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2016 INTERIM RESULTS

RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

HIGHLIGHTS

- Operating profit before impairment allowances amounted to HK\$666 million, an improvement of 8% from the corresponding period in 2015. Net interest income at HK\$983 million was 16% higher than same period last year. Net interest margin at 1.63% was 12 basis points more than the corresponding period in previous year. The improvement in net interest income and net interest margin was achieved through proactive management of the Bank's assets and liabilities. The Bank was able to reduce interest bearing liabilities after the rights issue in September 2015 and lower interest rates on deposits enabled the Bank to achieve 24% saving in overall interest expense when compared to the same period last year, resulting in increases in net interest income and net interest margin.
- Similar to the corresponding period in 2015, certain assets which were not considered essential to the core business lines ("non-core assets") had been sold. As a result, there were net gains on disposal of available-for-sale securities of HK\$57 million recorded in the six months to June 2016. These net gains, however, were much lower than a total gain of HK\$219 million from the disposal of and fair value adjustments on non-core assets recorded in the same period in 2015
- Profit attributable to equity owners amounted to HK\$592 million a decrease of 18% over that for the same period last year, translating into annualised return on shareholders' equity of 7.98% and earnings of HK\$0.79 per share. Excluding the net gains (net of tax) from the disposal of and fair value adjustments on non-core assets in both 2015 and 2016, the profit attributable to equity owners in the first half of 2016 would have been similar to that in 2015
- As of 30 June 2016, compared with the figures as of 31 December 2015, total loans and advances to customers increased by 1% to HK\$64,383 million. During the period, as a result of the devaluation of Renminbi against the US dollar and the reduction in interest rates in the Mainland, the volume of bills rediscounting in the market dwindled, and our trade bills business was also reduced by 82% to HK\$864 million. Other advances to customers actually rose 8% in the first half of 2016 to HK\$63,020 million as the Bank continued to expand its cross border business through lending to Mainland customers in Hong Kong

- Total capital ratio declined from 17.73% in December 2015 to 17.12% in June 2016, mainly because the reduction in trade bills under the letters of credit issued by banks was replaced by loans to corporations with higher risk-weighting. The Tier 1 capital ratio was at 14.90% and the Common Equity Tier 1 capital ratio was at 12.38%
- The Bank’s core business lines and overall financial health are strong, asset quality is sound, impaired loans ratio is low, provision coverage is high, and capital adequacy ratio and liquidity maintenance ratios are well above the relevant statutory requirements
- An interim cash dividend of HK\$0.15 per share is declared for the six months ended 30 June 2016 (2015 interim cash dividend: HK\$0.21 per share)

The board of directors (the “Board”) 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 2016, together with the comparative figures for the last corresponding period. The financial information in this results announcement is extracted from the interim financial information for the six months ended 30 June 2016. The interim financial information is unaudited, but has been reviewed by the Bank’s auditor, PricewaterhouseCoopers, 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.

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CHAIRMAN'S STATEMENT

Since becoming a member of Yue Xiu Group in 2014, Chong Hing Bank has embarked on a series of reforms and refocused on business growth. Under the leadership of our professional management team and the dedication of all our staff, I am pleased to report that stretching targets have been set and the Bank is on track to achieve the goals.

In the first half of 2016, economic growth in the Mainland and Hong Kong slowed, loan demand fell. Against this background, I am pleased to announce that, in the first half of 2016, Chong Hing Bank's core business lines and overall financial health remained strong, asset quality was sound, and profitability from core business was enhanced. Operating profit before impairment allowances was HK\$666 million, an improvement of 8% from the corresponding period in previous year. Profit attributable to equity owners amounted to HK\$592 million, and earnings per share was HK\$0.79. They were lower than that in the corresponding period in 2015 because there were larger net gains from disposal of and fair value adjustments on non-core assets in the first half of 2015. The increase in the number of shares by 50% after the rights issue in the third quarter of 2015 also drove down the earnings per share. The board of directors (the "Board") has recommended payment of the interim cash dividend of HK\$0.15 per share for the six months ended 30 June 2016 and the Board has considered that it is prudent to preserve the Bank's capital and excluded the net gains (net of tax) from disposal of available-for-sale securities when the dividend level was considered. The earnings excluding these net gains on disposal of non-core assets would be HK\$0.72 per share (2015: HK\$1.04 per share) and the payout ratio is 20.83% (2015: 20.19%).

The major financial ratios for the first half of 2016 are as follows:

- Return on shareholders' equity: 7.98% (annualised)
- Average liquidity maintenance ratio: 43.01%
- Total capital ratio: 17.12% as of 30 June 2016
- Tier 1 capital ratio: 14.90% as of 30 June 2016
- Loan to deposit ratio: 71.78% as of 30 June 2016

Yue Xiu Group is the largest state-owned enterprise in Guangzhou, ranked in terms of asset size as at the end of 2015. As the major shareholder of Chong Hing Bank, Yue Xiu Group fully supports the Bank's growth strategy, particularly into the Mainland. This gives the Bank the unique advantage of being able to build a strong base in Guangzhou and in time to use Guangzhou as the anchor to expand into other cities and provinces in the Mainland. Before 2014, the Bank's presence in the Mainland was rather limited with only one branch in Shantou. By the end of June 2016, Chong Hing Bank has two branches (Guangzhou and Shantou) and three sub-branches (Guangzhou Tianhe, Foshan and Nansha Free Trade Zone).

Chong Hing Bank will continue to capture new customers and expand in Hong Kong, and capitalise on the strong franchise it has built up in the past 68 years. The Bank will also expand its network and build up a customer base in the Mainland as part of a long-term strategic plan to expand internationally into the Asia-Pacific region.

Mainland China accounted for one third of the world's economic growth during the last few years and has had the fastest growth rate in Asia. This pace is expected to be moderated in the second half of the year, but will remain favorable to the economy of Hong Kong. Following the official launch of "Shanghai-Hong Kong Stock Connect" in November 2014 and the "Mainland-Hong Kong Mutual Recognition of Funds" in July 2015, the State Council has recently approved the implementation plan for "Shenzhen-Hong Kong Connect". The China Securities Regulatory Commission and the Securities and Futures Commission have approved, in principle, the structure of "Shenzhen-Hong Kong Stock Connect" and is expected to be launched before the end of the year. These measures will strengthen the interconnectivity between the Mainland and Hong Kong capital markets and will further promote opportunities for the financial industry in Hong Kong.

Furthermore, the implementation of the "One Belt, One Road" initiative will place Hong Kong in an advantaged position as a "super-connector" in the region, which in the long run, will strengthen its status as an international financial centre and as an offshore Renminbi centre. The Bank will enhance its cross-border integrated financial service capabilities and will leverage the opportunities, including offering financing and banking services to meet the needs of customers and for infrastructure projects of the "One Belt, One Road" initiative.

The operating environment will be challenging for the Bank given to the complex global economic conditions in 2016. While the global economic condition will remain volatile, the continuous financial reforms in the Mainland accompanied with the increased demand for cross-border financial services will bring new opportunities. The Bank will continue to review and enhance its products and services to cater for a wide range of market needs. The Bank will also strike a balance between capturing opportunities and meeting challenges, and will continue to implement a sound risk management framework, thereby adapting and improving our risk management approach to meet the evolving needs of our business in the face of an ever-changing business and regulatory environment to achieve stronger capital and sustainable growth.

Finally, I would like to express my sincere appreciation to all Directors of the Bank for their most valuable guidance and advice to ensure the Bank deliver sustainable growth. I would also like to thank the management team and all our staff members for their tireless efforts in delivering outstanding results under a very challenging environment. On behalf of the Board, I wish to convey my appreciation to our shareholders, customers and business partners for their continuous patronage and support to Chong Hing Bank.

Zhang Zhaoxing

Chairman

Hong Kong, 22 August 2016

MANAGING DIRECTOR'S STATEMENT

Global Economy

The global economic situation was weak in the first half of 2016 with modest but uneven recovery in advanced economics.

In March, the European Central Bank introduced numerous measures to stimulate activity, including lowering its benchmark rate and its deposit rate, expanding the size of its quantitative easing (QE) programme, as well as the range of assets purchased under the programme. It also warned that there is heightened risk of an economic downturn in the Eurozone and that the QE measures may have to be extended if required. On 23 June, the United Kingdom (UK) decided in a referendum that it would leave the European Union (Brexit). On the day following the Brexit decision, globally prices of risk assets slumped and there was extreme volatility in the financial and foreign exchange markets. British Pound at one stage plummeted 11% to hit a 31-year low. The Euro dropped by 2.3%, and the CNY/USD exchange rate also hit a 5.5-year low. The Japanese Yen acted as a safe haven, with the JPY/USD exchange rate surging 7% to 98.92. Stock markets around the world fell. Asian stock markets experienced their greatest loss in five years. The Hang Seng Index fell by over 1,300 points on the day of Brexit decision, closing with a loss of around 600 points. International rating agencies lowered the top-grade AAA sovereign rating enjoyed by the UK, the fifth largest economy in the world, with its outlook downgraded to negative. Theresa May took over as the country's new Prime Minister in mid-July following the resignation of David Cameron. The new Prime Minister promised that she would fight for the best deal for the UK regarding the Brexit but that the UK government would not commence the exit procedures before the end of the year. The full effect of Brexit has yet to be seen, and may prolong economic uncertainty and recovery in the UK, the Eurozone, and globally.

The United States (US) continues to record moderate growth. The Federal Reserve Board (FRB) decided at its July rate-fixing meeting to maintain the federal funds rate at between 0.25% and 0.5%, and indicated that the near-term risks to the economic outlook have diminished. The FRB will continue to closely monitor its inflation indicators as well as global economic and financial developments.

China's economic growth continues to slow. The Central Government does not rule out the possibility of short-term fluctuations in economic growth but is committed to transform its economy and will maintain growth at reasonable levels in the longer term. China's economic growth for the first half of 2016 was 6.7%. In response to the "prudent with a slight easing bias" monetary policy advocated at the G20 meeting, the People's Bank of China (PBoC) lowered the reserve requirement ratio by 50 basis points from 1 March to support economic growth. PBoC indicates that it has measures in place to deal with potential economic fallout from Brexit. These include continuing a prudent monetary policy, maintaining reasonable liquidity and keeping the Renminbi exchange rate stable at a reasonable and balanced level.

Hong Kong is impacted by the deteriorating macroeconomic environment, the weak global economic growth, and uncertainties in the global equity and currency markets. Global trade has slowed down and globalisation is under threat amid rising protectionism. As a result, Hong Kong's international trade figures for goods and services declined by 3.6% and 4.9% respectively in the first 3 months of 2016. Investments dropped 10% due to asset price adjustments. Domestic consumption also fell due to negative sentiment locally, and reduced tourist spending. Retail market was particularly hard hit and the value of total retail sales fell 10.5% in the first 6 months of 2016 compared to the same period last year. This further slowed the Hong Kong economy. Gross domestic product in the first 6 months only increased 1.2% in real terms compared with the same period last year. The labour market however remained stable, with unemployment rate remaining low at 3.4% for the second quarter. In the first half of the year, the property market was quiet. There were just over 26,500 property registrations in the entire market, a record low for an interim period over the past 20 years. In the stock market, with the threat of US interest rate hike, A-share market fluctuation in China, and divergent monetary policies among central banks of various countries in the first half of the year, the Hang Seng Index hit a low of 18,319 in May before closing at 20,794 on the last trading day of June, down by 5.1% in the first half of the year. The average daily turnover was down 46% compared with the same period in 2015.

Results Announcement and Profit Analysis

The results for the six months ended 30 June 2016 of the Bank, on an unaudited and consolidated basis, are summarised below:

Key Financial Data	Six months ended 30 June		Variance %
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	
1. Net interest income	982,710	845,499	+16.23
2. Net fee and commission income	125,006	185,173	-32.49
3. Net trading income	45,087	42,104	+7.08
4. Other operating income	71,692	68,740	+4.29
5. Operating expenses	558,311	526,114	+6.12
6. Operating profit before impairment allowances	666,184	615,402	+8.25
7. Net charge of impairment allowances on loans and advances	(16,483)	(11,164)	+47.64
8. Profit attributable to equity owners	591,973	725,967	-18.46
9. Return on shareholders' equity (<i>Note 1</i>)	7.98%	14.89%	-46.41
	(annualised)	(annualised)	
10. Earnings per share (<i>Note 2</i>)	HK\$0.79	HK\$1.44	-45.14
11. Net interest margin	1.63%	1.51%	+7.95
12. Cost to income ratio	45.60%	46.09%	-1.06
13. Average liquidity maintenance ratio	43.01%	37.23%	+15.53

	As of 30 June 2016 HK\$'000 (Unaudited)	As of 31 December 2015 HK\$'000	Variance %
14. Total loans and advances to customers	64,383,412	63,600,012	+1.23
15. Impaired loan ratio	0.10%	0.04%	+150.00
16. Provision coverage of impaired loans and advances	445.58%	1,086.86%	-59.00
17. Rescheduled loan ratio	0.38%	0.00%	+100.00
18. Total customer deposits	88,018,513	99,392,364	-11.44
19. Loan to deposit ratio	71.78%	59.01%	+21.64
20. Investments in securities	31,218,376	31,486,824	-0.85
21. Total assets	126,274,208	127,837,646	-1.22
22. Net asset value per share (excluding additional equity instruments and before the interim dividend)	HK\$20.04	HK\$19.61	+2.19
23. Total capital ratio	17.12%	17.73%	-3.44
24. Tier 1 capital ratio	14.90%	15.22%	-2.10
25. Common Equity Tier 1 capital ratio	12.38%	12.60%	-1.75

Notes:

1. Return on shareholders' equity took into consideration the coupon of the additional equity instruments relevant for the period.
2. Earnings per share was calculated after deducting the distribution paid on the additional equity instruments in the period. Earnings per share for the six months ended 30 June 2015 has been restated to take into account the rights issue of the Bank completed in the third quarter of 2015.

Analysis of Key Financial Data

For the first half of 2016, on an unaudited, consolidated basis, operating profit before impairment allowances amounted to HK\$666 million, an improvement of 8% from the corresponding period in 2015. This increase was achieved despite the subdued demand for lending and the volatility in the financial markets caused mainly by the devaluation of Renminbi against the US dollar and the Brexit decision.

Net interest income at HK\$983 million was 16% higher than the same period last year. Net interest margin at 1.63% was 12 basis points more than the corresponding period in previous year. The improvement in net interest income and net interest margin was achieved through proactive management of the Bank's assets and liabilities. The Bank was able to reduce interest bearing liabilities after the rights issue in September 2015 and lower interest rates on deposits enabled the Bank to achieve 24% saving in overall interest expense when compared to the same period last year, resulting in increases in net interest income and net interest margin.

Net fee and commission income dropped 32% to HK\$125 million mainly because of a 57% drop in commission income arising from securities dealings. In line with the decline in the trading volume in the Hong Kong stock market, turnover from customer dealings fell significantly when compared to the same period last year. The drop in net fee and commission income was partially offset by an impressive 87% growth in income from agency services mainly from selling products of Hong Kong Life Insurance Limited. Net trading income also improved by 7% to HK\$45 million due to the healthy growth in customer foreign exchange business.

Although the Bank continued to invest for the future, particularly in human resources, outlets in China and technology, due to tight control on cost, operating expenses only rose by 6% from the same period last year. Cost to income ratio improved to 45.6%.

Net charge of impairment allowances on loans and advances were HK\$16 million in the first half of 2016, compared to HK\$11 million in the same period last year. Operating profit after impairment allowances amounted to HK\$650 million, an improvement of 8% from the corresponding period in previous year.

Similar to the corresponding period in 2015, certain assets which were not considered essential to the core business lines (“non-core assets”) had been sold. As a result, there were net gains on disposal of available-for-sale securities of HK\$57 million recorded in the six months to June 2016. These net gains, however, were much lower than a total gain of HK\$219 million from the disposal of and fair value adjustments on non-core assets recorded in the same period in 2015.

Profit attributable to equity owners amounted to HK\$592 million a decrease of 18% over that for the same period last year, translating into annualised return on shareholders’ equity of 7.98% and earnings of HK\$0.79 per share. Excluding the net gains (net of tax) from the disposal of and fair value adjustments on non-core assets in both 2015 and 2016, the profit attributable to equity owners in the first half of 2016 would have been similar to that in 2015.

As of 30 June 2016, compared with the figures as of 31 December 2015, total loans and advances to customers increased by 1% to HK\$64,383 million. During the period, as a result of the devaluation of Renminbi against the US dollar and the reduction in interest rates in the Mainland, the volume of bills rediscounting in the market dwindled, and our trade bills business was also reduced by 82% to HK\$864 million. Other advances to customers actually rose 8% in the first half of 2016 to HK\$63,020 million as the Bank continued to expand its cross border business through lending to Mainland customers in Hong Kong. With careful management on credit risk, asset quality of loans and advances remained sound with impaired loan ratio at 0.10%, non-performing loans ratio at 0.88% and provision coverage of impaired loans and advances at 446%. Both the impaired loans and the non-performing loans are well secured.

Since the Bank has ample liquidity after the rights issue, the Bank has been able to appropriately adjust its customer deposit portfolio. Total customer deposits as of 30 June 2016 decreased by 11% to HK\$88,019 million compared to the figure as of 31 December 2015. Total customer deposits on December 2015 included short-term deposits from a customer for whom the Bank acted as the settlement bank for its capital market activities. Excluding such deposits, the decline in total customer deposits would have been 7% in the first half of 2016.

Total assets decreased by 1% in the six month period to HK\$126,274 million. Excluding the placements with banks arising from the above mentioned short-term deposits, the total assets would have increased by 2% in the first half of 2016. Although assets in the Mainland and Macau have increased at a faster rate of 9%, 91% of the Bank's assets as at 30 June 2016 was still based in Hong Kong.

As a result of more effective management of assets and liabilities, the Bank raised the level of loan to deposit ratio from 59.01% in December 2015 to 71.78% in June 2016, while keeping a prudent level of liquidity maintenance ratio with an average of 43.01% in the first half of 2016.

Total capital ratio declined from 17.73% in December 2015 to 17.12% in June 2016, mainly because the reduction in trade bills under the letters of credit issued by banks was replaced by loans to corporations with higher risk-weighting. The Tier 1 capital ratio was at 14.90% and the Common Equity Tier 1 capital ratio was at 12.38%.

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

Interim Dividend

The 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, the Board has declared an interim cash dividend of HK\$0.15 per share, payable on Wednesday, 21 September 2016 to shareholders whose names appear on the Register of Members of the Bank on Wednesday, 14 September 2016 (2015 interim cash dividend: HK\$0.21 per share paid on 16 September 2015).

Renminbi Financial Bonds (Panda Bonds)

On 19 February 2016, Chong Hing Bank received approval from the PBoC to issue Panda bonds up to RMB3 billion on a registration basis in the Mainland domestic interbank bond market. On 20 May 2016, the Bank issued its first batch of Panda bonds. The bond was issued to keep pace with the Bank's development in the Mainland. Issue size was RMB1.5 billion with a maturity of three years and a coupon rate of 3.6% per annum payable annually. The face value of the bonds was RMB100 and the minimum subscription amount was RMB5 million. Both Chong Hing Bank and the Panda bonds received a credit rating of AAA from China Lianhe Credit Rating Co., Ltd.

Chong Hing Bank is the first local bank in Hong Kong to issue Panda bonds in 2016. It is also the first foreign commercial bank to issue Panda bonds after the three note-issuing banks in Hong Kong did so in 2015. In terms of the overall issue size of RMB3 billion, this is the Bank's largest public bond issuance in the capital market.

Business Review

Corporate Banking

Chong Hing Bank aims to provide a one-stop banking products and services platform to our target customers with particular emphasis on cross-border facilities. The Bank continues to put emphasis on and provides dedicated service to the core customer base of Hong Kong large corporates, mid-caps as well as small and medium-sized enterprises (SME). Besides supporting the Hong Kong Government's "SME Loan Guarantee Scheme" for SMEs, the Bank also actively participated in the Hong Kong Mortgage Corporation Limited's "SME Financing Guarantee Scheme".

In the first half of 2016, appropriate resources have been added to capture new business opportunities and new customers, including large State-Owned Enterprises and corporates owned by major regional governments in the Mainland. Initial results are most impressive.

The Bank has also put significant focus on cross-selling to meet the different needs of the customers, particularly on interest and currency hedging amidst the current market volatility. As a result, the Bank registered healthy growth in its corporate loan book. Non-interest income also improved, compared with the same period last year.

Personal Banking

Loans and Deposits

The Bank actively acquired and retained target customers and properly managed the growth in the balance sheet. The Bank maintained a stable deposit base by launching promotions and capturing new customers in order to balance its loan, wealth management and cross-border financial business needs as well as to meet the liquidity requirements.

The retail loan business recorded moderate growth. Despite the slowdown in transaction number in the residential property market since the end of 2015, the Bank recorded stable growth in its residential mortgage loan balance in the first half of 2016. In addition, the Bank exerted great efforts in developing sales channels and a cross-border business platform to better suit customer needs and promoted its business through various platforms to capture new income.

Wealth Management

The investment market was volatile in the first half of 2016. The US rate hike, the Brexit referendum, and the slowdown in economic growth in China all affected investment sentiments. Despite the poor investment climate, the Bank managed to enlist more fund houses as business partners, allowing it to maintain stable income growth from fund business. The Bank also strived to diversify its product mix including currency and stock hedging products to offer customers more choices. In addition, with customer demand for life insurance growing, commission income from the life insurance business achieved substantial growth.

Credit Cards

In the first half of 2016, the Bank maintained similar levels of total spending and accounts receivable compared with the same period last year by launching promotions and acquisition of new customers. Despite continued weakness in the overall retail market, the Bank's merchant-acquiring amount for Visa and Master cards recorded modest growth compared with the same period last year. However, the decline in Mainland visitors to Hong Kong resulted in a year-on-year decline in the turnover for UnionPay cards. Further emphasis will be put on merchant-acquiring business in the rest of the year to improve profitability.

Financial Markets Business

The Bank's financial markets activities are mainly in money market operations, foreign exchange services and debt securities investments, as well as overall liquidity and balance sheet management. The Bank has added resources to the Financial Markets Division in the past 12 months to more actively monitor market volatility and to use various instruments to manage liquidity and enhance returns. All activities are conducted with strict risk management procedures in place.

The new team also puts more focus on our customers to ensure we meet their hedging, trading and other financial markets needs. The Bank will focus on cross-selling and offering more diverse services to suit the needs of its customers. Leveraging our strength in the Pearl River Delta area, we have dedicated resources to develop cross-border financial market solutions for corporate, SMEs, institutional customers and Mainland enterprises.

To further capitalise on our branch network and corporate customer base, the Bank aims to upgrade its financial markets products and services in order to provide customer-centric solutions. The Bank is committed to becoming a one-stop solution provider and raising customer satisfaction while at the same time increasing its market share.

Despite the decline in the Renminbi against US dollars in the past year and the reduced pool of Renminbi in Hong Kong, the Bank will continue to grow its Renminbi treasury products and services. The Bank will also expand Renminbi trade finance, and to adeptly managing Renminbi liquidity in both offshore and onshore markets to keep pace with Renminbi internationalisation. Furthermore, it plans to launch more innovative new products to match business opportunities arising from further development of the economy in the Mainland.

As a result of putting in a new team with enhanced skills and focus, the Bank has recorded very strong growth in our interest as well as non-interest income from this business in the first half of 2016.

Asset Management

Since obtaining a Renminbi Qualified Foreign Institutional Investor (RQFII) quota in 2013, the Bank has actively built on its asset management business. Going forward, besides developing more innovative products under the RQFII scheme, the Bank will also develop and launch other non-conventional asset management products to satisfy the varied financial management needs of its customers.

Mainland Operations

In the first half of 2016, the Bank opened a branch in Guangzhou and obtained approval from regulatory authorities to establish a branch in Shenzhen. Preparation for the official opening is now in progress. The Hengqin Sub-Branch in Guangdong Free Trade Zone is also under construction and will be opened in the third quarter. The Bank's network in the Mainland is still small but has laid solid foundation for future growth.

The government of Nansha Free Trade Zone worked with the Bank and other companies to launch the "Hong Kong Pass" Commercial Service in June 2016. Leveraging the Bank's network in Hong Kong, business registration agency services will be provided to Hong Kong investors and foreign investors who would like to set up business in the Nansha Free Trade Zone.

For three consecutive years, the Bank participated in the annual China (Guangzhou) International Finance Expo (the "Expo"). In this year's Expo held in June in Guangzhou, the Bank showcased its wide range of products and services, made use of the opportunity to interact with industry peers and the public, and to explore future business opportunities.

The Bank will take advantage of the Guangdong Free Trade Zone's policies to set up a cross-border services platform which offers a comprehensive connection for individual and corporate financial services in Guangdong and Hong Kong. This will enable us to develop into a competitive cross-border bank.

Chong Hing Securities Limited (Chong Hing Securities)

In line with the 46% decline in average daily turnover in the Hong Kong stock market in the first half of 2016, Chong Hing Securities, a wholly-owned subsidiary of the Bank, recorded lower turnover and profit. Despite a range of complex and changing global factors, Chong Hing Securities recorded growth of 14.6% in the turnover ratio of its trading via electronic channels and 12.4% growth in interest income in the first half of 2016 compared with the same period last year.

Trading volume is expected to remain subdued in the second half unless there are favourable events to stimulate the market. Actions are underway to focus more on targeted customers, to further streamline operations and to improve productivity and efficiency, and to capture opportunities from the newly approved "Shenzhen-Hong Kong Stock Connect" that will be launched before end of the year.

Chong Hing Insurance Company Limited (Chong Hing Insurance)

Notwithstanding the competitive nature of the insurance industry in Hong Kong and a general decrease in underwriting profit, coupled with diminished investment returns due to external conditions, Chong Hing Insurance, a wholly-owned subsidiary of the Bank, achieved stable results for the first half of 2016, with year-on-year increase in both premium income and underwriting profit. Chong Hing Insurance will continue to launch new insurance products for customers and continue to use the bancassurance model to develop new business to realise the Bank's potential on the back of its strong business network. It will also continue to explore new business opportunities to enhance its performance.

Investment for the future

The Bank, with the endorsement of the Board, is investing for the future. An external consultant has been mandated to assist the Bank to position itself as a niche bank with strong customer focus and cross-border capabilities. The Bank has also commenced a substantial upgrade on its information technology system with delivery in two to three years to enhance its competitiveness and to support its strategies of expanding in the Mainland.

At the same time, the Bank has continued to improve the products and services launched in its electronic channels to attract more customers and to enhance the overall customer experience.

Corporate Responsibility

The Bank is committed to offering customers a comprehensive range of high-quality banking services, continuously upgrading the range of its products and services, and enhancing its branches to provide better and more convenient banking services to our customers. Two branches, namely the Tai Wo Plaza Branch in Tai Po and the Cheung Fat Estate Branch in Tsing Yi, were relocated to new premises in March. With brand new designs on the theme of “New Place • New Face”, these new branches seek to provide customers with a more spacious and comfortable branch environment. In addition to the Hong Kong Main Office, the Bank currently has 45 branches in Hong Kong, and 5 branches and sub-branches in the Mainland.

The Bank is committed to treat its staff members fairly and an incentive framework was introduced to reward their performance. Further initiatives to improve staff benefits and working environment will continue to be considered and introduced.

The Bank is committed to protecting the environment. Where possible, the Bank adopts to a paperless concept, to streamline operations and to encourage environmental protection.

In recognition of its active participation in and support for the activities of various charity organisations, the Bank was awarded the “Caring Company” logo by the Hong Kong Council of Social Service for the ninth year in 2016. Moreover, leveraging its business network in Hong Kong, the Bank also assisted a number of charity organisations in community fund-raising activities, and was granted the “Lottery Tickets Selling Award” by the Tung Wah Group of Hospitals.

Corporate Governance

Compliance with the relevant statutory and regulatory requirements, and maintaining good corporate governance standards are imperative to the sustainability of the Bank. The Bank has deployed considerable resources, and has implemented all relevant measures, to ensure that the statutory and regulatory requirements are fully complied with, and that a high standard of corporate governance is maintained.

Awards

With the mission to work with the SMEs to achieve mutual growth, the Bank is committed to providing SMEs with diversified banking services. This support has been widely recognised by the industry. In June 2016, for the eighth time, the Bank received the “Best SME’s Partner Award” from the Hong Kong General Chamber of Small and Medium Business.

In March 2016, the Bank received the “Straight Through Processing (STP) Award” from the Bank of New York Mellon for the eighth consecutive year. This award recognised the Bank’s outstanding performance in payment formatting and a high STP rate of over 95% in fully-automated USD payment processing without manual intervention.

Outlook

The global financial market is expected to remain volatile in the coming months. Global growth expectation is lowered to 3.1% in 2016. Hong Kong is an international financial centre exposed to movements and changes in the global scene. Business environment is expected to be challenging and competitive. The Bank will continue to uphold its sound and prudent business philosophy. While strengthening its Hong Kong business, the Bank will also develop its business in the Mainland. The Bank will secure a firm foothold in Guangzhou and expand its branch network initially in the Pearl River Delta region of Guangdong Province in order to grow in a sustainable manner with risk properly controlled.

2016 is the first year of China’s “13th Five-Year Plan”. Leveraging the business and customer advantages built up throughout its own long history of development, coupled with the continuing support from Yue Xiu Group, the Bank will seize the opportunities arising from the major strategies initiated by the Chinese government, including Renminbi internationalisation and the “One Belt, One Road” policy, to accelerate the development of cross-border financial services for individual and corporate customers in Guangdong and Hong Kong.

Appreciation

The first half of 2016 has been turbulent. I would like to thank all Directors on the Board for their wise guidance and strong support on our strategic planning and in mapping out our future directions. I would like to thank the management team and all our staff members for their dedication and commitment in delivering outstanding results. On behalf of all my colleagues, I would like to thank our shareholders, our customers, and our business partners for their continued support and trust in Chong Hing Bank.

Leung Ko May Yee Margaret

Deputy Chairman, Managing Director and Chief Executive

Hong Kong, 22 August 2016

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2016

	Notes	Six months ended 30 June		Variance %
		2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	
Interest income		1,463,019	1,479,516	-1.12
Interest expense		(480,309)	(634,017)	-24.24
Net interest income	6	982,710	845,499	+16.23
Fee and commission income		165,200	224,449	-26.40
Fee and commission expenses		(40,194)	(39,276)	+2.34
Net fee and commission income	7	125,006	185,173	-32.49
Net trading income	8	45,087	42,104	+7.08
Other operating income	9	71,692	68,740	+4.29
Operating expenses	10	(558,311)	(526,114)	+6.12
Operating profit before impairment allowances		666,184	615,402	+8.25
Net charge of impairment allowances on loans and advances	19	(16,483)	(11,164)	+47.64
Operating profit after impairment allowances		649,701	604,238	+7.52
Net gains on disposal of assets held for sale		–	52,135	-100.00
Net (losses) gains on disposal of property and equipment		(58)	3,805	-101.52
Net gains on disposal of available-for-sale securities		57,307	65,983	-13.15
Net gains on disposal of and fair value adjustments on investment properties	20	–	100,769	-100.00
Impairment losses on available-for-sale securities		(9,485)	–	–
Share of profits of associates		9,808	37,422	-73.79
Profit before taxation		707,273	864,352	-18.17
Taxation	12	(115,300)	(138,385)	-16.68
Profit for the period				
– Attributable to equity owners of the Bank	13	591,973	725,967	-18.46
Earnings per share – basic and diluted	13	HK\$0.79	HK\$1.44	-45.14

The notes on pages 23 to 54 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit for the period	<u>591,973</u>	<u>725,967</u>
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation	(12,475)	(584)
Fair value gains of available-for-sale securities arising during the period	75,308	112,665
Amount reclassified to the profit or loss upon impairment of available-for-sale securities	9,485	–
Amount reclassified to the profit or loss upon disposal of available-for-sale securities	(57,307)	(65,983)
Income tax effect relating to disposal of available-for-sale securities	9,456	10,887
Income tax effect relating to fair value change of available-for-sale securities	(14,133)	(18,360)
Share of other comprehensive income of associates	<u>(1,721)</u>	<u>1,474</u>
Other comprehensive income for the period (net of tax)	<u>8,613</u>	<u>40,099</u>
Total comprehensive income for the period	<u><u>600,586</u></u>	<u><u>766,066</u></u>
Total comprehensive income for the period attributable to:		
Equity owners of the Bank	<u><u>600,586</u></u>	<u><u>766,066</u></u>

The notes on pages 23 to 54 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

		30 June 2016 <i>HK\$'000</i> (Unaudited)	31 December 2015 <i>HK\$'000</i> (Audited)	Variance %
	<i>Notes</i>			
Assets				
Cash and short-term funds	15	23,119,696	21,431,894	+7.88
Placements with banks maturing between one to twelve months		3,817,525	7,751,110	-50.75
Derivative financial instruments	16	358,099	577,651	-38.01
Financial assets at fair value through profit or loss	17	241	271	-11.07
Available-for-sale securities	17	25,452,046	22,800,023	+11.63
Held-to-maturity securities	17	5,766,089	8,686,530	-33.62
Advances and other accounts	19	66,459,732	65,386,648	+1.64
Interests in associates		252,838	247,901	+1.99
Investment properties	20	263,710	264,222	-0.19
Property and equipment	21	641,500	627,777	+2.19
Prepaid lease payments for land	22	2,236	2,269	-1.45
Deferred tax assets	28	5,670	10,744	-47.23
Intangible assets	23	134,826	50,606	+166.42
Total assets		126,274,208	127,837,646	-1.22
Liabilities				
Deposits and balances of banks		5,611,758	5,728,313	-2.03
Financial assets sold under repurchase agreements	24	10,959,317	3,322,683	+229.83
Deposits from customers	25	88,018,513	99,392,364	-11.44
Certificates of deposit	26	469,979	351,962	+33.53
Derivative financial instruments	16	953,490	844,778	+12.87
Other accounts and accruals		1,012,049	1,124,688	-10.02
Current tax liabilities		235,863	135,457	+74.12
Debt securities issued	26	1,740,440	–	–
Loan capital	27	1,870,916	1,819,591	+2.82
Deferred tax liabilities	28	10,776	10,069	+7.02
Total liabilities		110,883,101	112,729,905	-1.64
Equity attributable to owners of the Bank				
Share capital		5,435,904	5,435,904	–
Additional equity instruments	29	2,312,030	2,312,030	–
Reserves		7,643,173	7,359,807	+3.85
Total equity		15,391,107	15,107,741	+1.88
Total liabilities and equity		126,274,208	127,837,646	-1.22

The notes on pages 23 to 54 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Share capital	Additional equity instruments	Goodwill	Investment revaluation reserve	Land and building revaluation reserve	General reserve	Translation reserve	Regulatory reserve	Retained profits	Total
Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2016	5,435,904	2,312,030	(182)	140,772	158,018	1,388,500	(15,030)	663,000	5,024,729	15,107,741
Profit for the period	-	-	-	-	-	-	-	-	591,973	591,973
Exchange differences arising on translation	-	-	-	-	-	-	(12,475)	-	-	(12,475)
Fair value gains of available-for-sale securities arising during the period	-	-	-	75,308	-	-	-	-	-	75,308
Amount reclassified to the profit or loss upon impairment of available-for-sale securities	-	-	-	9,485	-	-	-	-	-	9,485
Amount reclassified to the profit or loss upon disposal of available-for-sale securities	-	-	-	(57,307)	-	-	-	-	-	(57,307)
Income tax effect relating to disposal of available-for-sale securities	-	-	-	9,456	-	-	-	-	-	9,456
Income tax effect relating to fair value change of available-for-sale securities	-	-	-	(14,133)	-	-	-	-	-	(14,133)
Share of other comprehensive income of associates	-	-	-	(1,721)	-	-	-	-	-	(1,721)
Other comprehensive income	-	-	-	21,088	-	-	(12,475)	-	-	8,613
Total comprehensive income for the period	-	-	-	21,088	-	-	(12,475)	-	591,973	600,586
Distribution payment for additional equity instruments	-	(75,795)	-	-	-	-	-	-	-	(75,795)
Transfer from retained profits	-	75,795	-	-	-	-	-	-	(75,795)	-
Final dividend paid	14	-	-	-	-	-	-	-	(241,425)	(241,425)
Earmark of retained profits as regulatory reserve	-	-	-	-	-	-	-	(4,000)	4,000	-
At 30 June 2016	<u>5,435,904</u>	<u>2,312,030</u>	<u>(182)</u>	<u>161,860</u>	<u>158,018</u>	<u>1,388,500</u>	<u>(27,505)</u>	<u>659,000</u>	<u>5,303,482</u>	<u>15,391,107</u>

The notes on pages 23 to 54 form an integral part of this condensed consolidated interim financial information.

	Share capital	Additional equity instruments	Goodwill	Investment revaluation reserve	Land and building revaluation reserve	General reserve	Translation reserve	Regulatory reserve	Retained profits	Total
Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2015	1,760,317	2,312,030	(182)	230,519	146,647	1,388,500	30,355	573,000	4,342,466	10,783,652
Profit for the period	-	-	-	-	-	-	-	-	725,967	725,967
Exchange differences arising on translation	-	-	-	-	-	-	(584)	-	-	(584)
Fair value gains of available-for-sale securities arising during the period	-	-	-	112,665	-	-	-	-	-	112,665
Amount reclassified to the profit or loss upon disposal of available-for-sale securities	-	-	-	(65,983)	-	-	-	-	-	(65,983)
Income tax effect relating to disposal of available-for-sale securities	-	-	-	10,887	-	-	-	-	-	10,887
Income tax effect relating to fair value change of available-for-sale securities	-	-	-	(18,360)	-	-	-	-	-	(18,360)
Share of other comprehensive income of associates	-	-	-	1,474	-	-	-	-	-	1,474
Other comprehensive income	-	-	-	40,683	-	-	(584)	-	-	40,099
Total comprehensive income for the period	-	-	-	40,683	-	-	(584)	-	725,967	766,066
Distribution payment for additional equity instruments	-	(75,606)	-	-	-	-	-	-	-	(75,606)
Transfer from retained profits	-	75,606	-	-	-	-	-	-	(75,606)	-
Final dividend paid	14	-	-	-	-	-	-	-	(178,350)	(178,350)
Earmark of retained profits as regulatory reserve	-	-	-	-	-	-	-	83,000	(83,000)	-
At 30 June 2015	<u>1,760,317</u>	<u>2,312,030</u>	<u>(182)</u>	<u>271,202</u>	<u>146,647</u>	<u>1,388,500</u>	<u>29,771</u>	<u>656,000</u>	<u>4,731,477</u>	<u>11,295,762</u>

The retained profits of the Group included retained profits of HK\$123,350,000 (30 June 2015: retained profits of HK\$138,807,000) retained by the associates of the Group.

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

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

The notes on pages 23 to 54 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
OPERATING ACTIVITIES		
Profit before taxation	707,273	864,352
Adjustments for:		
Net interest income	(982,710)	(845,499)
Net charge of impairment allowances on loans and advances	16,483	11,164
Net gains on disposal of assets held for sale	–	(52,135)
Net losses (gains) on disposal of property and equipment	58	(3,805)
Net gains on disposal of available-for-sale securities	(57,307)	(65,983)
Net gains on disposal of and fair value adjustments on investment properties	–	(100,769)
Share of profits of associates	(9,808)	(37,422)
Net gains on financial instruments at fair value through profit or loss	–	(83,041)
Net (gains) losses on fair value hedge	(2,751)	396
Dividend received from investments	(4,892)	(5,252)
Depreciation	27,176	24,711
Release of prepaid lease payments for land	33	33
Impairment losses on available-for-sale securities	9,485	–
Exchange adjustments	(10,008)	(1,460)
Operating cash flows before movements in operating assets and liabilities	(306,968)	(294,710)
(Increase) decrease in operating assets:		
Money at call and short notice with original maturity over three months	715,950	(168,301)
Exchange fund bills with original maturity over three months	(606,456)	(90,104)
Placements with banks with original maturity over three months	4,500,394	(3,892,896)
Financial assets at fair value through profit or loss	30	(36)
Advances to customers	(787,126)	(5,413,314)
Advances to banks	(107,071)	–
Other accounts	(250,901)	(459,467)
Increase (decrease) in operating liabilities:		
Deposits and balances of banks	(116,555)	(1,705,269)
Financial assets sold under repurchase agreements	7,636,634	(1,156,579)
Deposits from customers	(11,373,851)	9,994,099
Certificates of deposit	118,017	(459,557)
Derivative financial instruments	(6,970)	134,259
Other accounts and accruals	16,805	165,931
Cash used in operations	(568,068)	(3,345,944)
Hong Kong Profits Tax paid	(365)	(4,343)
Overseas tax paid	(13,322)	(34,450)
Interest received	1,052,461	1,108,432
Interest paid	(575,980)	(478,235)
NET CASH USED IN OPERATING ACTIVITIES	(105,274)	(2,754,540)

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
INVESTING ACTIVITIES		
Interest received on available-for-sale securities and held-to-maturity securities	516,205	273,353
Dividends received on investments	4,892	5,252
Dividends received from associates	3,150	3,150
Purchase of held-to-maturity securities	–	(5,031,184)
Purchase of available-for-sale securities	(7,951,516)	(4,488,478)
Purchase of property and equipment	(43,844)	(39,924)
Purchase of intangible assets	(82,113)	–
Proceeds from redemption of held-to-maturity securities	2,941,876	2,645,017
Proceeds from sale and redemption of available-for-sale securities	5,690,227	1,184,999
Proceeds from disposal of assets held for sale	–	53,853
Proceeds from disposal of property and equipment	195	4,145
	<hr/>	<hr/>
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES	1,079,072	(5,389,817)
	<hr/>	<hr/>
FINANCING ACTIVITIES		
Net proceeds from issue of debt securities	1,740,244	–
Interest paid on loan capital	(32,717)	(30,616)
Dividends paid to ordinary shareholders	(241,425)	(178,350)
Distribution paid on additional equity instruments	(75,795)	(75,606)
	<hr/>	<hr/>
NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES	1,390,307	(284,572)
	<hr/>	<hr/>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,364,105	(8,428,929)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	19,022,227	24,746,835
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT 30 JUNE	21,386,332	16,317,906
	<hr/> <hr/>	<hr/> <hr/>
Represented by:		
Cash and balances with central bank and banks	3,049,776	7,547,651
Money at call and short notice with original maturity of three months or less	16,818,806	7,736,724
Exchange fund bills with original maturity of three months or less	–	499,993
Placements with banks maturing between one to twelve months with original maturity of less than three months	1,517,750	533,538
	<hr/>	<hr/>
	21,386,332	16,317,906
	<hr/> <hr/>	<hr/> <hr/>

The notes on pages 23 to 54 form an integral part of this condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2016

1. GENERAL INFORMATION

Chong Hing Bank Limited (the “Bank”) is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Bank is engaged in the provision of banking and related financial services. The address of the registered office of the Bank is Ground Floor, Chong Hing Bank Centre, 24 Des Voeux Road Central, Hong Kong.

The condensed consolidated interim financial information is presented in Hong Kong dollars, which is the same as the functional currency of the Bank.

The financial information relating to the year ended 31 December 2015 that is included in the condensed consolidated interim financial information for the six months ended 30 June 2016 as comparative information does not constitute the Bank’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Bank has delivered the financial statements for the year ended 31 December 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

The Bank’s auditor has reported on those financial statements. The auditor’s report was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report, and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This condensed consolidated interim financial information for the six months ended 30 June 2016 has been prepared in accordance with HKAS 34 “Interim Financial Reporting”. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2015, as described in those annual financial statements.

“Annual Improvements to HKFRSs 2012 – 2014 Cycle”, effective for the accounting period on or after 1 January 2016, includes a number of amendments to various HKFRSs. None of the amendments are expected to have an impact to the Group except for amendments to HKFRS 7 “Financial instruments: Disclosures”, amendments to HKAS 19 “Employee benefits” and amendments to HKAS 34 “Interim financial reporting”. The impact of these three amendments are summarised below:

- For the amendments to HKFRS 7:

- i) Service contracts

If an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognise the asset, HKFRS 7 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets. It provides guidance about what is meant by continuing involvement.

There is a consequential amendment to HKFRS 1 to give the same relief to first time adopters.

ii) Interim financial statements

It clarifies the additional disclosure required by the amendments to HKFRS 7, 'Disclosure – offsetting financial assets and financial liabilities' is not specifically required for all interim periods, unless required by HKAS 34.

- The amendments to HKAS 19 clarifies when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, not the country where they arise. The assessment of whether there is a deep market in high-quality corporate bonds is based on corporate bonds in that currency, not corporate bonds in a particular country. Similarly, where there is no deep market in high-quality corporate bonds in that currency, government bonds in the relevant currency should be used.
- The amendments to HKAS 34 clarifies what is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report'. It also amends HKAS 34 to require a cross-reference from the interim financial statements to the location of that information.

Amendments to HKAS 1 "Disclosure initiative", the amendments clarify guidance in HKAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

Although the amendments do not require specific changes, they clarify a number of presentation issues and highlight that preparers are permitted to tailor the format and presentation of the financial statements to their circumstances and the needs of users.

The key areas addressed by the changes are as follows:

- *Materiality*: an entity should not aggregate or disaggregate information in a manner that obscures useful information. An entity need not provide disclosures if the information is not material;
- *Disaggregation and subtotals*: the amendments clarify what additional subtotals are acceptable and how they should be presented;
- *Notes*: an entity is not required to present the notes to the financial statements in a particular order, and management should tailor the structure of their notes to their circumstances and the needs of their users;
- *Accounting policies*: how to identify a significant accounting policy that should be disclosed;
- *Other comprehensive income from equity accounted investments*: other comprehensive income of associates and joint ventures should be separated into the share of items that will subsequently be reclassified to profit or loss and those that will not.

The Group considers the abovementioned amendments does not have a significant effect on the results for the current interim period.

Other amendments to HKFRSs effective on 1 January 2016 do not have a material impact on the Group for the current interim period.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

There are no other amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on this Group.

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 personal banking
2. Financial markets 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.

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

Operating segment revenue and results

Six months ended 30 June 2016

	Corporate and personal banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	844,148	615,227	3,016	628	-	1,463,019
Interest expense to external customers	(382,528)	(97,781)	-	-	-	(480,309)
Inter-segment interest income (Note 1)	204,298	-	-	-	(204,298)	-
Inter-segment interest expense (Note 1)	-	(204,298)	-	-	204,298	-
Net interest income	665,918	313,148	3,016	628	-	982,710
Fee and commission income	117,142	-	48,058	-	-	165,200
Fee and commission expenses	(40,152)	-	(42)	-	-	(40,194)
Net trading income (expenses)	748	44,397	-	(58)	-	45,087
Other operating income	60,286	-	-	11,406	-	71,692
Segment revenue						
Total operating income	803,942	357,545	51,032	11,976	-	1,224,495
Comprising:						
- Segment revenue from external customers	599,644	561,843	51,032	11,976		
- Inter-segment transactions	204,298	(204,298)	-	-		
Operating expenses (Note 2)	(343,290)	(28,326)	(32,731)	(12,561)	-	(416,908)
Impairment allowances on loans and advances	(16,483)	-	-	-	-	(16,483)
Net losses on disposal of property and equipment	(58)	-	-	-	-	(58)
Net gains on disposal of available-for-sale securities	-	-	-	57,307	-	57,307
Impairment losses on available-for-sale securities	-	-	-	(9,485)	-	(9,485)
Segment profit	444,111	329,219	18,301	47,237	-	838,868
Unallocated corporate expenses						(141,403)
Share of profits of associates						9,808
Profit before taxation						707,273

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 income statement and the operating expenses in the operating segments is the unallocated corporate expenses.

Operating segment assets and liabilities

At 30 June 2016

	Corporate and personal banking <i>HK\$'000</i>	Financial markets activities <i>HK\$'000</i>	Securities business <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Assets					
Segment assets	68,470,101	56,253,702	351,082	579,908	125,654,793
Interests in associates					252,838
Unallocated corporate assets					366,577
Consolidated total assets					<u>126,274,208</u>
Liabilities					
Segment liabilities	88,497,753	21,719,222	218,081	111,470	110,546,526
Unallocated corporate liabilities					336,575
Consolidated total liabilities					<u>110,883,101</u>

Other information

Six months ended 30 June 2016

	Corporate and personal banking <i>HK\$'000</i>	Financial markets activities <i>HK\$'000</i>	Securities business <i>HK\$'000</i>	Others <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital expenditure during the period	28,234	348	491	32	96,852	125,957
Depreciation	20,048	493	948	253	7,541	29,283
Release of prepaid lease payments for land	33	-	-	-	-	33

Operating segment revenue and results

Six months ended 30 June 2015

	Corporate and personal banking <i>HK\$'000</i>	Financial markets activities <i>HK\$'000</i>	Securities business <i>HK\$'000</i>	Others <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Interest income from external customers	922,811	553,190	2,850	665	–	1,479,516
Interest expense to external customers	(533,263)	(100,754)	–	–	–	(634,017)
Inter-segment interest income (<i>Note 1</i>)	259,631	–	–	–	(259,631)	–
Inter-segment interest expense (<i>Note 1</i>)	–	(259,631)	–	–	259,631	–
Net interest income	649,179	192,805	2,850	665	–	845,499
Fee and commission income	113,499	–	110,950	–	–	224,449
Fee and commission expenses	(39,208)	–	(68)	–	–	(39,276)
Net trading income (expenses)	484	42,934	–	(1,314)	–	42,104
Other operating income	53,799	–	–	14,941	–	68,740
Segment revenue						
Total operating income	777,753	235,739	113,732	14,292	–	1,141,516
Comprising:						
– Segment revenue from external customers	518,122	495,370	113,732	14,292		
– Inter-segment transactions	259,631	(259,631)	–	–		
Operating expenses (<i>Note 2</i>)	(307,674)	(20,196)	(33,729)	(10,849)	–	(372,448)
Impairment allowances on loans and advances	(11,164)	–	–	–	–	(11,164)
Net gains on disposal of assets held for sale	–	–	–	52,135	–	52,135
Net gains on disposal of property and equipment	3,805	–	–	–	–	3,805
Net gains on disposal of available-for-sale securities	–	–	–	65,983	–	65,983
Net gains on fair value adjustments on investment properties	–	–	–	100,769	–	100,769
Segment profit	<u>462,720</u>	<u>215,543</u>	<u>80,003</u>	<u>222,330</u>	<u>–</u>	980,596
Unallocated corporate expenses						(153,666)
Share of profits of associates						<u>37,422</u>
Profit before taxation						<u><u>864,352</u></u>

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 income statement and the operating expenses in the operating segments is the unallocated corporate expenses.

Operating segment assets and liabilities

At 31 December 2015

	Corporate and personal banking <i>HK\$'000</i>	Financial markets activities <i>HK\$'000</i>	Securities business <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Assets					
Segment assets	70,307,318	56,156,693	268,686	582,142	127,314,839
Interests in associates					247,901
Unallocated corporate assets					<u>274,906</u>
Consolidated total assets					<u><u>127,837,646</u></u>
Liabilities					
Segment liabilities	100,094,959	12,128,623	106,770	104,524	112,434,876
Unallocated corporate liabilities					<u>295,029</u>
Consolidated total liabilities					<u><u>112,729,905</u></u>

Other information

Six months ended 30 June 2015

	Corporate and personal banking <i>HK\$'000</i>	Financial markets activities <i>HK\$'000</i>	Securities business <i>HK\$'000</i>	Others <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital expenditure during the period	32,594	231	622	59	6,418	39,924
Depreciation	17,463	249	956	221	5,822	24,711
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. Indirect 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 and the Bank'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.

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 2016			At 30 June 2016			
	Total operating income <i>HK\$'000</i>	Profit before taxation <i>HK\$'000</i>	Capital expenditure during the period <i>HK\$'000</i>	Total assets <i>HK\$'000</i>	Total liabilities <i>HK\$'000</i>	Total contingent liabilities and commitments <i>HK\$'000</i>	Non-current assets <i>HK\$'000</i>
Hong Kong	1,129,476	671,017	103,431	115,373,007	104,228,675	21,631,425	1,221,646
Macau and Mainland China	95,019	36,256	22,526	10,901,201	6,654,426	1,595,220	73,431
Total	1,224,495	707,273	125,957	126,274,208	110,883,101	23,226,645	1,295,077

	Six months ended 30 June 2015			At 31 December 2015			
	Total operating income <i>HK\$'000</i>	Profit before taxation <i>HK\$'000</i>	Capital expenditure during the period <i>HK\$'000</i>	Total assets <i>HK\$'000</i>	Total liabilities <i>HK\$'000</i>	Total contingent liabilities and commitments <i>HK\$'000</i>	Non-current assets <i>HK\$'000</i>
Hong Kong	993,274	762,054	14,017	117,852,280	106,488,708	17,490,015	1,136,419
Macau and Mainland China	133,171	86,388	25,907	9,965,208	6,241,021	1,148,114	56,008
America	15,071	15,910	–	20,158	176	1,353	282
Total	1,141,516	864,352	39,924	127,837,646	112,729,905	18,639,482	1,192,709

Note:

Total operating income consists of net interest income, net fee and commission income, net trading income 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 intangible assets.

4. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The condensed consolidated interim financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2015.

4.2 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets and liabilities that are measured at fair value as at 30 June 2016.

	Fair value hierarchy			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
At 30 June 2016				
Financial assets held for trading	241	–	–	241
Available-for-sale securities				
Equity securities	190,015	–	357	190,372
Debt securities	–	25,228,095	–	25,228,095
Derivative financial assets not used for hedging	–	225,005	–	225,005
Derivative financial assets used for hedging	–	133,094	–	133,094
Derivative financial liabilities not used for hedging	–	(228,563)	–	(228,563)
Derivative financial liabilities used for hedging	–	(724,927)	–	(724,927)
Total	<u>190,256</u>	<u>24,632,704</u>	<u>357</u>	<u>24,823,317</u>

The following table presents the Group's financial assets and liabilities that are measured at fair value as at 31 December 2015.

	Fair value hierarchy			Total <i>HK\$'000</i>
	Level 1 <i>HK\$'000</i>	Level 2 <i>HK\$'000</i>	Level 3 <i>HK\$'000</i>	
At 31 December 2015				
Financial assets held for trading	271	–	–	271
Available-for-sale securities				
Equity securities	189,156	–	359	189,515
Debt securities	–	22,553,562	22,972	22,576,534
Derivative financial assets not used for hedging	–	448,997	–	448,997
Derivative financial assets used for hedging	–	128,654	–	128,654
Derivative financial liabilities not used for hedging	–	(555,674)	–	(555,674)
Derivative financial liabilities used for hedging	–	(289,104)	–	(289,104)
Total	189,427	22,286,435	23,331	22,499,193

There were no transfers between Levels 1, 2 and 3 in both years.

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.

	Carrying amount <i>HK\$'000</i>	Fair value <i>HK\$'000</i>
At 30 June 2016		
Financial assets		
– Held-to-maturity securities	5,766,089	5,906,068
Financial liabilities		
– Loan capital	1,870,916	1,923,672
At 31 December 2015		
Financial assets		
– Held-to-maturity securities	8,686,530	8,760,760
Financial liabilities		
– Loan capital	1,819,591	1,873,249

4.3 Valuation techniques

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

The fair values of debt securities classified as available-for-sale securities, certificates of deposit and other debt securities classified as held-to-maturity securities and loan capital are determined based on indicative prices provided by the dealers and brokers. In addition, the Group makes comparison of the indicative prices with the prices obtained from pricing service providers and other service providers and with the values calculated using valuation models such as discounted cash flows method to substantiate the indicative prices of the debt securities. The key inputs used in the valuation models are the interest rate data, which are observable at the end of the reporting period. The objective of valuation models is to arrive at a fair value estimation that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length.

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.

There were no changes in the Group's valuation techniques during the period.

4.4 Reconciliation of Level 3 fair value measurements of financial assets

	Available- for-sale securities <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1 January 2015	14,855	14,855
Total net gains recognised in the investment revaluation reserve	8,476	8,476
Balance at 1 January 2016	23,331	23,331
Total net losses recognised in the investment revaluation reserve	(2)	(2)
Disposals	(22,972)	(22,972)
Balance at 30 June 2016	357	357

The majority of the Group's investments are valued based on quoted market information or observable market data. A small percentage, 0.001% (31 December 2015: 0.02%), 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 positions.

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.

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.

6. NET INTEREST INCOME

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Interest income		
Balances and placements with central bank and banks	164,308	278,604
Investments in securities	444,800	280,451
Loans and advances	844,808	919,936
Interest rate swaps	9,103	525
	1,463,019	1,479,516
Interest expense		
Deposits and balances of banks	(28,487)	(20,442)
Deposits from customers	(382,416)	(533,183)
Financial assets sold under repurchase agreements	(18,396)	(23,339)
Certificates of deposit	(2,685)	(24,662)
Debt securities issued	(6,932)	–
Loan capital in issue	(34,435)	(31,426)
Interest rate swaps	(6,958)	(965)
	(480,309)	(634,017)
Net interest income	982,710	845,499
Included within interest income		
Interest income on impaired loans and advances	489	103

Included within interest income and interest expense are HK\$1,453,916,000 (2015: HK\$1,478,991,000) and HK\$473,351,000 (2015: HK\$633,052,000) 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\$444,800,000 (2015: HK\$280,451,000).

7. NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Fee and commission income		
Securities dealings	48,058	110,950
Credit lines	13,312	19,783
Trade finance	5,898	5,173
Credit card services	43,933	42,812
Agency services	46,227	24,738
Others	7,772	20,993
Total fee and commission income	165,200	224,449
Less: Fee and commission expenses	(40,194)	(39,276)
Net fee and commission income	125,006	185,173
of which:		
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 designated at fair value through profit or loss		
– Fee income	67,112	84,894
– Fee expenses	(39,787)	(38,692)
	27,325	46,202

8. NET TRADING INCOME

	Six months ended 30 June	
	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Foreign exchange	43,525	46,860
Net income from financial assets designated at fair value	717	–
Net losses on financial instruments at fair value through profit or loss	(1,906)	(4,360)
Net gains (losses) on fair value hedge:		
– Net gains (losses) on hedged items attributable to the hedged risk	337,985	(24,079)
– Net (losses) gains on hedging instruments	(335,234)	23,683
	<u>45,087</u>	<u>42,104</u>

“Net trading income – foreign exchange” includes gains and losses from spot and forward contracts, swaps and translated foreign currency assets and liabilities, which are not designated as qualifying hedging relationship.

9. OTHER OPERATING INCOME

	Six months ended 30 June	
	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Dividend income		
– Listed investments	1,492	1,952
– Unlisted investments	3,400	3,300
	4,892	5,252
Gross rents from investment properties	3,693	4,469
Less: Outgoings	(208)	(534)
Net rental income	3,485	3,935
Safe deposit box rentals	24,218	23,900
Insurance underwriting premium less claims and commission expense	7,658	10,589
Other banking services income	27,810	24,132
Others	3,629	932
	<u>71,692</u>	<u>68,740</u>

10. OPERATING EXPENSES

	Six months ended 30 June	
	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Auditor's remuneration	1,999	1,999
Staff costs (including directors' emoluments)		
– Salaries and other costs	318,297	312,734
– Retirement benefits scheme contributions	21,132	16,488
– capitalised to intangible assets	(10,900)	–
Total staff costs	328,529	329,222
Depreciation	29,283	24,711
– Capitalised to intangible assets	(2,107)	–
	27,176	24,711
Release of prepaid lease payments for land	33	33
Premises and equipment expenses, excluding depreciation and release of prepaid lease payments for land		
– Rentals and rates for premises	64,839	57,965
– Capitalised to intangible assets	(1,832)	–
	63,007	57,965
– Others	13,511	14,757
Other operating expenses	124,796	97,427
– Capitalised to intangible assets	(740)	–
	<u>558,311</u>	<u>526,114</u>

Included in the premises and equipment expenses are minimum lease payments under operating leases of HK\$60,236,000 (2015: HK\$53,919,000).

11. IMPAIRMENT ASSESSMENT ON GOODWILL

For the six-month period ended 30 June 2016, 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 smallest cash-generating unit) to which the goodwill has been allocated. The acquired subsidiary is involved in 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 estimated terminal value at the end of the five-year 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 terminal value. Key assumptions include the expected growth in revenues (growth rate at 5%) (2015: growth rate at 4% to 29.9%), long term growth rate (3%) (2015: 3%) and selection of discount rate (12%) (2015: 12%).

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

The management of the Group determines that there is no impairment loss on the goodwill for the six-month periods ended 30 June 2016 and 30 June 2015.

12. TAXATION

	Six months ended 30 June	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
The tax charge comprises:		
Hong Kong Profits Tax	99,876	108,087
Overseas taxation	14,217	27,722
Deferred tax	1,207	2,576
	<hr/>	<hr/>
	115,300	138,385
	<hr/> <hr/>	<hr/> <hr/>

Hong Kong Profits Tax is calculated at 16.5% (2015: 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 AND DILUTED

The calculation of basic earnings per share is based on the profit attributable to equity owners of the Bank of HK\$591,973,000 (2015: HK\$725,967,000) with deduction of distribution payment for additional equity instruments of HK\$75,795,000 (2015: HK\$75,606,000) and on 652,500,000 (2015: 450,239,000 weighted average) ordinary shares in issue.

Basic earnings per share for 30 June 2015 has been restated to take into account the effects of the rights issue of the Bank completed in the year of 2015.

There were no potential dilutive instrument in issue during both periods.

14. DIVIDENDS

On 1 June 2016, a dividend of HK\$0.37 per share totalling HK\$241,425,000 was paid to shareholders as the final dividend for 2015.

On 3 June 2015, a dividend of HK\$0.41 per share totalling HK\$178,350,000 was paid to shareholders as the final dividend for 2014.

Subsequent to the end of the interim period, the Board has declared a total amount of interim dividend in respect of the financial year ending 31 December 2016 of HK\$97,875,000 (2015: HK\$91,350,000) at a rate of HK\$0.15 (2015: HK\$0.21) per share should be paid to the shareholders of the Bank whose names appear on the Register of Members on 14 September 2016.

15. CASH AND SHORT-TERM FUNDS

	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Cash and balances with central bank and banks	3,049,776	5,639,475
Money at call and short notice	17,264,949	12,493,978
Exchange fund bills	2,804,971	3,298,441
	<u>23,119,696</u>	<u>21,431,894</u>

Included in the “Cash and balances with central bank and banks” are surplus reserve deposits placed with People’s Bank of China in the Mainland China by the Shantou Branch of the Bank of HK\$205,778,000 (31 December 2015: HK\$1,300,185,000).

16. DERIVATIVE FINANCIAL INSTRUMENTS

	Notional amount <i>HK\$'000</i>	30 June 2016	
		Assets <i>HK\$'000</i>	Fair value Liabilities <i>HK\$'000</i>
Derivatives held for trading			
– Foreign currency forward contracts	55,602,675	218,214	220,152
– Interest rate swaps	577,956	6,791	8,411
Derivatives designated as hedging instruments			
– Interest rate swaps	12,405,457	133,094	724,927
		358,099	953,490
		358,099	953,490
		31 December 2015	
	Notional amount <i>HK\$'000</i>	Assets <i>HK\$'000</i>	Fair value Liabilities <i>HK\$'000</i>
Derivatives held for trading			
– Foreign currency forward contracts	50,451,669	442,399	549,336
– Interest rate swaps	1,141,030	6,598	6,338
Derivatives designated as hedging instruments			
– Interest rate swaps	11,579,083	128,654	289,104
		577,651	844,778
		577,651	844,778

As at 30 June 2016, the currencies of foreign currency forward contracts mainly comprise buying Hong Kong dollars and United States dollars (31 December 2015: Hong Kong dollars and United States dollars), and the currencies of foreign currency forward contracts mainly comprise selling Hong Kong dollars and United States dollars (31 December 2015: Renminbi and United States dollars). As at 30 June 2016 and 31 December 2015, all of these contracts have settlement dates within one year from the end of the reporting period.

17. INVESTMENTS IN SECURITIES

	Financial assets at fair value through profit or loss				Total HK\$'000
	Held for trading HK\$'000	Designated at fair value HK\$'000	Available-for-sale securities HK\$'000	Held-to-maturity securities HK\$'000	
30 June 2016					
Equity securities:					
Listed in Hong Kong	241	–	187,575	–	187,816
Listed overseas	–	–	2,440	–	2,440
	<u>241</u>	<u>–</u>	<u>190,015</u>	<u>–</u>	<u>190,256</u>
Unlisted	–	–	33,936	–	33,936
	<u>241</u>	<u>–</u>	<u>223,951</u>	<u>–</u>	<u>224,192</u>
Debt securities (Unlisted)					
Certificates of deposit	–	–	6,534,489	152,561	6,687,050
Other debt securities	–	–	18,693,606	5,613,528	24,307,134
	<u>–</u>	<u>–</u>	<u>25,228,095</u>	<u>5,766,089</u>	<u>30,994,184</u>
Total:					
Listed in Hong Kong	241	–	187,575	–	187,816
Listed overseas	–	–	2,440	–	2,440
Unlisted	–	–	25,262,031	5,766,089	31,028,120
	<u>241</u>	<u>–</u>	<u>25,452,046</u>	<u>5,766,089</u>	<u>31,218,376</u>
As analysed by issuing entities:					
Central governments and central banks	–	–	2,089,671	4,682	2,094,353
Public sector entities	–	–	18	40,499	40,517
Banks	–	–	11,695,243	1,093,367	12,788,610
Corporate entities	241	–	11,667,114	4,627,541	16,294,896
	<u>241</u>	<u>–</u>	<u>25,452,046</u>	<u>5,766,089</u>	<u>31,218,376</u>

	Financial assets at fair value through profit or loss				Total HK\$'000
	Held for trading HK\$'000	Designated at fair value HK\$'000	Available- for-sale securities HK\$'000	Held-to- maturity securities HK\$'000	
31 December 2015					
Equity securities:					
Listed in Hong Kong	271	–	186,172	–	186,443
Listed overseas	–	–	2,984	–	2,984
	<u>271</u>	<u>–</u>	<u>189,156</u>	<u>–</u>	<u>189,427</u>
Unlisted	–	–	34,333	–	34,333
	<u>271</u>	<u>–</u>	<u>223,489</u>	<u>–</u>	<u>223,760</u>
Debt securities (Unlisted)					
Certificates of deposit	–	–	7,264,655	2,720,985	9,985,640
Other debt securities	–	–	15,311,879	5,965,545	21,277,424
	<u>–</u>	<u>–</u>	<u>22,576,534</u>	<u>8,686,530</u>	<u>31,263,064</u>
Total:					
Listed in Hong Kong	271	–	186,172	–	186,443
Listed overseas	–	–	2,984	–	2,984
Unlisted	–	–	22,610,867	8,686,530	31,297,397
	<u>271</u>	<u>–</u>	<u>22,800,023</u>	<u>8,686,530</u>	<u>31,486,824</u>
As analysed by issuing entities:					
Central governments and central banks	–	–	1,762,697	16,183	1,778,880
Public sector entities	–	–	17	39,802	39,819
Banks	–	–	10,866,759	3,986,232	14,852,991
Corporate entities	271	–	10,170,191	4,644,313	14,814,775
Others	–	–	359	–	359
	<u>271</u>	<u>–</u>	<u>22,800,023</u>	<u>8,686,530</u>	<u>31,486,824</u>

For the equity securities classified as available-for-sale financial instruments, impairment losses accumulated through the years of HK\$24,384,000 (31 December 2015: HK\$30,078,000) have been provided by the Group.

Unlisted equity securities classified as available-for-sale securities held by the Group amounting to HK\$33,579,000 (31 December 2015: HK\$33,974,000) are measured at cost less impairment. No impairment has been recognised for these equity securities.

Certain held-to-maturity certificates of deposit of HK\$7,836,000 (31 December 2015: HK\$17,052,000) held by the San Francisco representative office 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 available-for-sale and held-to-maturity amounting to HK\$13,982,000 (31 December 2015: nil) and HK\$4,682,000 (31 December 2015: HK\$16,183,000) respectively, were issued by the Government of Hong Kong Special Administrative Region and the Mainland China.

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

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 2016 and 31 December 2015 that were transferred to an entity with terms to repurchase these debt securities at agreed dates and prices. As the Group has retained substantially all the risks and rewards relating to these debt securities, 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 24). The transferred debt securities serve as collateral to secure these liabilities. During the covered period, the legal title of the debt securities are 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 condensed consolidated statement of financial position.

	Available- for-sale debt securities HK\$'000	30 June 2016 Held-to- maturity debt securities HK\$'000	Total HK\$'000
Carrying amount of transferred assets	9,311,843	2,702,393	12,014,236
Carrying amount of associated liabilities (Note 24)	<u>8,493,065</u>	<u>2,466,252</u>	<u>10,959,317</u>
		31 December 2015	
	Available- for-sale debt securities HK\$'000	Held-to- maturity debt securities HK\$'000	Total HK\$'000
Carrying amount of transferred assets	2,956,066	534,753	3,490,819
Carrying amount of associated liabilities (Note 24)	<u>2,805,533</u>	<u>517,150</u>	<u>3,322,683</u>

19. ADVANCES AND OTHER ACCOUNTS

	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Advances to customers		
Bills receivable	500,051	498,288
Trade bills	863,747	4,741,164
Other advances to customers	63,019,614	58,360,560
	64,383,412	63,600,012
Interest receivable	451,570	507,384
Impairment allowances		
– Individually assessed	(44,094)	(23,688)
– Collectively assessed	(242,562)	(250,494)
	64,548,326	63,833,214
Advances to banks	107,071	–
Other accounts	1,804,335	1,553,434
	66,459,732	65,386,648

Included in the “Other Accounts” is variation margin of HK\$749,181,000 (31 December 2015: HK\$362,753,000) deposited in banks for certain interest rate swaps, foreign currency forward contracts and repurchase agreements and an amount of approximately HK\$422,097,000 (31 December 2015: HK\$313,914,000) placed as reserve funds with a financial institution in the Mainland China by the Shantou Branch of the Bank. Among which, HK\$261,346,000 (31 December 2015: HK\$151,741,000) are the mandatory reserve deposits placed with the People’s Bank of China. The mandatory reserve deposits are not available for the Group’s daily operation; HK\$160,751,000 (31 December 2015: HK\$162,173,000) are the fixed deposits placed with a bank in the Mainland China in compliance with the requirements of Regulations Governing Foreign Financial Institutions of the Mainland China.

The remaining balance of “Other Accounts” of the Group amounting to HK\$633,057,000 (31 December 2015: HK\$518,797,000) mainly included account receivables from Hong Kong Securities Clearing Company Limited, Hong Kong Futures Exchange Clearing Corporation Limited and brokerage clients in relation to securities dealing of HK\$319,727,000 (31 December 2015: HK\$239,587,000).

Impairment allowances on advances:

	Individual assessment <i>HK\$'000</i>	Collective assessment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance 1 January 2016	23,688	250,494	274,182
– Increase in impairment allowances	26,435	–	26,435
– Amounts reversed	(2,303)	(7,649)	(9,952)
Charge (reversal) of impairment allowances (net)	24,132	(7,649)	16,483
Amounts written off	(3,777)	–	(3,777)
Recoveries of advances written off in previous years	540	–	540
Unwinding effect of discount rate	(489)	–	(489)
Exchange adjustments	–	(283)	(283)
Balance 30 June 2016	44,094	242,562	286,656
Balance 1 January 2015	19,945	238,987	258,932
– Increase in impairment allowances	19,813	12,439	32,252
– Amounts reversed	(9,504)	–	(9,504)
Charge of impairment allowances (net)	10,309	12,439	22,748
Amounts written off	(8,558)	–	(8,558)
Recoveries of advances written off in previous years	2,149	–	2,149
Unwinding effect of discount rate	(163)	–	(163)
Exchange adjustments	6	(932)	(926)
Balance 31 December 2015	23,688	250,494	274,182

Details of the impaired loans are as follows:

	30 June 2016 <i>HK\$'000</i>	31 December 2015 <i>HK\$'000</i>
Gross impaired loans	64,332	25,227
Less: Impairment allowances under individual assessment	(44,094)	(23,688)
Net impaired loans	20,238	1,539
Gross impaired loans as a percentage of gross advances to customers	0.10%	0.04%
Market value of collateral pledged	31,935	12,412

Details of the non-performing loans are as follows:

	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Gross non-performing loans (<i>Note</i>)	565,921	227,138
Less: Impairment allowances under individual assessment	<u>(44,094)</u>	<u>(23,688)</u>
Net non-performing loans	<u>521,827</u>	<u>203,450</u>
Gross non-performing loans as a percentage of gross advances to customers	<u>0.88%</u>	<u>0.36%</u>
Market value of collateral pledged	<u>1,256,992</u>	<u>574,177</u>

Note: Non-performing loans represent advances which are either classified as “substandard”, “doubtful” or “loss” under the Group’s classification of loan quality. The occurrence of loss event(s) may not necessarily result in impairment loss where the advances are fully collateralised. While such advances are of “substandard” or lower grades, they are regarded as not being impaired and have been included as non-performing loans.

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.

20. INVESTMENT PROPERTIES

	2016 HK\$'000	2015 HK\$'000
At 1 January	264,222	288,413
Transfer from land and buildings	–	13,200
Transfer to assets held for sale	–	(141,954)
Net increase in fair value recognised in the profit or loss	–	106,737
Exchange adjustments	<u>(512)</u>	<u>(2,174)</u>
At 30 June / 31 December	<u>263,710</u>	<u>264,222</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 fair value adjustments on investment properties:

	Six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Net gains on fair value adjustments on investment properties	<u>–</u>	<u>100,769</u>

Investment properties owned by the Group were revalued at 30 June 2016 by adopting the direct comparison approach and with reference to the recent transactions for similar premises by Vigers Appraisal and Consulting Limited, independent professional qualified valuer. The fair value is mainly arrived at by reference to comparable market transactions for similar properties.

The fair value of investment properties is 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 or are held for capital appreciation purposes.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

One of the key inputs used in valuing the investment properties was the unit sale rate taking into account of time, location and individual factors such as size and levels of building, which ranged from HK\$5,800 to HK\$45,000 (2015: HK\$5,800 to HK\$45,000) per square feet. A decrease in the unit sale rate would result in decrease in fair value measurement of the investment properties by the same percentage decrease and vice versa.

Investment properties are classified as Level 3 under fair value hierarchy as at 30 June 2016 and 31 December 2015. There were no transfers into or out of Level 3 during the period.

21. PROPERTY AND EQUIPMENT

	Leasehold land <i>HK\$'000</i>	Buildings <i>HK\$'000</i>	Equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST				
At 1 January 2016	486,181	163,595	641,040	1,290,816
Additions	–	–	43,844	43,844
Disposals	–	–	(5,712)	(5,712)
Exchange adjustments	–	(59)	(863)	(922)
At 30 June 2016	486,181	163,536	678,309	1,328,026
ACCUMULATED DEPRECIATION				
At 1 January 2016	131,429	48,663	482,947	663,039
Depreciation	5,416	1,999	21,868	29,283
Eliminated on disposals	–	–	(5,459)	(5,459)
Exchange adjustments	–	–	(337)	(337)
At 30 June 2016	136,845	50,662	499,019	686,526
CARRYING AMOUNTS				
At 30 June 2016	349,336	112,874	179,290	641,500
At 1 January 2016	354,752	114,932	158,093	627,777
COST				
At 1 January 2015	486,350	166,070	577,595	1,230,015
Additions	–	–	72,185	72,185
Disposals	–	–	(8,740)	(8,740)
Transfer to investment properties	(169)	(2,212)	–	(2,381)
Exchange adjustments	–	(263)	–	(263)
At 31 December 2015	486,181	163,595	641,040	1,290,816
ACCUMULATED DEPRECIATION				
At 1 January 2015	120,634	45,160	454,265	620,059
Depreciation	10,834	4,016	37,255	52,105
Eliminated on disposals	–	–	(8,573)	(8,573)
Transfer to investment properties	(39)	(513)	–	(552)
At 31 December 2015	131,429	48,663	482,947	663,039
CARRYING AMOUNTS				
At 31 December 2015	354,752	114,932	158,093	627,777

22. PREPAID LEASE PAYMENTS FOR LAND

The prepaid lease payments for land comprise:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
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	2,269	2,336
Release of prepaid operating lease payments	(33)	(66)
Exchange adjustments	<u>–</u>	<u>(1)</u>
Net book value at 30 June/31 December	<u>2,236</u>	<u>2,269</u>
Analysed as:		
Current portion	33	66
Non-current portion	<u>2,203</u>	<u>2,203</u>
Total	<u>2,236</u>	<u>2,269</u>

23. INTANGIBLE ASSETS

	30 June 2016 <i>HK\$'000</i>	31 December 2015 <i>HK\$'000</i>
Internally developed software	84,220	–
Goodwill (<i>Note 11</i>)	<u>50,606</u>	<u>50,606</u>
	<u>134,826</u>	<u>50,606</u>

During the period, there was an addition of HK\$84,220,000 to internally developed software, which is a computer software currently under internal development.

24. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	30 June 2016 <i>HK\$'000</i>	31 December 2015 <i>HK\$'000</i>
Analysed by collateral type:		
Debt securities classified as:		
Available-for-sale	8,493,065	2,805,533
Held-to-maturity	<u>2,466,252</u>	<u>517,150</u>
	<u>10,959,317</u>	<u>3,322,683</u>

As at 30 June 2016, debt securities which are classified as available-for-sale and held-to-maturity with carrying amounts of HK\$9,311,843,000 (31 December 2015: HK\$2,956,066,000) and HK\$2,702,393,000 (31 December 2015: HK\$534,753,000) respectively were sold under repurchase agreements with other banks. All repurchase agreements are due within 12 months from the end of the reporting period.

25. DEPOSITS FROM CUSTOMERS

	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Demand deposits and current accounts	8,233,132	8,032,054
Savings deposits	32,398,041	31,440,381
Time, call and notice deposits	47,387,340	59,919,929
	88,018,513	99,392,364

26. CERTIFICATES OF DEPOSIT AND DEBT SECURITIES ISSUED

The Group has issued certificates of deposit which are measured at amortised cost with a total carrying amount of HK\$469,979,000 as at 30 June 2016 (31 December 2015: HK\$351,962,000). Certificates of deposit bear contractual interest rates between 1.10% to 1.41% (31 December 2015: 0.84% to 1.2%) per annum and will mature in 2017. All certificates of deposit issued are not secured by any collateral.

The Group has issued debt securities which are measured at amortised cost with a total carrying amount of HK\$1,740,440,000 as at 30 June 2016. The debt securities issued bear contractual interest rate at 3.6% per annum and will mature in 2019. The debt securities issued are not secured by any collateral.

27. LOAN CAPITAL

	30 June 2016 HK\$'000	31 December 2015 HK\$'000
US\$225 million fixed rate subordinated note due 2020 under fair value hedge (after adjustment of hedged interest rate risk) (<i>Notes (a) & (b)</i>)	1,870,916	1,819,591

Notes:

- (a) This represented a subordinated note qualifying as tier 2 capital under Basel II accord 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 “Change in Status Notice” has not been served, the rate of interest on the note remains at 6% per annum.
- (b) The subordinated note issued is not secured by any collateral.

28. 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 2016 HK\$'000	31 December 2015 HK\$'000
Deferred tax assets	5,670	10,744
Deferred tax liabilities	(10,776)	(10,069)
	<u>(5,106)</u>	<u>675</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 2016	(3,881)	38,327	(7,653)	(22,626)	(3,492)	675
Charge to the income statement for the period	(392)	(815)	-	-	-	(1,207)
Charge to other comprehensive income for the period	-	-	-	(4,677)	-	(4,677)
Exchange adjustments	-	-	103	-	-	103
At 30 June 2016	<u>(4,273)</u>	<u>37,512</u>	<u>(7,550)</u>	<u>(27,303)</u>	<u>(3,492)</u>	<u>(5,106)</u>
At 1 January 2015	(6,844)	38,138	(4,729)	(41,927)	(3,492)	(18,854)
Credit (charge) to the income statement for the year	2,963	189	(3,607)	-	-	(455)
Credit to other comprehensive income for the year	-	-	-	19,301	-	19,301
Exchange adjustments	-	-	683	-	-	683
At 31 December 2015	<u>(3,881)</u>	<u>38,327</u>	<u>(7,653)</u>	<u>(22,626)</u>	<u>(3,492)</u>	<u>675</u>

29. ADDITIONAL EQUITY INSTRUMENTS

	30 June 2016 HK\$'000	31 December 2015 HK\$'000
US\$300 million undated non-cumulative subordinated additional tier 1 capital securities	<u>2,312,030</u>	<u>2,312,030</u>

On 25 September 2014, the Bank issued undated non-cumulative subordinated additional tier 1 capital securities (“Additional Tier 1 Capital Securities”) with a face value of US\$300 million (equivalent to HK\$2,312,030,000 net of related issuance costs). The Additional Tier 1 Capital Securities are undated and bear a 6.50% coupon until the first call date on 25 September 2019. The coupon will be reset every five years if the Additional Tier 1 Capital Securities are not redeemed to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 4.628% per annum.

The coupon shall be payable semi-annually. The Bank has the right to cancel coupon payment (subject to the requirement as set out in the terms and conditions of the Additional Tier 1 Capital Securities) and the coupon cancelled shall not be cumulative. However, the Bank is stopped from declaring dividend to its ordinary shareholders unless the next scheduled coupon payment is paid.

The principal of the Additional Tier 1 Capital Securities will be written off up to the amount as directed or agreed with the HKMA if the HKMA notifies the Bank that in the opinion of the HKMA, the Bank would become non-viable if there is no written off of the principal.

The Bank has a call option to redeem all the outstanding capital securities from 25 September 2019 or any subsequent coupon payment date, but subject to restriction as set out in the terms and conditions.

During the period, a distribution payment of US\$9,750,000 (2015: US\$9,750,000) (equivalent to HK\$75,795,000) (2015: HK\$75,606,000) was paid to the securities holders.

30. MATURITY PROFILES

The maturity analysis of financial assets and liabilities shown on the condensed consolidated statement of financial position are presented based on the Group's remaining contractual 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 2016								
Assets								
Cash and short-term funds	2,545,844	17,458,543	1,495,196	1,620,113	-	-	-	23,119,696
Placements with banks	-	-	2,739,167	1,078,358	-	-	-	3,817,525
Derivative financial instruments	-	30,654	32,332	155,228	139,885	-	-	358,099
Financial assets at fair value through profit or loss	-	-	-	-	-	-	241	241
Available-for-sale securities	-	843,718	2,090,711	6,060,406	9,357,314	6,875,946	223,951	25,452,046
Held-to-maturity securities	-	7,836	-	991,188	4,268,433	498,632	-	5,766,089
Advances to customers	1,774,108	7,450,755	4,245,259	13,127,221	20,413,191	16,432,556	940,322	64,383,412
Advances to banks	-	-	-	-	107,071	-	-	107,071
Other financial assets	1,567,592	280,240	195,715	180,495	17,094	19,762	(291,649)	1,969,249
Total financial assets	5,887,544	26,071,746	10,798,380	23,213,009	34,302,988	23,826,896	872,865	124,973,428
Liabilities								
Deposits and balances of banks	6,698	2,940,589	2,443,330	221,141	-	-	-	5,611,758
Financial assets sold under repurchase agreements	-	5,310,325	4,261,709	1,387,283	-	-	-	10,959,317
Deposits from customers	40,726,177	19,588,913	20,316,497	7,345,806	41,120	-	-	88,018,513
Certificates of deposit	-	-	-	469,979	-	-	-	469,979
Derivative financial instruments	532	136,047	58,100	28,200	223,932	506,679	-	953,490
Debt securities issued	-	-	-	-	1,740,440	-	-	1,740,440
Loan capital	-	-	-	-	1,870,916	-	-	1,870,916
Other financial liabilities	458,147	112,558	117,981	306,189	17,174	-	-	1,012,049
Total financial liabilities	41,191,554	28,088,432	27,197,617	9,758,598	3,893,582	506,679	-	110,636,462
Net position								
- Total financial assets and liabilities	<u>(35,304,010)</u>	<u>(2,016,686)</u>	<u>(16,399,237)</u>	<u>13,454,411</u>	<u>30,409,406</u>	<u>23,320,217</u>	<u>872,865</u>	<u>14,336,966</u>
Of which certificates of deposit included in:								
Available-for-sale securities	-	639,624	1,510,747	3,791,947	592,171	-	-	6,534,489
Held-to-maturity securities	-	7,836	-	-	144,725	-	-	152,561
	<u>-</u>	<u>647,460</u>	<u>1,510,747</u>	<u>3,791,947</u>	<u>736,896</u>	<u>-</u>	<u>-</u>	<u>6,687,050</u>
Of which debt securities included in:								
Available-for-sale securities	-	843,718	2,090,711	6,060,406	9,357,314	6,875,946	-	25,228,095
Held-to-maturity securities	-	7,836	-	991,188	4,268,433	498,632	-	5,766,089
	<u>-</u>	<u>851,554</u>	<u>2,090,711</u>	<u>7,051,594</u>	<u>13,625,747</u>	<u>7,374,578</u>	<u>-</u>	<u>30,994,184</u>

	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 2015								
Assets								
Cash and short-term funds	4,179,736	14,626,930	1,837,328	787,900	–	–	–	21,431,894
Placements with banks	–	–	2,478,636	5,272,474	–	–	–	7,751,110
Derivative financial instruments	–	66,353	176,049	199,997	94,301	40,951	–	577,651
Financial assets at fair value through profit or loss	–	–	–	–	–	–	271	271
Available-for-sale securities	–	276,757	2,286,540	6,605,075	6,978,460	6,429,702	223,489	22,800,023
Held-to-maturity securities	–	217,624	2,620,744	180,372	5,169,265	498,525	–	8,686,530
Advances to customers	2,022,570	9,397,795	5,152,563	10,697,068	19,662,127	15,959,528	708,361	63,600,012
Other financial assets	993,045	641,554	198,061	236,212	533	–	(282,769)	1,786,636
Total financial assets	7,195,351	25,227,013	14,749,921	23,979,098	31,904,686	22,928,706	649,352	126,634,127
Liabilities								
Deposits and balances of banks	7,259	3,127,916	2,465,629	127,509	–	–	–	5,728,313
Financial assets sold under repurchase agreements	–	256,269	3,066,414	–	–	–	–	3,322,683
Deposits from customers	39,629,677	24,980,815	29,177,025	5,563,550	41,297	–	–	99,392,364
Certificates of deposit	–	–	161,981	189,981	–	–	–	351,962
Derivative financial instruments	–	26,517	67,194	460,131	62,044	228,892	–	844,778
Loan capital	–	–	–	–	1,819,591	–	–	1,819,591
Other financial liabilities	339,996	136,484	326,930	304,236	17,042	–	–	1,124,688
Total financial liabilities	39,976,932	28,528,001	35,265,173	6,645,407	1,939,974	228,892	–	112,584,379
Net position								
– Total financial assets and liabilities	<u>(32,781,581)</u>	<u>(3,300,988)</u>	<u>(20,515,252)</u>	<u>17,333,691</u>	<u>29,964,712</u>	<u>22,699,814</u>	<u>649,352</u>	<u>14,049,748</u>
Of which certificates of deposit included in:								
Available-for-sale securities	–	276,756	1,993,340	4,498,395	496,164	–	–	7,264,655
Held-to-maturity securities	–	17,051	2,561,778	–	142,156	–	–	2,720,985
	<u>–</u>	<u>293,807</u>	<u>4,555,118</u>	<u>4,498,395</u>	<u>638,320</u>	<u>–</u>	<u>–</u>	<u>9,985,640</u>
Of which debt securities included in:								
Available-for-sale securities	–	276,757	2,286,540	6,605,075	6,978,460	6,429,702	–	22,576,534
Held-to-maturity securities	–	217,624	2,620,744	180,372	5,169,265	498,525	–	8,686,530
	<u>–</u>	<u>494,381</u>	<u>4,907,284</u>	<u>6,785,447</u>	<u>12,147,725</u>	<u>6,928,227</u>	<u>–</u>	<u>31,263,064</u>

31. RELATED PARTY TRANSACTIONS

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

	Interest, commission, net trading and rental income		Interest, rental and other operating expenses	
	Six months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Ultimate holding company	1	22,422	21,306	3,708
Intermediate holding company	4,975	–	–	–
Fellow subsidiaries	19,584	10,256	9,794	19,858
Associates	36,973	16,209	2,417	2,152
Key management personnel (<i>Note</i>)	324	331	524	1,150

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

	Amounts due from related parties		Amounts due to related parties	
	30 June	31 December	30 June	31 December
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Ultimate holding company	–	–	274,545	2,153,574
Fellow subsidiaries	2,623	301,064	2,236,621	1,147,378
Associates	–	5,835	557,524	254,191
Key management personnel (<i>Note</i>)	38,583	53,352	161,957	165,407

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.

As at 30 June 2016, the Group held available-for-sale debt securities issued by a fellow subsidiary of HK\$233,984,000 (31 December 2015: HK\$230,513,000).

As at 30 June 2016, the Group had fair value liabilities on derivative financial instruments with an intermediate holding company of HK\$6,092,000 (31 December 2015: Nil).

As at 30 June 2016, the Group had operating lease commitments with fellow subsidiaries of HK\$26,210,000 (31 December 2015: HK\$32,161,000).

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 was as follows:

	Six months ended 30 June	
	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Short-term benefits	64,968	56,505
Post employment benefits	<u>4,384</u>	<u>3,398</u>
	<u>69,352</u>	<u>59,903</u>

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

32. ESTIMATES

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

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2015.

33. 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 2016

1. ADVANCES TO CUSTOMERS – BY INDUSTRY SECTORS

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

	30 June 2016				
	Gross loans and advances <i>HK\$'000</i>	Collective impairment allowances <i>HK\$'000</i>	Individual impairment allowances <i>HK\$'000</i>	Loans and advances secured by collateral <i>HK\$'000</i> <i>(Note 1)</i>	Gross impaired advances <i>HK\$'000</i>
Loans for use in Hong Kong					
Industrial, commercial and financial					
– Property development	3,228,862	12,463	–	983,116	–
– Property investment	6,851,057	36,675	–	6,571,355	–
– Financial concerns	2,307,683	8,073	–	1,477,797	–
– Stockbrokers	2,679,997	9,370	–	1,490,122	–
– Wholesale and retail trade	3,190,381	28,186	7,257	1,673,540	7,256
– Manufacturing	2,936,734	37,119	4,671	1,685,285	9,035
– Transport and transport equipment	1,827,691	9,116	–	871,708	–
– Recreational activities	1,161	–	–	1,161	–
– Information technology	8,645	121	–	2,722	–
– Others (<i>Note 2</i>)	10,887,686	54,461	3,489	6,062,301	9,476
Individuals					
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	493,670	–	–	493,671	–
– Loans for the purchase of other residential properties	8,179,576	–	–	8,176,663	–
– Credit card advances	74,082	1,187	798	–	798
– Others (<i>Note 3</i>)	2,405,566	4,380	756	2,077,735	3,495
	45,072,791	201,151	16,971	31,567,176	30,060
Trade finance	2,291,346	9,351	26,323	791,612	30,154
Loans for use outside Hong Kong	17,019,275	32,060	800	4,344,867	4,118
	64,383,412	242,562	44,094	36,703,655	64,332

31 December 2015

	Gross loans and advances <i>HK\$'000</i>	Collective impairment allowances <i>HK\$'000</i>	Individual impairment allowances <i>HK\$'000</i>	Loans and advances secured by collateral <i>HK\$'000</i> <i>(Note 1)</i>	Gross impaired advances <i>HK\$'000</i>
Loans for use in Hong Kong					
Industrial, commercial and financial					
– Property development	2,189,155	8,733	–	1,066,507	–
– Property investment	7,140,081	41,102	–	6,762,493	–
– Financial concerns	3,907,080	13,643	–	2,857,545	–
– Stockbrokers	1,673,788	6,699	–	1,047,000	–
– Wholesale and retail trade	2,807,443	33,402	8,659	1,752,215	8,659
– Manufacturing	2,880,266	38,760	2,656	1,658,538	2,656
– Transport and transport equipment	1,483,263	9,248	–	856,509	–
– Recreational activities	1,173	–	–	1,173	–
– Information technology	46,979	779	–	132	–
– Others <i>(Note 2)</i>	9,474,669	53,750	340	5,744,183	340
Individuals					
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	497,758	–	–	497,758	–
– Loans for the purchase of other residential properties	8,015,269	–	–	8,014,320	–
– Credit card advances	101,009	1,610	692	–	717
– Others <i>(Note 3)</i>	2,217,239	3,657	867	1,779,564	867
	42,435,172	211,383	13,214	32,037,937	13,239
Trade finance	5,651,328	4,696	9,680	740,892	9,680
Loans for use outside Hong Kong	15,513,512	34,415	794	4,980,269	2,308
	<u>63,600,012</u>	<u>250,494</u>	<u>23,688</u>	<u>37,759,098</u>	<u>25,227</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 purposes.

The Group's advances to customers overdue for over three months as at 30 June 2016 and 31 December 2015, and new impairment allowances and advances written-off during the six months ended 30 June 2016 and 2015 in respect of industry sectors which constitute not less than 10% of gross advances to customers are analysed as follows:

	Advances overdue for over three months as at 30 June HK\$'000	2016 New impairment allowances during the six months ended 30 June HK\$'000	Advances written-off during six months ended 30 June HK\$'000
Loans for use in Hong Kong			
Industrial, commercial and financial			
– Property investment	13,428	–	–
– Others	76,776	2,458	236
Individuals			
– Loans for the purchase of other residential properties	10,759	472	472
Loans for use outside Hong Kong	<u>125,654</u>	<u>94</u>	<u>–</u>
		2015	
	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 six months ended 30 June HK\$'000
Loans for use in Hong Kong			
Industrial, commercial and financial			
– Property investment	159,725	–	–
– Others	340	4,435	4,397
Individuals			
– Loans for the purchase of other residential properties	419	28	28
Trade finance	56,392	7,990	–
Loans for use outside Hong Kong	<u>135,274</u>	<u>61</u>	<u>–</u>

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 2016				
	Total advances <i>HK\$'000</i>	Advances overdue for over three months <i>HK\$'000</i>	Impaired advances <i>HK\$'000</i>	Individual impairment allowance <i>HK\$'000</i>	Collective impairment allowance <i>HK\$'000</i>
Hong Kong	53,406,488	282,181	62,024	43,300	209,259
Mainland China	8,354,810	2,308	2,308	794	24,163
Macau	2,543,099	–	–	–	9,140
Others	79,015	–	–	–	–
	<u>64,383,412</u>	<u>284,489</u>	<u>64,332</u>	<u>44,094</u>	<u>242,562</u>
	31 December 2015				
	Total advances <i>HK\$'000</i>	Advances overdue for over three months <i>HK\$'000</i>	Impaired advances <i>HK\$'000</i>	Individual impairment allowance <i>HK\$'000</i>	Collective impairment allowance <i>HK\$'000</i>
Hong Kong	51,355,270	375,988	22,919	22,894	217,953
Mainland China	9,832,239	2,308	2,308	794	24,204
Macau	2,386,415	–	–	–	8,337
America	3,110	–	–	–	–
Others	22,978	–	–	–	–
	<u>63,600,012</u>	<u>378,296</u>	<u>25,227</u>	<u>23,688</u>	<u>250,494</u>

3. INTERNATIONAL CLAIMS

The Group's international 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:

	At 30 June 2016				
	Non-bank private sector				
	Banks	Official	Non-bank	Non-	Total
	HK\$'000	sector	financial	financial	sector
	HK\$'000	HK\$'000	institutions	private	sector
	HK\$'000	HK\$'000	HK\$'000	sector	HK\$'000
Offshore centres	3,512,217	2,754	6,512,690	11,621,439	21,649,100
of which					
– Hong Kong	3,511,656	2,754	1,770,520	4,283,643	9,568,573
Developing					
Asia-Pacific	18,755,812	627,122	833,236	7,989,856	28,206,026
of which					
– Mainland China	18,320,860	627,122	632,864	7,709,508	27,290,354
Developed countries	<u>5,602,073</u>	<u>1,454,846</u>	<u>1,057,768</u>	<u>548,347</u>	<u>8,663,034</u>
	At 31 December 2015				
	Non-bank private sector				
	Banks	Official	Non-bank	Non-	Total
	HK\$'000	sector	financial	financial	sector
	HK\$'000	HK\$'000	institutions	private	sector
	HK\$'000	HK\$'000	HK\$'000	sector	HK\$'000

4. OVERDUE AND RESCHEDULED ASSETS

	30 June 2016		31 December 2015	
	Gross amount of advances <i>HK\$'000</i>	Percentage to total advances %	Gross amount of advances <i>HK\$'000</i>	Percentage to total advances %
Advances overdue for				
– 6 months or less but over 3 months	112,711	0.2	138,025	0.2
– 1 year or less but over 6 months	107,724	0.2	212,820	0.3
– Over 1 year	64,054	0.1	27,451	0.0
Total overdue advances	<u>284,489</u>	<u>0.5</u>	<u>378,296</u>	<u>0.5</u>
Rescheduled advances	<u>242,595</u>	<u>0.4</u>	<u>1,092</u>	<u>0.0</u>
Individual impairment allowances made in respect of overdue loans and advances	<u>43,176</u>		<u>19,566</u>	
Covered portion of overdue loans and advances	242,863		359,501	
Uncovered portion of overdue loans and advances	<u>41,626</u>		<u>18,795</u>	
	<u>284,489</u>		<u>378,296</u>	
Market value of collateral held against covered portion of overdue loans and advances	<u>545,984</u>		<u>914,110</u>	

There were no advances to banks or other assets which were overdue for over three months as at 30 June 2016 and 31 December 2015, nor were there any rescheduled advances to banks.

Reposessed assets held by the Group as at 30 June 2016 amounted to HK\$15,780,000 (31 December 2015: HK\$13,730,000).

5. MAINLAND ACTIVITIES EXPOSURES

The table below summaries the non-bank Mainland China exposures of the Bank's Hong Kong banking operations and the Bank's Mainland branches and sub-branches categorized by types of counterparties:

Type by counterparties	30 June 2016		Total HK\$'000
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	8,949,930	1,734,241	10,684,171
2. Local government, local government-owned entities and their subsidiaries and JVs	3,137,443	918,623	4,056,066
3. Mainland China nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	4,956,865	1,272,527	6,229,392
4. Other entities of central government not reported in item 1 above	1,437,818	300,000	1,737,818
5. Other entities of local government not reported in item 2 above	485,411	–	485,411
6. Mainland China nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	7,785,099	1,284,994	9,070,093
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	140,848	2,501	143,349
Total	26,893,414	5,512,886	32,406,300
Total assets after provision (Note)	125,330,213		
On-balance sheet exposures as percentage of total assets (Note)	21%		

Type by counterparties	31 December 2015		Total HK\$'000
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	8,882,948	372,752	9,255,700
2. Local government, local government-owned entities and their subsidiaries and JVs	2,656,138	453,323	3,109,461
3. Mainland China nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	4,053,774	1,057,871	5,111,645
4. Other entities of central government not reported in item 1 above	594,855	–	594,855
5. Other entities of local government not reported in item 2 above	782,005	–	782,005
6. Mainland China nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	7,415,023	931,423	8,346,446
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	151,138	1,500	152,638
Total	24,535,881	2,816,869	27,352,750
Total assets after provision (Note)	126,741,016		
On-balance sheet exposures as percentage of total assets (Note)	19%		

The categories of non-bank counterparties and type of direct exposures are disclosed in accordance with Banking (Disclosure) Rules with reference to the Return of Mainland Activities of the HKMA.

Note: Include total assets after provisions of the Bank's Hong Kong banking operations and the Bank's Mainland branches and sub-branches.

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 2016	
	RMB	Total
Equivalent in thousand of HK\$		
Spot assets	21,362,292	21,362,292
Spot liabilities	(15,646,416)	(15,646,416)
Forward purchases	7,454,664	7,454,664
Forward sales	(12,770,602)	(12,770,602)
Net long position	399,938	399,938
	MOP	RMB
Net structural position	48,545	471,877
		Total
		520,422
		31 December 2015
		RMB
		Total
Equivalent in thousand of HK\$		
Spot assets	26,548,622	26,548,622
Spot liabilities	(22,809,094)	(22,809,094)
Forward purchases	14,176,552	14,176,552
Forward sales	(17,554,841)	(17,554,841)
Net long position	361,239	361,239
	MOP	RMB
Net structural position	48,545	471,877
		Total
		520,422

7. CONTINGENT LIABILITIES AND COMMITMENTS

	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Contingent liabilities and commitments		
– contractual amounts		
Direct credit substitutes	1,092,433	868,445
Trade-related contingencies	238,076	225,216
Forward asset purchases	182,503	40,758
Undrawn formal standby facilities, credit lines and other commitments		
Which are unconditionally cancellable without prior notice	6,169,932	6,653,368
With an original maturity of one year and under	10,734,292	8,188,562
With an original maturity of over one year	4,504,296	2,355,451
Lease commitments	305,113	307,682
	<u>23,226,645</u>	<u>18,639,482</u>

The credit risk-weighted amount of contingent liabilities and commitments is HK\$5,405,569,000 (31 December 2015: HK\$3,543,850,000).

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

The replacement cost and credit risk-weighted amounts of derivatives exposures are as follows:

	30 June 2016			31 December 2015		
	Notional amount HK\$'000	Replacement cost HK\$'000	Credit risk- weighted amount HK\$'000	Notional amount HK\$'000	Replacement cost HK\$'000	Credit risk- weighted amount HK\$'000
Exchange rate contracts	55,602,675	218,214	196,178	50,451,669	442,399	259,178
Interest rate contracts	12,983,413	139,885	66,005	12,720,113	135,252	58,446
		<u>358,099</u>	<u>262,183</u>		<u>577,651</u>	<u>317,624</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 existing contract. If the resultant value is positive for the Group, the replacement cost shall be the resultant value of the existing transaction or existing contract. If the resultant value is negative for the Group, the replacement cost shall be 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.

8. CAPITAL ADEQUACY RATIOS, LEVERAGE RATIO AND LIQUIDITY RATIOS

	30 June 2016	31 December 2015
	%	%
Total capital ratio	17.12	17.73
Tier 1 capital ratio	14.90	15.22
Common Equity Tier 1 (“CET 1”) capital ratio	12.38	12.60
		30 June 2016
		%
Capital buffers (as a percentage of risk-weighted assets)		
Capital conservation buffer ratio		0.625
Countercyclical capital buffer ratio		0.506
		1.131

For 2015, there is no information disclosed relating to the Countercyclical capital buffer (“CCyB”) ratio pursuant to section 24B of the Banking (Disclosure) Rules for this period because the applicable JCCyB ratio (a capital buffer level announced by the regulatory authorities for the purpose of implementing the provisions concerning the countercyclical capital buffer under Basel III) for Hong Kong and for jurisdiction outside Hong Kong are at 0% before 1 January 2016.

Under the Banking (Capital) Rules, the capital conservation buffer ratio for calculating the Bank’s buffer level is 0% for 2015.

	30 June 2016 %	31 December 2015 %
Leverage ratio	10.12	10.19
	Six months ended 30 June 2016 %	Six months ended 30 June 2015 %
Average liquidity maintenance ratio for the period	43.01	37.23

Capital adequacy ratios are 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.

Leverage ratio is disclosed in accordance with the Banking (Disclosure) Rules under Hong Kong Banking Ordinance. The leverage ratio is consolidated 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.

Liquidity maintenance ratio (“LMR”) is compiled in accordance with the Banking (Liquidity) Rules under Hong Kong Banking Ordinance, which became effective on 1 January 2015. The LMR is calculated on an unconsolidated basis. The average liquidity maintenance ratio is calculated based on the arithmetic mean of the average value of the LMR of the Bank reported in the liquidity position return of the Bank for each month during the reporting period.

9. OTHER FINANCIAL INFORMATION

The Bank has set up a “Regulatory Disclosure” section on its website to house all of information relating to the disclosure of regulatory capital to comply with Banking (Disclosure) Rules. In accordance with section 24 of Banking (Disclosure) Rules, the “Regulatory Disclosure” section includes the following information:

- A detailed breakdown of the Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital and regulatory deductions to the capital base by using the standard disclosure templates as specified by the HKMA;
- A full reconciliation of the Common Equity Tier 1 capital items, Additional Tier 1 capital items, Tier 2 capital items and regulatory deductions to the capital base and the balance sheet in the published financial statements;
- The full terms and conditions of all capital instruments; and
- The disclosure on leverage ratio pursuant to section 24A of the Banking (Disclosure) Rules.
- Geographical breakdown of risk-weighted assets in relation to private sector credit exposures and the applicable countercyclical capital buffer ratio for each jurisdiction using the standard template as specified by the HKMA.

The above information will be available on the Bank’s website: www.chbank.com/en/regulatory-disclosures/index.shtml in the “Regulatory Disclosures” section in accordance with the Banking (Disclosure) Rules.

10. BASIS OF CONSOLIDATION

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

The capital adequacy ratios of the Group are prepared according to the basis of consolidation determined by the HKMA 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. The LMR is prepared on an unconsolidated basis which includes the Bank only.

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 2016 <i>HK\$'000</i>	31 December 2015 <i>HK\$'000</i>	30 June 2016 <i>HK\$'000</i>	31 December 2015 <i>HK\$'000</i>
Chong Hing (Nominees) Limited	Provision of nominee services	100	100	100	100
Chong Hing Securities Limited	Stockbroking	718,174	600,210	537,387	521,100
Chong Hing Commodities and Futures Limited	Investment holding and commodities and futures broking	65,612	67,270	61,702	62,771
Chong Hing Insurance Company Limited	Insurance underwriting	332,894	330,042	204,652	206,902
Chong Hing (Management) Limited	Provision of management services	110	110	100	100

11. 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, divisions and departments of the Group and are regularly reviewed by the Board. 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 meetings 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 Committee (the "RMC") policies are monitored by the Finance and Capital Management Division, the Market Risk Management Department and the Finance Department with the assistance of various qualitative and quantitative analyses.

In addition to complementing the ALCO in the management of assets and liabilities, the RMC 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. The Group's 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 exposure classifications system and provisioning policy, which is established in accordance with the requirements and provisions of the Hong Kong Banking Ordinance, the guidelines issued by the HKMA and other regulatory bodies.

Day-to-day credit management is performed by the Credit Risk Management Division with reference to credit policy information, the creditworthiness of a counterparty, the exposure concentration risk and the collateral pledged by a counterparty. Credit decisions are made by individual approvers with the delegated credit authority.

(iii) Liquidity risk

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

The Group has laid down liquidity policy which is reviewed regularly by the Board. 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.

(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 at acceptable level, as the Group maintains controllable positions of financial instruments leading to foreign exchange and interest rate exposures. Besides, structural foreign exchange exposure is to be detailed under (v) foreign exchange risk.

(v) Foreign exchange risk

The Group has maintained a limited level of foreign exchange risk for both trading and customer order fulfillment. Structural foreign exchange exposure arising from investments in branches outside Hong Kong and subsidiaries is accounted for in the reserves account. Day-to-day foreign exchange management is performed by the Financial Markets Division 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 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

Interest rate risk is referred to the risk to the Bank's financial condition resulting from adverse movements in interest rates. This consists of repricing risk, basis risk, option risk and yield curve 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. For trading, additional limits on interest rate sensitivities (also known as DV01) and stop loss are being enforced on daily basis.

The Group maintains controllable interest rate positions on its trading book, in addition to certain interest rate contracts entered into for the management of the Group's own risk with holding securities that are classified as trading. 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.

(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, division heads, 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 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 the Bank's 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 that the Group's reputation is damaged by one or more than one reputation event that results in negative publicity about the Group's business practices, conduct or financial condition.

Reputation risk is managed by every member of staff ensuring proper and adequate communications and public relation efforts to foster the reputation of the Group. A reputation risk management mechanism guided by the senior management including executive directors has been established to manage including, without limitation, the media exposure, handle customers' and other stakeholders' complaints and suggestions, and to ensure that business activities and agents and/or bodies acting on the Group's behalf do not jeopardise its reputation.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Bank is an authorised institution supervised by the HKMA under the Banking Ordinance. The Bank is committed to maintain high standards of corporate governance, with a view to safeguard the interests of shareholders, customers, employees and other stakeholders. The Bank has applied the principles in the Corporate Governance Code set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and the module on "Corporate Governance of Locally Incorporated Authorised Institutions" under the Supervisory Policy Manual issued by the HKMA to its corporate governance structure and practices.

Pursuant to the Corporate Governance Code set out in Appendix 14 to the Listing Rules (the "Code"), listed issuer must give considered reasons for each deviation from any of the Code in interim report.

Throughout the six months ended 30 June 2016, the Bank has complied with all applicable code provisions set out in the Corporate Governance Code, except for deviations from the following code provisions:

1. Code Provision A.4.1 provides that non-executive directors should be appointed for a specific term, subject to re-election. None of the Non-executive Directors of the Bank was appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Bank in accordance with the Bank's Articles of Association.
2. Code Provision A.6.7 provides that independent non-executive directors and other non-executive directors should attend general meetings. Code Provision E.1.2 also provides that the chairman of the board should attend the annual general meeting. Due to an unexpected business engagement external to the Bank, Mr Zhang Zhaoxing, Chairman of the Board, Mr Zhu Chunxiu and Mr Li Feng, being Non-executive Directors were unable to attend the 2016 Annual General Meeting of the Bank held on 13 May 2016 ("2016 AGM"). Mr Chiranakhorn Wanchai was not able to join the 2016 AGM in person due to health reason.

COMPLIANCE WITH MODEL CODE

The Bank has also adopted its own code for securities transactions by Directors on 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 Listing Rules (the "Model Code"). All the Directors confirmed, following specific enquiry by the Bank, that they have complied with the required standards set out in the Model Code and the Bank's own code for securities transactions by Directors throughout the six months ended 30 June 2016.

INTERIM DIVIDEND

The Board has declared an interim cash dividend for 2016 of HK\$0.15 per share, payable on Wednesday, 21 September 2016 to shareholders whose names appear on the Register of Members of the Bank on Wednesday, 14 September 2016 (2015 interim cash dividend: HK\$0.21 per share paid on 16 September 2015).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Bank will be closed from Monday, 12 September 2016 to Wednesday, 14 September 2016 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for receiving the 2016 interim cash dividend, all transfer documents, together 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 Friday, 9 September 2016.

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 2016.

PUBLICATION OF 2016 INTERIM RESULTS AND INTERIM REPORT

This announcement is published on the websites of the Bank (www.chbank.com) and Hong Kong Exchanges and Clearing Limited (the “HKEX”) (www.hkexnews.hk). The 2016 Interim Report will be available on the websites on the Bank and the HKEX, and the printed copies of which will be despatched to Shareholders in early September 2016.

By Order of the Board
Chong Hing Bank Limited
Lai Wing Nga
Company Secretary

Hong Kong, 22 August 2016

As at the date of this announcement, the Board of the Bank comprises:

- *Executive Directors*
Mrs Leung Ko May Yee Margaret (Deputy Chairman, Managing Director and Chief Executive), Mr Zong Jianxin (Deputy Managing Director) and Mr Lau Wai Man (Deputy Managing Director);
- *Non-executive Directors*
Mr Zhang Zhaoxing (Chairman), Mr Zhu Chunxiu, Mr Wang Shuhui, Mr Li Feng and Mr Chow Cheuk Yu Alfred; and
- *Independent Non-executive Directors*
Mr Chiranakhorn Wanchai, Mr Cheng Yuk Wo, Mr Ma Chiu Cheung Andrew, Mr Lee Ka Lun and Mr Yu Lup Fat Joseph.