directors. This policy requires the Group to maintain a conservative level of liquid funds on a daily basis to ensure the availability of adequate liquid funds to meet all obligations, and the compliance with the statutory liquidity ratio requirement. The liquidity position is monitored through statutory liquidity ratio, loan-to-deposit ratio, maturity profile of assets and liabilities, and inter-bank transactions undertaken by the Group.

SUPPLEMENTARY INFORMATION

for the six months ended 30 June 2013

10. RISK MANAGEMENT - continued

(iv) Market risk

Market risk is the risk of losses in assets, liabilities and off-balance sheet positions arising from movements in market rates and prices.

Market risk arising from the trading book is considered immaterial, as the Group does not maintain significant positions of financial instruments leading to foreign exchange, interest rate, commodity and equity exposures. Structural foreign exchange exposure is explained further under (v) foreign exchange risk.

(v) Foreign exchange risk

The Group does not have any significant foreign exchange risk as foreign exchange dealing is moderate. Structural foreign exchange exposure arising from investments in foreign branches and subsidiaries is accounted for in the reserves account. Day-to-day foreign exchange management is performed by the Treasury Department within approved limits.

The Group takes on exposure to effect of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. Off-balance sheet notional position represents the contractual amounts of foreign currencies bought and sold under foreign exchange contracts.

(vi) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Limits are set on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly.

The Group does not carry interest rate positions on its trading book. Certain interest rate contracts entered into to manage the Group's own risk are classified as trading securities. Interest rate risk arises primarily from the timing differences in the re-pricing of, and the different bases of pricing interest-bearing assets, liabilities and commitments, and from positions of non-interest bearing balances. Interest rate risk is monitored by regular sensitivity analyses of the net re-pricing gap and of different scenarios of pricing bases of assets and liabilities grouped with reference to their next contractual repricing date or maturity date.

SUPPLEMENTARY INFORMATION

for the six months ended 30 June 2013

10. RISK MANAGEMENT - continued

(vii) Operational and legal risk

Operational risk is the risk of unexpected losses attributable to human error, systems failures, frauds, or inadequate internal controls and procedures.

Executive directors, department heads, in-house legal counsels, and internal auditors collaborate to manage operational and legal risks through proper human resources policies, delegation of authorities, segregation of duties, and timely and accurate management information. Senior management and the Audit Committee are accountable to the Board of Directors for maintaining a strong and disciplined control environment to provide reasonable assurance that the operational and legal risks are prudently managed.

A comprehensive contingency plan is available to ensure that key business functions continue and normal operations are restored effectively and efficiently in the event of business interruption.

(viii) Reputation risk

Reputation risk is the risk to earnings or capital arising from negative public opinion.

Reputation risk is managed by ensuring proper and adequate communications and public relation efforts to foster the reputation of the Group. A risk management mechanism guided by the senior management including executive directors and senior managers has been established to manage the media exposure, handle customers' and other relevant parties' complaints and suggestions, and to ensure that new business activities and agents acting on the Group's behalf do not jeopardise its reputation.

INTERIM DIVIDEND

The directors have declared an interim cash dividend for 2013 of HK\$0.14 per share, payable on Thursday, 26 September 2013 to shareholders whose names are listed on the register of members of the Bank on Thursday, 19 September 2013 (2012 interim cash dividend: HK\$0.11 per share paid on 27 September 2012).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Bank will be closed from Tuesday, 17 September 2013 to Thursday, 19 September 2013 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for the 2013 interim cash dividend, all transfer documents, along with the relevant share certificates, must be lodged for registration with the Bank's share registrar and transfer office, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 pm on Monday, 16 September 2013.

PURCHASE, SALE OR REDEMPTION OF THE BANK'S LISTED SECURITIES

Neither the Bank nor any of its subsidiaries had purchased, sold or redeemed any of the Bank's listed securities for the six months ended 30 June 2013.

CORPORATE GOVERNANCE

The directors confirm that, for the accounting period for the six months ended 30 June 2013, the Bank has complied with the former (Code on Corporate Governance Practices) and the revised (Corporate Governance Code) Code Provisions as set forth in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except:

1. Under the Bank's Articles of Association, one-third (or, if the quotient resulting from the division of the number of directors by three is not a whole number, the number nearest one-third) of the directors for the time being, who have been longest in office since their last election, shall be subject to retirement by rotation and re-election at each annual general meeting. As between persons who became directors on the same day, those to retire shall (unless they otherwise agree between themselves) be determined by drawing lots. And as to those persons additionally appointed as directors or appointed as directors to fill casual vacancies by the board of directors, they shall hold office only until the next following annual general meeting and shall then be eligible for re-election (but not to be taken into account in determining the directors or the number of directors who are to retire by rotation) at that annual general meeting. The directors consider such practices to be appropriate alternatives to those recommended under Code Provisions A.4.1 and A.4.2.

CORPORATE GOVERNANCE - continued

2. As to the nomination of candidates for appointment to the board, instead of having a nomination committee in place under Code Provision A.5.1, any director is entitled to recommend for the consideration and, if thought fit, approval of the board, as well as other relevant supervisory and regulatory bodies, suitable candidates who can contribute to the Bank, and discharge their responsibilities in the interests of the Bank and its shareholders as a whole. The directors consider such a practice to be an appropriate alternative to that recommended under Code Provision A.5.1.
3. As set forth in the Bank's Policy Statement on Corporate Governance, the directors should bear in mind that despite their respective directorial classifications (as the case may be, as executive directors, non-executive directors or independent non-executive directors), each of them shall exercise his own judgement when matters are submitted to the board for the individual directors' collective review, decision and approval. The directors shall guard against any conflict of interest and act in good faith in the interests of the Bank as a whole at all times. They shall exercise due care, diligence and skill when performing their duties and shall use their powers for proper corporate purposes only.

In line with the Bank's Policy Statement on Corporate Governance, the Chairman has encouraged his fellow directors (be they executive directors, non-executive directors or independent non-executive directors) to freely express their views and has allowed sufficient time for discussion of issues at full board meetings. If, for example, the non-executive directors (including the independent non-executive directors) hold views contrary to those of the executive directors in respect of any matter discussed at a full board meeting, the minutes will have this reflected clearly. In the light of such an established practice, the directors are of the view that such open and free discussions at full board meetings among all the directors are more productive and, as such, there is no further need for the non-executive directors (including the independent non-executive directors) to hold meetings, under Code Provision A.2.7, without the presence of the executive directors.

Furthermore, the Bank has adopted a code for securities transactions by directors with terms no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Model Securities Transactions Code"). After specific enquiry by the Bank, all of the directors confirmed that, for the accounting period for the six months ended 30 June 2013, they had complied with the required standards as set out in both the Model Securities Transactions Code and the Bank's own code in question.

PUBLICATION OF RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE OF HONG KONG LIMITED AND THE BANK

The Bank's Interim Report 2013, containing the relevant information required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, will be published on the websites of The Stock Exchange of Hong Kong Limited and the Bank in due course.

CHAIRMAN'S STATEMENT

Economic Review

On entering 2013, the global economy remains unstable. Despite some relative improvement in the global markets in late 2012, concerns over the Euro debt crisis reemerged with the inconclusive Italian election and Cypriot banking crisis in the first quarter of 2013. These were further aggravated by the massive quantitative easing policies launched by the Japanese Government in April and the first announcement of debt purchase reduction schedule by the US Federal Reserve Board ("FRB") in June, resulting in a turbulent global financial environment.

Despite the complicated and changing external environment, the Hong Kong economy grew moderately in the first quarter, which was attributable to solid growth of the Mainland economy. Gross domestic product grew by 2.8% in real terms compared with that of the same period last year. With the labour market in rather good shape, the unemployment rate fell slightly to 3.3% in the second quarter. To address the overheated property market resulting from sustained low interest rates, the Hong Kong Government increased the ad valorem stamp duty rates for property transactions and tightened the terms of mortgage lending in February. Consequently, the volume of registrations of secondary residential market for the first half of the year dropped to a record low in ten years. On the stock market front, Hang Seng Index zigzagged downwards, which was exacerbated by the FRB announcement of its exit plan in June as well as tightened liquidity in the Mainland. Eventually, the index closed at around 20,800 on the last trading day of the first half of the year.

After its rate-fixing meeting in June, the FRB announced that it would keep the target range for the federal funds rate at 0% to 0.25% and maintain asset purchases at a pace of US\$85 billion per month. In addition, FRB revealed that it may start cutting back purchases later this year and stop purchasing by mid-2014 the earliest. The message shocked the world, dragging down stock, exchange and debt markets across the globe.

Results Announcement and Profit Analysis

The results for the six months ended 30 June 2013 of the Bank, on an unaudited and consolidated basis, are summarised below:

Key Financial Data	Six months ended 30 June		Variance %
	2013 HK\$'000 (unless otherwise specified)	2012 HK\$'000 (unless otherwise specified)	
1. Net operating profit before impairment	335,191	257,098	+30.37
2. Profit attributable to shareholders	276,307	259,749	+6.37
3. Return on equity	7.40% (annualised)	7.64% (for year 2012)	-3.14
4. Earnings per share	HK\$0.64	HK\$0.60	+6.37
5. Net interest income	475,738	400,551	+18.77
6. Net interest margin	1.19%	1.06%	+12.26
7. Net fee and commission income	105,877	91,877	+15.24
8. Net (losses) gains on financial instruments at fair value through profit or loss	(116,056)	28,358	-509.25
9. Other Operating Income	228,147	122,660	+86.00
10. Operating expenses	358,253	387,075	-7.45
11. Cost-to-income ratio	51.66%	60.09%	-14.03
12. Impairment allowances on loans and advances - Net (allowances) amounts reversed	(17,592)	34,432	-151.09
13. Total loans and advances to customers	42,624,515	39,192,189 (as of Dec 2012)	+8.76
14. Impaired loan ratio	0.08%	0.06% (as of Dec 2012)	+33.33
15. Provision coverage of impaired loans and advances	637.35%	779.36% (as of Dec 2012)	-18.22
16. Rescheduled loan ratio	0.62%	0.54% (as of Dec 2012)	+14.81
17. Total customer deposits	68,755,915	67,508,748 (as of Dec 2012)	+1.85
18. Loan-to-deposit ratio	56.42%	52.53% (as of Dec 2012)	+7.41
19. Total assets	81,663,532	80,755,365 (as of Dec 2012)	+1.12
20. Net asset value per share	HK\$17.12 (before interim cash dividend)	HK\$16.95 (before final cash dividend as of Dec 2012)	+1.00
21. Capital adequacy ratio	14.63%	15.34% (as of Dec 2012)	-4.63
22. Tier 1 capital ratio	10.79%	10.57% (Core capital ratio as of Dec 2012)	+2.08
23. Common Equity Tier 1 capital ratio	10.79%	10.57% (Core capital ratio as of Dec 2012)	+2.08
24. Average liquidity ratio	42.28%	44.35%	-4.67

Analysis of Key Financial Data

For the first half of 2013, on an unaudited, consolidated basis, the net operating profit before impairment was HK\$335 million and improved by 30.4% from the corresponding period in previous year. Net interest income increased by 18.8% as total assets rose by 2.3% year on year and net interest margin widened 13 basis points from 1.06% for the first half of 2012 to 1.19%. Net interest margin continued to improve and rose by 6 basis points from the second half of 2012. Net fee and commission income increased by 15% year on year after commission income from customer securities dealings rose by 14% and commission income from agency services rose by 42%.

Net losses on financial instruments at fair value through profit or loss were HK\$116 million in the first half of 2013 and included revaluation losses on foreign currency forward contracts of HK\$124 million which should be offset by net exchange gains and net gains from foreign currency contracts of HK\$159 million included under other operating income. The Bank entered into these contracts mainly to exchange surplus funds from customer deposits in Australian and New Zealand dollars into US dollars, which created the spot positions, and place them in the interbank market to earn extra return for the Bank. The foreign exchange risk was covered by entering into foreign currency forward contracts which matched the maturity dates of the interbank placements. The spot positions and forward contracts were revalued and disclosed separately as required by the accounting standards.

On the other fronts, operating expenses dropped by 7.5% from the corresponding period in previous year. New impairment allowances on loans and advances increased by HK\$23 million year on year to HK\$28 million in the first half of 2013 mainly attributable to increase in collective impairment allowances.

Profit attributable to shareholders amounted to HK\$276 million, an increase of 6% over that for the corresponding period in previous year, translating into earnings of HK\$0.64 per share and annualised return on equity of 7.4%.

As of 30 June 2013, compared with the figures as of 31 December 2012, total loans and advances to customers increased by 8.8% to HK\$42,625 million with loans to corporations for use in Hong Kong increasing by 11%, loans for purchase of residential properties in Hong Kong increasing by 6% and trade finance increasing by 40% in the first half of 2013. We continue to maintain a robust credit risk management system. Through ongoing close monitoring, the quality of our loans and advances continued to be good. Impaired loan ratio continued to be at a considerably low level of 0.08% and rescheduled loan ratio at 0.62%, while provision coverage of impaired loans and advances stood at a solidly comfortable level of 637.35%. Total customer deposits remained stable at HK\$68,756 million. Loan-to-deposit ratio increased from 52.53% in December 2012 to 56.42% in June 2013 and average liquidity ratio decreased by 4.7% to 42.28% year on year.

Investments in debt securities designated at fair value dropped significantly after the structured products were sold and most of the convertible bonds were called or matured in the first half of 2013. However, total investments in securities rose by 7.8% as further investments were made in available-for-sale debt securities issued by corporate entities and held-to-maturities debt securities issued by banks and other financial institutions.

Capital adequacy ratio decreased from 15.34% in December 2012 to 14.63% in June 2013 after the increases in advances to customers and investments in debt securities, the Tier 1 capital ratio was at 10.79% and the Common Equity Tier 1 capital ratio was also at 10.79%. Total assets increased by 1.1% in the first half of 2013 to HK\$81,664 million. The Bank's net asset value per share (before the payment of the interim cash dividend declared for 2013) was HK\$17.12 as of 30 June 2013.

All in all, the Bank's core business lines and overall financial health are strong and sound, overall asset quality good, impaired loan ratio low, provision coverage high, and capital adequacy and liquidity ratios well above the relevant statutory requirements.

Interim Dividend

Your board has considered that it is prudent to preserve the Bank's capital so as to better satisfy the new requirements under "Basel III". As such, your board has declared that the interim cash dividend of HK\$0.14 per share for the six months ended 30 June 2013 be payable on Thursday, 26 September 2013 to shareholders whose names appear in the Register of Members of the Bank on Thursday, 19 September 2013 (2012 interim cash dividend: HK\$0.11 per share paid on 27 September 2012).

Business Review

Corporate and Retail Banking

Loan and Deposit Business

The property market remained sluggish as a result of tightened regulations implemented by the Hong Kong Government last year and earlier this year. Nevertheless, through the commendable efforts and professional services of our frontline staff members, for the first half of the year, residential mortgage loans recorded reasonable growth in both the number of cases the loan amounts compared with those of the same period last year. On the deposit business front, the Bank continued to consolidate its core customers deposit base and actively attracted small and medium-sized customers in the community. Through different series of promotion campaigns, sustained growth was registered in both the number and the portfolio of deposit customers. In respect of retail loan business, the Bank has added new customers to its higher yield personal loan and private vehicle business with double digit year on year growth in income.

As a result of our aggressive strategy in expanding clientele and adjusting rates, the Bank's corporate loan business registered substantial growth in terms of interest income, non-interest income and net interest margin compared with those of the same period last year. Total volume of corporate loans also continued to increase. Further to supporting the Hong Kong Government's Loan Guarantee Scheme for the small and medium-sized enterprises ("SME"), the Bank also actively participated in the "SME Financing Guarantee Scheme" of the Hong Kong Mortgage Corporation Limited to enlarge its SME client base.

The Bank's commitment to providing SMEs with flexible, one-stop banking services was highly recognised by the industry, as it entered the nomination for, and received, the "Best SME's Partner Award" from the Hong Kong General Chamber of Small and Medium Business for the fifth time.

With the aim of expanding its clientele, the Bank will continue to optimise its corporate loan portfolio and strengthen its cooperation with quality corporate customers in exploring business opportunities in a prudent manner.

Card Business

For the first half of 2013, the Bank's credit card business recorded growth in the number of credit cards issued, spending amount and accounts receivable compared with those of the same period last year. Overall merchant-billed turnover registered double-digit year-on-year growth. In particular, the turnover for UnionPay cards alone attained a remarkable growth of over 30%.

In the first quarter of 2013, the Bank continued its well-received "Dual Card Program". Under the program, customers were rewarded with fabulous treats upon successful application for UnionPay Dual Currency Credit Card together with any other Chong Hing credit card.

To maintain its strong business growth, the Bank will continue to develop its credit card and merchant acquiring businesses.

Life Insurance Business

Through continuous sales management efforts, both the numbers of policies issued and the first year premium registered grew by over 20% from the same period last year.

Wealth Management Business

On the retail investment business front, market sentiment was positive in the first half of 2013. However, customers largely looked for fixed-income investment products amid the sustained low rate environment. It is expected that mixed assets funds and funds with dividends will be more popular. In the second half of the year, the Bank will continue to focus on selling open-end funds and retail bonds, and actively launch more Renminbi investment products.

On the private investment services front, fixed-income investment products such as corporate bonds and certificates of deposit were more favoured by customers amidst the low rate environment. Meanwhile, the Bank continued to develop its account service with one-stop investment and asset filing services launched in 2012, providing assistance to individuals intending to enter Hong Kong for residence via the “Capital Investment Entrant Scheme”.

By expanding income stream with new services and continued development of a well-diversified portfolio of investment products and value-added services, the Bank expects to achieve overall growth on multiple fronts for its wealth management business.

China Business

In view of China’s development plan for Qianhai, Shenzhen, the Bank intends to apply for permission to set up a branch in that district and provide financial services to its Hong Kong customers. Meanwhile, it is also applying for qualification of “Renminbi Qualified Foreign Institutional Investor” so as to provide its Hong Kong customers with access to the Mainland investment market.

Building on the existing cross-border Renminbi clearing services, the Bank will further roll out new Renminbi products in line with market demand.

Treasury Activities

Treasury activities mainly comprise money market operations, foreign exchange services and investments in debt securities. All these activities are carried out under prudent risk management.

In view of the changing macroeconomic environment, the Bank has been closely monitoring market volatility to manage its liquidity and enhance the return on assets. The certificates of deposit programme and sale and repurchase businesses will continue to be used to manage the Bank’s liabilities.

In the area of developing the Renminbi businesses, the Bank took a prudent and stable approach and offers a comprehensive range of treasury products and services in Renminbi.

Other Related Businesses

Securities Business

As sentiment in the global and local stock markets improved in the first quarter of 2013, Chong Hing Securities Limited, a wholly-owned subsidiary of the Bank, registered considerable year-on-year growth in total commission for the first half of the year. The mobile securities trading service also registered sizeable growth in transaction volume. Overall, the securities business outperformed the market. In addition, the e-Statement service launched in the second quarter of 2013 was well received by customers. Looking into the second half of the year, the FRB exit plan and progress of economic stimulus measures of the Mainland will continue to be the focus of concern among investors. While the local stock market is expected to see more turbulence, the general outlook for the Bank’s securities business remains cautiously optimistic.

Insurance Business

Chong Hing Insurance Company Limited (“Chong Hing Insurance”), a wholly-owned subsidiary of the Bank, attained satisfactory turnover and profit for the first half of 2013. Maintaining the Bank’s prudent approach of development, Chong Hing Insurance will seek further growth by expanding its SME and individual insurance businesses and offering a more comprehensive range of quality insurance services.

Corporate Responsibility

In order to practise the preaching of serving as a “community bank” and provide a comprehensive range of high quality banking services to the local community, the Bank endeavoured to strengthen its service network through continual enhancement of distribution channels by opening new branches and ATM self-service banking centres in selected locations. Apart from the head office in Central, the Bank now has a total of 51 local branches.

In addition, the Bank has also been actively participating in and supporting activities of charitable organisations. In this connection, it was awarded the “Caring Company” logo by the Hong Kong Council of Social Service for the sixth year in 2013.

Corporate Governance

The Bank is well aware that complying with the relevant statutory and regulatory requirements and maintaining good corporate governance standards are imperative to the effective and efficient operation of the Bank. The Bank has, therefore, deployed considerable resources, as well as adopted and implemented relevant measures, to ensure that the relevant statutory and regulatory requirements are complied with and that a high standard of corporate governance practices is maintained.

Economic Outlook

Given the slow recovery in the Mainland and the United States, and continued recession in the Euro zone, coupled with the uncertain effect of the United States and Japanese monetary policies, the global asset market is expected to see drastic movements with weak economic growth. The World Bank lowered the global economic growth forecast to 2.2% for 2013. It also emphasised that exit measures of the United States will impact developing countries in Asia and result in a delicate global financial environment.

Against the background of external uncertainties, the Hong Kong Government has been working closely with the Central Government to maintain mutual economic development. At this 10th anniversary of the “Mainland and Hong Kong Closer Economic Partnership Arrangement”, a joint working group was set up between the Hong Kong Government and the Central and Provincial Government to strengthen the implementation measures and create more mutual opportunities. Moreover, the Ministry of Finance of the Central Government will issue a total of \$23 billion Renminbi sovereign bonds in Hong Kong this year as a new channel of capitalisation, while further strengthening the development of Hong Kong as an offshore Renminbi business centre. Furthermore, to maintain the growth momentum of the local retail bond market, the Hong Kong Government launched the third inflation-linked retail bond for subscription by Hong Kong residents in June 2013 with a final issue amount of HK\$10 billion.

Although the global economic outlook is filled with challenges and downward risks, the fundamentally sound elements of the Hong Kong economy will remain strong with the support of China’s development policies that facilitate cross-border cooperation and mutual development. Capitalising on such opportunities, the Bank will strive to strengthen its service quality and pursuit sustained development by offering a diverse range of innovative banking products.

Sincere Acknowledgements

Last but not least, I would like to thank my fellow directors for their valuable insight and experience. On behalf of your board, I would like to express my heartfelt gratitude to the management and the staff members for their commitment and dedication, and also to our shareholders and customers for their continued trust and support.

REVIEW OF INTERIM FINANCIAL INFORMATION

The financial information in this results announcement is extracted from the interim financial information for the six months ended 30 June 2013. This interim financial information is unaudited, but has been reviewed by Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants, and the Bank’s Audit Committee.

As of the date of this announcement:

- *the five Executive Directors of the Bank are Dr Liu Lit Mo (Chairman), Mr Liu Lit Chi (Deputy Chairman & Managing Director), Mr Lau Wai Man (Chief Executive Officer), Mr Don Tit Shing Liu (Deputy Chief Executive Officer) and Mr Wilfred Chun Ning Liu;*
- *the five Non-executive Directors are Mr He Jiale, Mr Hidekazu Horikoshi, Mr Christopher Kwun Shing Liu, Mr Alfred Cheuk Yu Chow and Mr Meng Qinghui; and*
- *the five Independent Non-executive Directors are Dr Robin Yau Hing Chan, Mr Timothy George Freshwater, Mr Wanchai Chiranakhorn, Mr Cheng Yuk Wo and Mr Andrew Chiu Cheung Ma.*

By Order of the Board

Liu Lit Mo

Chairman

7 August 2013