

2017 INTERIM REPORT



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BOARD OF DIRECTORS**Executive Directors**

Mrs LEUNG Ko May Yee Margaret SBS, JP

(Deputy Chairman and Managing Director)

Mr ZONG Jianxin

(Deputy Managing Director and Chief Executive)

Mr LAU Wai Man *(Deputy Managing Director)*

Non-executive Directors

Mr ZHANG Zhaoxing *(Chairman)*

Mr ZHU Chunxiu

Mr WANG Shuhui

Mr LI Feng

Mr CHOW Cheuk Yu Alfred BBS, JP

Independent Non-executive Directors

Mr CHENG Yuk Wo

Mr MA Chiu Cheung Andrew

Mr LEE Ka Lun

Mr YU Lup Fat Joseph

BOARD COMMITTEES**Audit Committee**

Mr CHENG Yuk Wo *(Chairman)*

Mr WANG Shuhui

Mr CHOW Cheuk Yu Alfred BBS, JP

Mr LEE Ka Lun

Mr YU Lup Fat Joseph

Connected Party Transactions Committee

Mr MA Chiu Cheung Andrew *(Chairman)*

Mr CHOW Cheuk Yu Alfred BBS, JP

Mr CHENG Yuk Wo

Mr CHAN Kam Ki Vincent *(Chief Financial Officer)*

Mr HSU Rockson *(Chief Risk Officer)*

Nomination Committee

Mr YU Lup Fat Joseph *(Chairman)*

Mr ZHANG Zhaoxing

Mr ZHU Chunxiu

Mr CHENG Yuk Wo

Mr MA Chiu Cheung Andrew

Remuneration Committee

Mr YU Lup Fat Joseph *(Chairman)*

Mr ZHANG Zhaoxing

Mr CHOW Cheuk Yu Alfred BBS, JP

Mr MA Chiu Cheung Andrew

Mr LEE Ka Lun

Risk Committee

Mr LEE Ka Lun *(Chairman)*

Mr ZHU Chunxiu

Mr LI Feng

Mr CHENG Yuk Wo

Mr YU Lup Fat Joseph

SENIOR MANAGEMENT

Mr CHAN Kam Ki Vincent *(Chief Financial Officer)*

Mr HSU Rockson *(Chief Risk Officer)*

Mr CHIU Tak Wah Edward *(Chief Operating Officer)*

Mrs NG Yu Kam Ping Alice *(Head of Personal Banking)*

Ms CHAN Yun Ling *(Head of Financial Markets)*

Ms LEE Yuen Wah Teresa *(Head of Hong Kong Corporates)*

Mr SIN Tat Wo *(Head of China Corporates)*

Mr YIP Kui Yin Frederick *(Head of Credit Risk Management)*

Ms LAI Wing Nga *(Company Secretary)*

CORPORATE INFORMATION

as of 25 August 2017

REGISTERED OFFICE

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Smartphone quick website access code

PRINCIPAL LEGAL ADVISERS

Deacons
Kwan & Chow
Mayer Brown JSM
Robertsons

AUDITOR

PricewaterhouseCoopers

SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

STOCK CODES AND SHORT NAMES

The Stock Exchange of Hong Kong Limited's Stock Codes and Short Names in respect of the Bank's (1) shares, (2) subordinated notes due 2020, (3) undated non-cumulative subordinated additional tier 1 capital securities and (4) tier 2 subordinated notes due 2027 are (1) 01111 (CHONG HING BANK), (2) 04327 (CH BANK N2011), (3) 05804 (CH BANK UCS) and (4) 05249 (CH BANK N2707) respectively.

As the major shareholder of Chong Hing Bank, Yue Xiu Group is pleased with the Bank's gradual transformation in line with the five-year strategic plan launched in late 2016. The Bank's strategic direction has been redefined, contributing to significant improvement in business development, enhanced operating and management efficiency and gradual completion in advanced IT systems.

I am pleased to announce that, in the first half of 2017, Chong Hing Bank's core business lines and overall financial position remained strong, asset quality was sound, and profitability was enhanced. Operating profit before impairment allowances amounted to HK\$699 million, an improvement of 3.2% from the corresponding period in previous year. Profit attributable to equity owners of the Bank amounted to HK\$512 million, a decline of 13.5% from the corresponding period in 2016, and earnings per share was HK\$0.67. The Board has considered that it is prudent to preserve the Bank's capital to better satisfy the new requirements under "Basel III". Hence, the Board has declared the payment of the interim cash dividend of HK\$0.15 per share for the six months ended 30 June 2017. The dividend payout for the period as a percentage of the profit attributable to equity owners less distribution paid on the additional equity instruments will be 27.4% (2016: 20.8%).

The major financial ratios for the first half of 2017 are as follows:

- Return on shareholders' equity: 6.26% (annualised)
- Average liquidity maintenance ratio: 39.92%
- Total capital ratio: 15.78% as of 30 June 2017
- Tier 1 capital ratio: 13.94% as of 30 June 2017
- Loan to deposit ratio: 68.88% as of 30 June 2017

China is the world's second-largest economy. In 2017, the Central Government adheres to the principle of delivering growth while maintaining stability and drives economic growth through innovation and economic reforms. Under China's "13th Five-Year Plan", inter-connectivity between the financial markets in the Mainland and Hong Kong will be enhanced, and support will be given to Hong Kong in developing itself into a global offshore Renminbi business hub and international assets management center. On 4 July 2017, the State Council approved the increase of Hong Kong's Renminbi Qualified Foreign Institutional Investors (RQFII) quota to RMB500 billion, thereby solidifying the role of Hong Kong as an important intermediary to facilitate overseas investors' participation in the bond and equity markets of the Mainland. These measures represent a new chapter of strengthening the inter-connectivity between the capital markets in the Mainland and Hong Kong following in the footsteps of the "Shanghai-Hong Kong Stock Connect", the "Mainland-Hong Kong Mutual Recognition of Funds" and the "Shenzhen-Hong Kong Stock Connect".

CHAIRMAN'S STATEMENT

The Framework Agreement on Deepening Guangdong-Hong Kong-Macao Cooperation in the Development of the Bay Area came into effect on 1 July 2017. The agreement complements the Belt and Road Initiative and serves to strengthen the financial cooperation among the three places. Hong Kong is positioned to play a key role in bridging the Chinese and foreign economies. The agreement is expected to bring long-term benefits to the financial service industry in Hong Kong. Chong Hing Bank has been actively developing business in the Pearl River Delta since 2014 and has established a network comprising 3 branches and 4 sub-branches. In 2016, the Bank opened a branch in Guangzhou, the home base of the Yue Xiu Group. The Guangzhou Branch now oversees the operation of all the branches in the Mainland. Chong Hing Bank is poised to ride on its collaborative efforts in Guangdong and Hong Kong, pursue cross-border business opportunities, enhance overall financial service capabilities and establish itself as an “integrated commercial bank with cross-border expertise”.

In the World Competitiveness Yearbook 2017 published by the International Institute for Management Development in Lausanne, Switzerland, Hong Kong was ranked as the world's most competitive economy for two consecutive years, followed by Switzerland, Singapore and the United States. The assessment is based on four competitiveness factors, namely economic performance, government efficiency, business efficiency and infrastructure. Although Hong Kong's international competitive edge is beyond doubt, Hong Kong also faces a number of challenges: an intensely competitive business environment, a financial landscape that is highly exposed to external forces, great demand and high prices for housing, and lacking new economic growth drivers.

Chong Hing Bank will have the continued support from Yue Xiu Group for its further development. The Bank will leverage Hong Kong's unique role as the “super-connector” in future, and adopt a prudent yet active approach to coping with the business environment where both opportunities and challenges exist.

Lastly, I would like to express my gratitude to all the Directors for their valuable guidance and opinions leading to the achievement of the Bank's sustainable growth, and would like to thank the management team and all our staff members for their efforts and contributions under the ever-changing environment. On behalf of the Board, I wish to convey my sincere appreciation to our shareholders, customers and business partners for their support and trust.

Zhang Zhaoxing

Chairman

Hong Kong, 25 August 2017

GLOBAL ECONOMY

In the first half of 2017, there was increasing growth in global economic activities and continued recovery of major economies. The US and Eurozone GDP in the second quarter recorded a year-on-year increase of 2.6% and 2.1% respectively, higher than the 1.2% and 1.9% recorded in the first quarter, and the upward trend is expected to continue for the second half of the year. However, the global economy is faced with new uncertainties arising from monetary policy normalisation by the US and European banks, Brexit and geopolitical conflicts.

As a major driving force for global economic growth, China's economy showed stable growth momentum in 2017. By fine-tuning the economic structure through reform and innovation, China achieved an economic growth of 6.9% in the first half of 2017. Core cities in the Pearl River Delta achieved remarkable performance with GDP growth of 7.9% in Guangzhou and of 8.8% in Shenzhen in the first half of the year, which were higher than the national average. The People's Bank of China will implement a stable and neutral monetary policy, thereby gradually tightening the monetary environment. Regulatory authorities have been strengthening risk monitoring, implementing financial deleveraging and guiding the financial sector to serve the real economy. Renminbi has remained steady against the US dollar, with the Renminbi onshore price (CNY) and offshore price (CNH) appreciating by 2.5% and 2.67% respectively in the first half of 2017.

Benefiting from the improving external environment, Hong Kong's economic growth demonstrated better momentum, with rapid revival of imports and exports, steady growth of consumption demands and significant increase of business investments. In the first half of 2017, local GDP grew by 4% in real terms as compared with the same period last year. Hong Kong's services exports, goods exports and total investment in the first quarter increased by 2.6%, 9.2% and 6.4% year-on-year respectively. Under the easing monetary environment, total money supply (M3) at the end of June 2017 increased by 13% as compared with the same period last year. With the rising credit demand in the market, total loans and advances from authorised institutions in late June 2017 achieved a 14.9% year-on-year growth. Despite the various control measures for the property market introduced in recent years, property prices continued to rise over the past five years. The private domestic housing price index has been rising for 15 consecutive months and reaching record highs for 8 consecutive months in June. In the first half of 2017, the number of registered first-hand residential property purchases in Hong Kong exceeded 10,000 and broke the record. As to the Hong Kong stock market, the Hang Seng Index has risen for 6 consecutive months and ended the first half of 2017 at 25,764 points, with an accumulated increase of 17% for the period.

CHIEF EXECUTIVE'S STATEMENT

RESULTS ANNOUNCEMENT AND PROFIT ANALYSIS

The results for the six months ended 30 June 2017 of the Bank, on an unaudited and consolidated basis, are summarised below:

Key Financial Data	Six months ended 30 June		Growth Rate/ Variance (year-on-year)
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (restated) (Unaudited)	
1. Net interest income	1,114,257	982,710	+13.4%
2. Net fee and commission income	147,195	125,006	+17.8%
3. Net (loss) income from trading and investments	(25,761)	56,057	-146.0%
4. Other operating income	80,088	71,692	+11.7%
5. Operating expenses	617,270	558,311	+10.6%
6. Operating profit before impairment allowances	698,509	677,154	+3.2%
7. Net charge of impairment allowances on loans and advances	218,272	16,483	+1,224.2%
8. Profit attributable to equity owners	511,887	591,973	-13.5%
9. Return on shareholders' equity (Note 1)	6.26% (annualised)	7.98% (annualised)	-1.72 pp
10. Earnings per share (Note 2)	HK\$0.67	HK\$0.79	-15.2%
11. Net interest margin	1.54%	1.63%	-0.09 pp
12. Operating income to expense ratio	46.91%	45.19%	+1.72 pp
13. Average liquidity maintenance ratio	39.92%	43.01%	-3.09 pp
	As of 30 June 2017 HK\$'000 (Unaudited)	As of 31 December 2016 HK\$'000	Growth Rate/ Variance (compared to 2016 year-end)
14. Total loans and advances to customers	77,371,655	70,689,155	+9.5%
15. Impaired loan ratio	0.52%	0.07%	+0.45 pp
16. Provision coverage of impaired loans and advances	142.03%	602.98%	-461 pp
17. Non-performing loan ratio	0.72%	0.64%	+0.08 pp
18. Total customer deposits	111,030,607	102,880,629	+7.9%
19. Loan to deposit ratio	68.88%	67.40%	+1.48 pp
20. Investments in securities	32,399,817	29,727,952	+9.0%
21. Total assets	147,797,001	137,772,051	+7.3%
22. Net asset value per share (excluding additional equity instruments and before the interim dividend)	HK\$21.37	HK\$20.85	+2.5%
23. Total capital ratio	15.78%	16.32%	-0.54 pp
24. Tier 1 capital ratio	13.94%	14.16%	-0.22 pp
25. Common Equity Tier 1 capital ratio	11.70%	11.81%	-0.11 pp

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.
3. pp means percentage point.

ANALYSIS OF KEY FINANCIAL DATA

For the first half of 2017, on an unaudited and consolidated basis, the profit attributable to equity owners of the Bank amounted to HK\$512 million, representing a decline of 13.5%, while the operating profit before impairment allowances amounted to HK\$699 million, representing an improvement of 3.2% as compared to the corresponding period in 2016. The decline of consolidated profit for the period was mainly attributable to (i) an increase in impairment allowances on loans and advances made during the first six months of 2017 of HK\$218 million mainly due to one credit relationship; and (ii) a translation loss of HK\$87 million resulting from the RMB appreciation in the first half of 2017.

Net interest income at HK\$1,114 million was 13.4% higher than the same period last year. The improvement in net interest income was achieved mainly through growth of loans and advances. Net interest margin ("NIM") at 1.54% was 9 basis points less than the corresponding period in previous year, and NIM for the second quarter was 1.58% and improved from 1.49% in the first quarter. The interest expenses increased due to rises in the market interest rates on deposits and financial assets sold under repurchase agreements. In addition, the interest expense on Panda bonds in the first half of 2017 was higher than the same period last year given the Bank issued its first batch of Panda bonds on 20 May 2016 with a coupon rate of 3.6% per annum.

Net fee and commission income improved by 17.8% to HK\$147 million, which was mainly attributable to a 19% increase in commission income arising from securities dealings as the stock market turnover was much higher than the same period last year. The increase was partially offset by a drop in commission income from the sale of life insurance products.

Foreign exchange and other treasury customer activities reported steady growth. Net (loss) income from trading and investment recorded a loss of HK\$26 million, which was mainly due to the RMB appreciation in the first half of 2017 resulting in a translation loss of HK\$87 million. The increase in net gains on disposal of the available-for-sale debt securities partly offset the translation loss.

Costs were prudently managed. The Bank strived for efficiency gains and at the same time invested in talents and systems to support business growth and expansion into the Mainland.

Similar to the corresponding period in 2016, certain assets that were not considered essential to the core business lines ("non-core assets") had been sold. As a result, net gains on disposal of properties as well as net gains on disposal of and fair value adjustments on investment properties totalling HK\$87 million were recorded as at June 2017. These net gains were HK\$50 million higher than the total gain of HK\$37 million from the disposal of and fair value adjustments on non-core assets recorded for the same period in 2016.

CHIEF EXECUTIVE'S STATEMENT

As of 30 June 2017, total loans and advances to customers increased by 9.5% to HK\$77.4 billion when compared to the position as of 31 December 2016, with noticeable growth in term loans and syndication loans. With careful management on the exposure to credit risk, asset quality of loans and advances continued to be good with impaired loan ratio at 0.52%, non-performing loan ratio at 0.72% and provision coverage of impaired loans and advances at 142%.

Total customer deposits as of 30 June 2017 increased by 7.9% to HK\$111 billion when compared to the position as of 31 December 2016. The Bank continued to maintain a stable deposit base, allowing the Bank to balance loan growth as well as wealth management and cross-border financial business needs.

Total assets for the period increased by 7.3% to HK\$147.8 billion. As of 30 June 2017, 85% of the Bank's assets was based in Hong Kong.

As a result of proactive management of assets and liabilities, the Bank raised the level of loan to deposit ratio from 67.40% in December 2016 to 68.88% in June 2017, while keeping a prudent level of liquidity maintenance ratio with an average of 39.92% in the first half of 2017.

Total capital ratio decreased from 16.32% in December 2016 to 15.78% in June 2017, the Tier 1 capital ratio was at 13.94% and the Common Equity Tier 1 capital ratio was at 11.70%.

Overall, the Bank's core business lines, financial position and asset quality are strong, while impaired loan ratio remains low with high provision coverage. Capital adequacy ratio and liquidity maintenance ratio are 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 for 2017 of HK\$0.15 per share, payable on Monday, 25 September 2017 to shareholders whose names appear on the register of members of the Bank on Monday, 18 September 2017 (2016 interim cash dividend: HK\$0.15 per share paid on 21 September 2016).

ISSUANCE OF TIER 2 SUBORDINATED NOTES

To raise funds for Basel III-compliant Tier 2 capital, the Bank settled and closed a US\$382,903,000 Tier 2 Subordinated Notes (the "New Notes") offering on 26 July 2017. The New Notes are 10-year non-call 5-year fixed rate notes, with a fixed coupon rate of 3.876% per annum, payable semi-annually for the first five years; the interest rate will be reset on 26 July 2022.

The aggregate principal amount of the New Notes is US\$382,903,000. This includes US\$22,903,000 of "New Exchange Notes" (being the New Notes issued pursuant to the exchange offer by the Bank to the holders of its US\$225 million 6.000% Subordinated Notes due 2020) and US\$360 million of "New Money Notes". The Bank achieved a final deal size of over US\$380 million. This is the largest ever international bond offering transaction by the Bank and is also the first Basel III-compliant transaction by the Bank. In line with the Bank's prudent and stable development approach, the proceeds from the offering will be used to strengthen the Bank's capital base and fund the growth of its operations and development. The New Notes have been listed on the Stock Exchange of Hong Kong under Stock Code of 05249 on 27 July 2017.

BUSINESS REVIEW

Corporate Banking

Chong Hing Bank is committed to providing one-stop banking products and highly professional services for our corporate customers in Hong Kong and the Mainland, as well as growing together with our customers and creating value for them. The Bank has been expanding its efforts to grow its Chinese corporate customer base, optimising the customer structure and building competitive advantage by differentiation. The Bank has strengthened its customer resources management, established a hierarchical management system, organised dedicated product teams and developed specialty product portfolios. Apart from promoting the cross-selling of financial market and wealth management products to improve revenue structure, the Bank also supports the development of local small- and medium-sized enterprises (SME). Following the previous participation in the Hong Kong Special Administrative Region (SAR) Government's "SME Loan Guarantee Scheme", the Bank fully supports Hong Kong Mortgage Corporation Limited's "SME Financing Guarantee Scheme".

In recent years, the Bank has successfully established its own brand on syndication loans in the region, and recorded a decent performance at the initial development stage. The Bank completed 20 syndicated loans in the first half of 2017 and acted as the lead arranger for 3 of them. It is a new record for the Bank's syndicated loan business, and the Bank will continue to solidify its brand in the region going forward. Besides, the Bank will tap into the loan asset trading business through secondary market so as to further enhance loan asset quality and improve returns.

In the first half of 2017, the Bank recorded steady growth in total corporate loans, while non-interest income continued to improve as compared with the same period last year.

Personal Banking

The Bank provides customers with various personal financial management services, including deposits, mortgage loans, consumer finance, wealth management and private banking, etc. While vigorously maintaining the existing customer base, our personal banking team also continues to expand our customer base in financial management, develops products and improves services platform, as well as expands our local and cross-border businesses through different promotional activities so as to diversify the Bank's revenue sources.

Personal banking business showed steady growth in the first half of 2017:

- Total deposits of personal customers registered stable growth, providing a steady source of funds for the Bank to develop its businesses.
- Against the backdrop of the gradual recovery of the property market, stable loan growth was recorded for the personal banking business without compromising loan quality, while the delinquency rate on loans remained at a healthy level.
- Commission income remained at a strong double-digit growth for the investment products business. In order to strengthen our wealth management services and improve customer experience, the Bank has launched a number of new services, including the "Online Fund Search" tool and the enhanced foreign currency trading functions for our customers, in an effort to cater to the financing needs of local and cross-border customers.

CHIEF EXECUTIVE'S STATEMENT

- In respect of the credit card business, despite the adverse impact on local retailers' business due to the continued decline in Mainland visitors, the Bank managed to achieve slight growth in its Visa, MasterCard and UnionPay Card merchant-acquiring amounts. The Bank also successfully launched various customer rewards programmes and market promotions. Accordingly, the credit card business was able to maintain the same performance level as for the corresponding period in 2016.

The Bank will continue to expand its business platforms, develop more convenient service channels and introduce more diversified products to meet customers' needs. It will also develop financial businesses with a focus on high-value cross-border customers in Guangdong and Hong Kong to ensure long-term stable growth for the Bank.

Financial Markets Business

The Bank is committed to developing its financial markets business and has made significant progress in its treasury business, product development and customer business.

With regard to the treasury business, the Bank optimised the balance sheet by effectively utilising various financial instruments while complying with the established risk appetite, risk limits and liquidity requirements. At the same time, the Bank adjusted its investment strategies to enhance its asset quality.

Over the past two years, the Bank has progressively established a product and marketing team comprised of professionals with financial markets experience. The Bank has also been actively enriching its financial products and offering advice and services suiting the financial needs of different corporate and personal customers, thereby increasing our market share and intermediate business income.

After recording significant growth over the past two years, the Bank's financial markets business has entered into a momentum of steady growth in 2017.

Mainland Operations

Business Development

The Bank has directed its main strategies towards the Mainland business and endeavored to enhance its capability in cross-border integrated financial services by capitalising on the Closer Economic Partnership Arrangement (CEPA), the regional financial cooperation between Guangdong and Hong Kong, the Free Trade Zone policy in the Mainland and the connections of the Bank's major shareholder.

The Mainland branches and sub-branches continue to demonstrate emerging potential, with generally positive operating performances, a steadily growing deposit size (backed by the government's public finance deposits in particular), and moderate loan growth. The Bank seizes business opportunities to proactively develop financial and interbank businesses in the Mainland and has recorded rapid growth in overall profit with an increasing number of customers. Both the Guangzhou and Shenzhen Branches have recognised profits within one year of operation.

Infrastructure

In accordance with the requirements of the regulatory bodies in the Mainland and Hong Kong, the Mainland branches and sub-branches have kept enhancing organisational structure, systematically managing policies and procedures, improving internal control and management systems, optimising comprehensive risk management system and strengthening the support of information technology.

The new Core Banking System and General Ledger System for the Mainland business started operation on 8 January 2017. The successful launch of the systems represents our effort to enhance the Bank's financial infrastructure in the Mainland. The systems give strong support to business developments and serve as a strong backing for the set up of the Guangdong-Hong Kong cross-border business system and the development of Free Trade Zone business. This is also an important step towards the Bank's vision of becoming an "integrated commercial bank with cross-border expertise".

Business Qualifications

For the first half of 2017, the Bank's Mainland branches obtained a number of business qualifications, laying a solid foundation for future business development. Shenzhen Branch has been qualified to participate in the National Interbank Bond Market. Guangzhou Branch obtained the qualification granted by the People's Bank of China as the Guangzhou agency bank for the centralised treasury receipt and payment business from 2017 to 2019, and obtained the qualification as a municipal agency bank for the authorised fiscal payment business from 2017 to 2019 approved by the Bureau of Finance of Guangzhou Municipality.

Following the "Hong Kong Pass" Commercial Service launched by the government of the Nansha Free Trade Zone and the Bank in 2016, Hengqin New Area of Zhuhai and the Bank jointly introduced the "Hong Kong and Macau Pass" Commercial Service in May 2017, providing the commercial registration agency service through the Bank's service network in Hong Kong and Macau to those investors who are interested in setting up companies in the Hengqin Free Trade Zone.

The Bank will continue to build the cross-border services platform and take advantage of the growing cross-border financing opportunities, with the goal of establishing itself as an integrated commercial bank with cross-border expertise.

Chong Hing Securities Limited

In the first half of 2017, the global financial market remained volatile, and the pace of US interest rate hikes was expected to remain slow. China's economy achieved a growth rate of 6.9% for the first half of 2017, with Renminbi exchange rate starting to stabilise. The Hong Kong stock market experienced moderate consolidation in the second quarter, with an increasingly bullish sentiment. The overall turnover of Chong Hing Securities in the first half of the year was 38.4% higher than the same period last year, significantly outperforming the 12.6% year-on-year growth in trading volume of the Hong Kong stock market.

CHIEF EXECUTIVE'S STATEMENT

Chong Hing Insurance Company Limited

Notwithstanding the intense competition in the insurance industry in Hong Kong with a decrease in overall underwriting profit in the first half of 2017, Chong Hing Insurance, a wholly-owned subsidiary of the Bank, still managed to deliver promising results during the period, with an increase in profit before tax as compared with the corresponding period in 2016. For the second half of the year, Chong Hing Insurance will establish an online sales channel to attract customers of the younger generation and enhance synergy with the Bank through the bancassurance model in order to develop various businesses and capitalise on the Bank's strong business network for pursuing new business opportunities and enhancing performance.

Future Development

With the new capital in place, the Bank looks to welcoming new opportunities for development. In the second half of the year, not only will the Bank steadily develop customer relationship, it will also further strengthen its internal management, enhance service efficiency, improve customer experience, and sharpen professional service capabilities.

The Bank will optimise the use of its capital resources, human resources and information technology resources. We will actively centralise backend operations and processing, implement internal fund transfer pricing, improve the utilisation efficiency of resources, expedite the set up of process bank and improve operational efficiency. The Bank will also strengthen the four major product lines, namely financial markets, structured finance, trade finance and digital banking, and enhance the linkage between the branches and sub-branches in the Mainland and the Head Office in Hong Kong in order to establish a new cross-border business model. We will deepen our customer relationship to bring forth new customers, as well as enhance the risk management structure and the establishment of professional teams for strengthening professional risk control capabilities. Chong Hing Bank endeavours to unify and create corporate value under its corporate culture as cultivated.

CORPORATE RESPONSIBILITY

As an enterprise that bears the community at heart, the Bank supports charity events held by charity organisations and art events held by community groups through active participation in volunteer activities, charitable donation and financing of the events.

In addition, the Bank strives to give back to the society and protect the environment in various ways, and our efforts have been recognised by people from all walks of life:

- Leveraging its branch network, the Bank assisted Tung Wah Group of Hospitals in selling raffle tickets to raise funds and achieved great success. In 2017, the Bank was awarded Runner-Up in the commercial and industrial institutes and groups category in the charity raffle tickets selling competition and received the "Raffle Tickets Selling Award".
- The Bank realised its promise to turn off external lights at a preset time in response to the "Charter on External Lighting" by the Environment Bureau of the Hong Kong SAR Government. Many branches complied with the lighting requirements, and the Bank was awarded the "Platinum Award".

In 2017, the Bank was named a “Caring Company” by the Hong Kong Council of Social Service for the tenth consecutive year, and was particularly named a “10 Years Plus Caring Company”. It is a recognition that the Bank did its utmost to discharge its social responsibility and benefit the society through various community and environmental protection programmes.

CORPORATE GOVERNANCE

The Bank fully appreciates that 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 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

The Bank always aims to offer quality banking services to its customers. During the year of 2017, it continued to achieve excellent results in different fields and received awards from different organisations.

The Bank is working with SMEs with the goal of achieving mutual growth while providing them with diversified banking services. This support has been widely recognised by the industry and in June, the Bank received the “Best SME’s Partner Award” by the Hong Kong General Chamber of Small and Medium Business for the ninth time.

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

OUTLOOK

As a pivotal hub and an important pillar in China’s “Belt and Road” strategy as well as a core city in the “Guangdong-Hong Kong-Macau Bay Area”, Hong Kong will be faced with historic opportunities for development. Hong Kong will take full advantage of its unique position as an international financial centre, trade centre and logistics centre for taking part in China’s overall strategic planning from such perspectives as project finance, cross-border mergers, asset management, risk management, legal advisory and tax planning. With the new growth momentum gained therein, Hong Kong’s economy will move towards a higher level and standard. Riding on China’s strategic framework, the network of core cities in the Bay Area, the Bank’s professional cross-border financial service, the regional resources of the Bank’s major shareholder, as well as the accelerated integration of economy, trade, capital and talent between the Mainland and Hong Kong, the Bank will explore business opportunities, expand the customer base, and establish a financial service brand connecting both individuals and corporates in Guangdong and Hong Kong, thereby ultimately achieving the goal of becoming an “integrated commercial bank with cross-border expertise”.

CHIEF EXECUTIVE'S STATEMENT

APPRECIATION

It is my honour to be appointed as the Chief Executive of Chong Hing Bank on 19 April 2017. I would like to thank all Directors on the Board for their trust and support. I am entrusted with the important responsibility for leading the steady growth of Chong Hing Bank, which will enter a new chapter of development. I would also like to express my heartfelt thanks to all staff members for their contribution to the Bank's business development. Last but not least, I would like to thank our shareholders, customers and business partners for their ongoing support and trust.

Zong Jianxin

Chief Executive

Hong Kong, 25 August 2017

DIRECTORS' (INCLUDING THE CHIEF EXECUTIVE'S) INTERESTS AND SHORT POSITIONS

As of 30 June 2017, the interests and short positions of the Directors (including the Chief Executive) in the shares, underlying shares and debentures of the Bank and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO (the "Register"), or as otherwise notified to the Bank and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Interests in shares

Name of Director	Associated Corporation	Long/short position	Number of ordinary shares held			Total interests	Percentage of issued share capital ⁽¹⁾
			Personal interests	Spousal interests	Corporate interests		
Li Feng	Yuexiu Property Company Limited	Long	172,900	–	–	172,900	0.001
Lee Ka Lun	Yuexiu Property Company Limited	Long	3,200,000	–	–	3,200,000	0.026
Yu Lup Fat Joseph	Yuexiu Property Company Limited	Long	4,000,000	–	–	4,000,000	0.032

Note:

1. Based on 12,401,306,631 shares of Yuexiu Property Company Limited issued as at 30 June 2017.

Save as disclosed above, as of 30 June 2017, none of the Directors (including the Chief Executive) had or was deemed to have any other interests or short positions in any shares, underlying shares or debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the Register or as otherwise notified to the Bank and the Stock Exchange pursuant to the Model Code. Moreover, as of 30 June 2017, none of the Directors (including the Chief Executive), their spouses or children under 18 years of age was granted, or exercised, any right to subscribe for shares in or debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO).

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As of 30 June 2017, the register required to be kept under Section 336 of the SFO showed that the following parties had interests and short positions in the shares and underlying shares of the Bank:

Interests in shares

Name	Long/short position	Capacity	Number of ordinary shares	Percentage of issued share capital ⁽¹⁾
Yuexiu Financial Holdings Limited ⁽²⁾	Long	Beneficial owner	489,375,000	75
Yue Xiu Enterprises (Holdings) Limited	Long	Interest of a controlled corporation	489,375,000	75
廣州越秀集團有限公司 (Guangzhou Yue Xiu Holdings Limited*)	Long	Interest of a controlled corporation	489,375,000	75

Notes:

1. Based on 652,500,000 shares of the Bank issued as at 30 June 2017.
2. Yuexiu Financial Holdings Limited is wholly-owned by Yue Xiu Enterprises (Holdings) Limited ("Yuexiu"), and Yuexiu is wholly-owned by 廣州越秀集團有限公司 (Guangzhou Yue Xiu Holdings Limited*).

* for identification purpose only

Save as disclosed above, the Bank had not been notified of any other interests and short positions in its shares and underlying shares as of 30 June 2017 which were required to be recorded in the register kept under Section 336 of the SFO.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Bank is an authorised institution supervised by the Hong Kong Monetary Authority (the “HKMA”) under the Hong Kong Banking Ordinance. The Bank is committed to maintaining high standards of corporate governance, with a view to safeguarding the interests of shareholders, customers, employees and other stakeholders. The Bank has applied the principles in the Corporate Governance Code (the “Code”) set out in Appendix 14 to 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 Code, listed issuer must give considered reasons in its interim report for each deviation from any of the code provisions contained in the Code.

Throughout the six months ended 30 June 2017, the Bank complied with all the applicable code provisions set out in the 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; however, all of them 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. Rule 3.25 of the Listing Rules and Code Provision A.5.1 of the Code provide that the remuneration committee and the nomination committee should comprise a majority of independent non-executive directors. Following the passing away of Mr Chiranakhorn Wanchai, the then Independent Non-executive Director of the Bank, on 23 January 2017, only half of the members of both the Remuneration Committee and the Nomination Committee of the Bank were Independent Non-executive Directors. The Board conducted a holistic review and put in place the new composition of the Remuneration Committee and the Nomination Committee with effect from 16 February 2017 in order to comply with the respective requirements under Rule 3.25 of the Listing Rules and Code Provision A.5.1 of the Code.

COMPLIANCE WITH MODEL CODE

The Bank has adopted its own code for securities transactions by Directors on terms no less exacting than those set out in 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 2017.

DISCLOSURE OF CHANGES IN DIRECTORS' INFORMATION

Changes in Directors' information since the date of the 2016 Annual Report which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below:

Name of Director	Change
Mrs LEUNG Ko May Yee Margaret SBS, JP <i>Executive Director</i>	<ul style="list-style-type: none">• Ceased to act as Independent Non-executive Director of QBE Insurance Group Limited# with effect from 30 March 2017• Ceased to serve as Chief Executive of the Bank with effect from 19 April 2017
Mr ZONG Jianxin <i>Executive Director</i>	<ul style="list-style-type: none">• Appointed as Chief Executive of the Bank with effect from 19 April 2017 and entitled to receive an annual base salary of HK\$7,332,960, discretionary bonus and other benefits following the said appointment• Ceased to act as Alternate Chief Executive of the Bank following his appointment as Chief Executive of the Bank with effect from 19 April 2017• Appointed as Director and Chief Executive of Chong Hing Finance Limited with effect from 21 August 2017
Mr LAU Wai Man <i>Executive Director</i>	<ul style="list-style-type: none">• Re-designated as Alternate Chief Executive of Chong Hing Finance Limited with effect from 21 August 2017
Mr ZHANG Zhaoxing <i>Non-executive Director</i>	<ul style="list-style-type: none">• Entitled to receive, as Chairman of the Bank, a director's fee of HK\$450,000 for the year ending 31 December 2017 (2016: HK\$350,000) as approved by the shareholders at the 2017 annual general meeting of the Bank (the "2017 AGM") held on 18 May 2017
Mr ZHU Chunxiu <i>Non-executive Director</i>	<ul style="list-style-type: none">• Entitled to receive, as a Non-executive Director of the Bank, a director's fee of HK\$400,000 for the year ending 31 December 2017 (2016: HK\$300,000) as approved by the shareholders at the 2017 AGM
Mr WANG Shuhui <i>Non-executive Director</i>	<ul style="list-style-type: none">• Entitled to receive, as a Non-executive Director of the Bank, a director's fee of HK\$400,000 for the year ending 31 December 2017 (2016: HK\$300,000) as approved by the shareholders at the 2017 AGM
Mr LI Feng <i>Non-executive Director</i>	<ul style="list-style-type: none">• Entitled to receive, as a Non-executive Director of the Bank, a director's fee of HK\$400,000 for the year ending 31 December 2017 (2016: HK\$300,000) as approved by the shareholders at the 2017 AGM

DISCLOSURE OF CHANGES IN DIRECTORS' INFORMATION

Name of Director	Change
Mr CHOW Cheuk Yu Alfred BBS, JP <i>Non-executive Director</i>	<ul style="list-style-type: none">• Entitled to receive, as a Non-executive Director of the Bank, a director's fee of HK\$400,000 for the year ending 31 December 2017 (2016: HK\$300,000) as approved by the shareholders at the 2017 AGM• Appointed as Chairman of Chong Hing Insurance Company Limited with effect from 29 May 2017
Mr CHENG Yuk Wo <i>Independent Non-executive Director</i>	<ul style="list-style-type: none">• Appointed as Independent Non-executive Director of Somerley Capital Holdings Limited* with effect from 9 March 2017• Entitled to receive, as an Independent Non-executive Director of the Bank, a director's fee of HK\$400,000 for the year ending 31 December 2017 (2016: HK\$300,000) as approved by the shareholders at the 2017 AGM• Appointed as Independent Non-executive Director of Chong Hing Insurance Company Limited with effect from 29 May 2017
Mr MA Chiu Cheung Andrew <i>Independent Non-executive Director</i>	<ul style="list-style-type: none">• Appointed as Chairman of the Connected Party Transactions Committee of the Bank with effect from 16 February 2017 and entitled to receive an additional fee of HK\$40,000 per annum following the said appointment, subject to pro rata adjustment in light of the appointment taking effect from 16 February 2017• Entitled to receive, as an Independent Non-executive Director of the Bank, a director's fee of HK\$400,000 for the year ending 31 December 2017 (2016: HK\$300,000) as approved by the shareholders at the 2017 AGM

DISCLOSURE OF CHANGES IN DIRECTORS' INFORMATION

Name of Director	Change
Mr LEE Ka Lun <i>Independent Non-executive Director</i>	<ul style="list-style-type: none">Appointed as Chairman of the Risk Committee of the Bank with effect from 16 February 2017 and entitled to receive an additional fee of HK\$40,000 per annum following the said appointment, subject to pro rata adjustment in light of the appointment taking effect from 16 February 2017Entitled to receive, as an Independent Non-executive Director of the Bank, a director's fee of HK\$400,000 for the year ending 31 December 2017 (2016: HK\$300,000) as approved by the shareholders at the 2017 AGM
Mr YU Lup Fat Joseph <i>Independent Non-executive Director</i>	<ul style="list-style-type: none">Appointed as Chairman of the Nomination Committee of the Bank with effect from 16 February 2017 and entitled to receive an additional fee of HK\$40,000 per annum following the said appointment, subject to pro rata adjustment in light of the appointment taking effect from 16 February 2017Entitled to receive, as an Independent Non-executive Director of the Bank, a director's fee of HK\$400,000 for the year ending 31 December 2017 (2016: HK\$300,000) as approved by the shareholders at the 2017 AGM

Listed on the Australian Securities Exchange

* Listed on the Growth Enterprise Market of the Stock Exchange on 28 March 2017

Other than the information disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

INTERIM DIVIDEND

The Board has declared an interim cash dividend for 2017 of HK\$0.15 per share, payable on Monday, 25 September 2017, to the shareholders whose names appear on the register of members of the Bank on Monday, 18 September 2017 (2016 interim cash dividend: HK\$0.15 per share paid on 21 September 2016).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Bank will be closed from Thursday, 14 September 2017 to Monday, 18 September 2017 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for receiving the 2017 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, Wanchai, Hong Kong, not later than 4:30 pm on Wednesday, 13 September 2017.

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

Neither the Bank nor any of its subsidiaries purchased, sold or redeemed any of the Bank's listed securities during the six months ended 30 June 2017.

PUBLICATION OF 2017 INTERIM REPORT

The English and Chinese versions of the Bank's 2017 Interim Report are available on the Bank's website at www.chbank.com and Hong Kong Exchanges and Clearing Limited's website at www.hkexnews.hk. Shareholders are encouraged to access the Bank's corporate communications in electronic form to help protect the environment. Notwithstanding any wish to the contrary the shareholders have previously conveyed to the Bank, shareholders may change their choice of language or means of receipt of the Bank's corporate communications free of charge at any time by reasonable notice in writing to the Bank c/o the Bank's share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, or via email to chbank.ecom@computershare.com.hk specifying their name, address and request.

TO THE BOARD OF DIRECTORS OF CHONG HING BANK LIMITED

(incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 25 to 71, which comprises the condensed consolidated statement of financial position of Chong Hing Bank Limited (the “Bank”) and its subsidiaries (together, the “Group”) as at 30 June 2017 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Bank are responsible for the preparation and fair presentation of these interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on these interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 25 August 2017

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2017

	Notes	Six months ended 30 June	
		2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited) Restated
Interest income		1,798,154	1,463,019
Interest expense		(683,897)	(480,309)
Net interest income	6	1,114,257	982,710
Fee and commission income		193,542	165,200
Fee and commission expenses		(46,347)	(40,194)
Net fee and commission income	7	147,195	125,006
Net (loss) income from trading and investments	8	(25,761)	56,057
Other operating income	9	80,088	71,692
Operating expenses	10	(617,270)	(558,311)
Operating profit before impairment allowances		698,509	677,154
Net charge of impairment allowances on loans and advances	19	(218,272)	(16,483)
Operating profit after impairment allowances		480,237	660,671
Net gains on disposal of assets held for sale		2,878	–
Net gains (losses) on disposal of property and equipment		78,390	(58)
Net gains on disposal of other investments		–	46,337
Net gains on disposal of and fair value adjustments on investment properties	21	5,774	–
Impairment losses on available-for-sale securities		(261)	(9,485)
Share of profits of associates		29,164	9,808
Profit before taxation		596,182	707,273
Taxation	12	(84,295)	(115,300)
Profit for the period			
– Attributable to equity owners of the Bank	13	511,887	591,973
Earnings per share – basic and diluted	13	HK\$0.67	HK\$0.79

The notes on pages 32 to 71 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Profit for the period	511,887	591,973
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation	111,906	(12,475)
Fair value gains of available-for-sale securities arising during the period	141,608	75,308
Amount reclassified to the profit or loss upon impairment of available-for-sale securities	261	9,485
Amount reclassified to the profit or loss upon disposal of available-for-sale securities	(92,987)	(57,307)
Income tax effect relating to disposal of available-for-sale securities	15,343	9,456
Income tax effect relating to fair value change of available-for-sale securities	(23,321)	(14,133)
Share of other comprehensive income of associates	6,254	(1,721)
Other comprehensive income for the period (net of tax)	159,064	8,613
Total comprehensive income for the period	670,951	600,586
Total comprehensive income for the period attributable to: Equity owners of the Bank	670,951	600,586

The notes on pages 32 to 71 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	Notes	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Assets			
Cash and short-term funds	15	30,560,824	30,521,281
Placements with banks maturing between one to twelve months		2,058,549	1,616,540
Derivative financial instruments	16	314,603	424,845
Financial assets at fair value through profit or loss	17	213	241
Available-for-sale securities	17	27,823,765	24,164,028
Held-to-maturity securities	17	4,575,839	5,563,683
Advances and other accounts	19	80,888,057	74,081,605
Tax recoverable		3,010	3,128
Assets held for sale		–	2
Interests in associates	20	294,833	262,565
Investment properties	21	290,083	282,927
Property and equipment	22	701,669	633,604
Prepaid lease payments for land	23	2,238	2,201
Deferred tax assets	29	4,816	4,672
Intangible assets	24	278,502	210,729
Total assets		147,797,001	137,772,051
Liabilities			
Deposits and balances of banks		4,823,878	2,696,681
Financial assets sold under repurchase agreements	25	8,635,658	9,845,753
Deposits from customers	26	111,030,607	102,880,629
Certificates of deposit	27	933,162	812,329
Derivative financial instruments	16	721,762	553,614
Other accounts and accruals		1,424,977	1,243,889
Current tax liabilities		426,765	356,298
Debt securities issued	27	1,722,758	1,663,774
Loan capital	28	1,799,411	1,792,267
Deferred tax liabilities	29	23,651	13,245
Total liabilities		131,542,629	121,858,479
Equity attributable to owners of the Bank			
Share capital		5,435,904	5,435,904
Additional equity instruments	30	2,312,030	2,312,030
Reserves		8,506,438	8,165,638
Total equity		16,254,372	15,913,572
Total liabilities and equity		147,797,001	137,772,051

The notes on pages 32 to 71 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 2017

	Note	Share	Additional	Investment	Land and	General	Translation	Regulatory	Retained	Total	
		capital	equity	revaluation	building						
		HK\$'000	HK\$'000	Goodwill	reserve	reserve	reserve	reserve	profits	HK\$'000	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2017		5,435,904	2,312,030	(182)	169,620	174,247	1,388,500	(183,255)	739,000	5,877,708	15,913,572
Profit for the period		-	-	-	-	-	-	-	-	511,887	511,887
Exchange differences arising on translation		-	-	-	-	-	111,906	-	-	-	111,906
Fair value gains of available-for-sale securities arising during the period		-	-	-	141,608	-	-	-	-	-	141,608
Amount reclassified to the profit or loss upon impairment of available-for-sale securities		-	-	-	261	-	-	-	-	-	261
Amount reclassified to the profit or loss upon disposal of available-for-sale securities		-	-	-	(92,987)	-	-	-	-	-	(92,987)
Income tax effect relating to disposal of available-for-sale securities		-	-	-	15,343	-	-	-	-	-	15,343
Income tax effect relating to fair value change of available-for-sale securities		-	-	-	(23,321)	-	-	-	-	-	(23,321)
Share of other comprehensive income of associates		-	-	-	6,254	-	-	-	-	-	6,254
Other comprehensive income		-	-	-	47,158	-	111,906	-	-	-	159,064
Total comprehensive income for the period		-	-	-	47,158	-	111,906	-	-	511,887	670,951
Distribution payment for additional equity instruments		-	(75,676)	-	-	-	-	-	-	-	(75,676)
Transfer from retained profits		-	75,676	-	-	-	-	-	(75,676)	-	-
Final dividend paid	14	-	-	-	-	-	-	-	(254,475)	(254,475)	-
Earmark of retained profits as regulatory reserve		-	-	-	-	-	-	(88,000)	88,000	-	-
At 30 June 2017		5,435,904	2,312,030	(182)	216,778	174,247	1,388,500	(71,349)	651,000	6,147,444	16,254,372

The notes on pages 32 to 71 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 2017

	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	5,435,904	2,312,030	(182)	161,860	158,018	1,388,500	(27,505)	659,000	5,303,482	15,391,107

The retained profits of the Group included retained profits of HK\$156,873,000 (30 June 2016: retained profits of HK\$123,350,000) 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 32 to 71 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES		
Profit before taxation	596,182	707,273
Adjustments for:		
Net interest income	(1,114,257)	(982,710)
Net charge of impairment allowances on loans and advances	218,272	16,483
Net gains on disposal of assets held for sale	(2,878)	–
Net (gains) losses on disposal of property and equipment	(78,390)	58
Net gains on disposal of available-for-sale securities	(92,987)	(57,307)
Net gains on disposal of and fair value adjustments on investment properties	(5,774)	–
Share of profits of associates	(29,164)	(9,808)
Net gains on fair value hedge	(5,872)	(2,751)
Dividend received from investments	(4,422)	(4,892)
Depreciation	40,133	27,176
Release of prepaid lease payments for land	33	33
Impairment losses on available-for-sale securities	261	9,485
Exchange adjustments	178,458	(10,008)
Operating cash flows before movements in operating assets and liabilities	(300,405)	(306,968)
(Increase) decrease in operating assets:		
Money at call and short notice with original maturity over three months	146,302	715,950
Exchange fund bills with original maturity over three months	659,925	(606,456)
Placements with banks with original maturity over three months	(222,399)	4,500,394
Financial assets at fair value through profit or loss	28	30
Advances to customers	(6,621,132)	(787,126)
Advances to banks	388,543	(107,071)
Other accounts	(787,340)	(250,901)
Increase (decrease) in operating liabilities:		
Deposits and balances of banks	2,127,197	(116,555)
Financial assets sold under repurchase agreements	(1,210,095)	7,636,634
Deposits from customers	8,149,978	(11,373,851)
Certificates of deposit	120,833	118,017
Derivative financial instruments	171,474	(6,970)
Other accounts and accruals	146,183	16,805
Cash generated from (used in) operations	2,769,092	(568,068)
Hong Kong Profits Tax paid	2,004	(365)
Overseas tax paid	(13,790)	(13,322)
Interest received	1,278,587	1,052,461
Interest paid	(551,407)	(575,980)
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES	3,484,486	(105,274)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
INVESTING ACTIVITIES		
Interest received on available-for-sale securities and held-to-maturity securities	418,539	516,205
Dividends received on investments	4,422	4,892
Dividends received from associates	3,150	3,150
Purchase of available-for-sale securities	(10,045,675)	(7,951,516)
Purchase of property and equipment	(127,448)	(43,844)
Purchase of intangible assets	(65,689)	(82,113)
Proceeds from redemption of held-to-maturity securities	958,661	2,941,876
Proceeds from sale and redemption of available-for-sale securities	6,759,087	5,690,227
Proceeds from disposal of assets held for sale	2,880	–
Proceeds from disposal of property and equipment	98,012	195
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES	(1,994,061)	1,079,072
FINANCING ACTIVITIES		
Net proceeds from issue of debt securities	–	1,740,244
Interest paid on loan capital	(35,864)	(32,717)
Interest paid on debt securities issued	(59,030)	–
Dividends paid to ordinary shareholders	(254,475)	(241,425)
Distribution paid on additional equity instruments	(75,676)	(75,795)
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES	(425,045)	1,390,307
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,065,380	2,364,105
CASH AND CASH EQUIVALENTS AT 1 JANUARY	29,053,408	19,022,227
CASH AND CASH EQUIVALENTS AT 30 JUNE	30,118,788	21,386,332
Represented by:		
Cash and balances with central bank and banks	13,967,821	3,049,776
Money at call and short notice with original maturity of three months or less	11,662,002	16,818,806
Exchange fund bills with original maturity of three months or less	3,458,550	–
Placements with banks maturing between one to twelve months with original maturity of less than three months	1,030,415	1,517,750
	30,118,788	21,386,332

The notes on pages 32 to 71 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 2017

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 2016 that is included in the condensed consolidated interim financial information for the six months ended 30 June 2017 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 2016 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 2017 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 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements, except for the adoption of amendments to Hong Kong Financial Reporting Standards ("HKFRSs") effective for the financial year ending 31 December 2017.

- (a) Amendments to HKFRSs effective for the financial year ending 31 December 2017 do not have a material impact on the Group except for amendments to HKAS 12 'Income taxes' and HKAS 7 'Statement of cash flows'. The impact of these two amendments are summarised as below:
- The amendments to HKAS 12 on the recognition of deferred tax assets for unrealised losses clarifies how to account for deferred tax assets related to debt instruments measured at fair value.
 - The amendments to HKAS 7 clarifies introduced an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

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

Other amendments to HKFRSs effective on 1 January 2017 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.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these condensed consolidated interim financial information. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

HKFRS 9 Financial instruments

HKFRS 9 replaces the existing guidance in HKAS 39 Financial Instruments: Recognition and Measurement, which introduces new requirements for the classification and measurement of financial instruments; new expected credit loss model for impairment of financial assets as well as new rules for hedge accounting. The Group is continuing its assessment and preparation of the classification and measurement of financial assets and liabilities under HKFRS 9. The implementation of expected credit loss model continues to progress with the build and testing of impairment calculation nearing completion. For hedge accounting, the Group does not expect a significant impact on the accounting for its hedging relationships. The standard is effective for annual reporting periods beginning on or after 1 January 2018. The Group plans to adopt the standard when it becomes effective in 2018.

HKFRS 15 Revenue from contracts with customer

The standard will replace HKAS 18 Revenue which covers revenue arising from the sale of goods and the rendering of services. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The new standard is effective for annual reporting periods beginning on or after 1 January 2018. Management is currently assessing the effects of applying the new standard on the Group's financial statements, which the management expects to complete in the coming months. At this stage, the Group does not expect to adopt the new standard before 1 January 2018.

HKFRS 16 Leases

The standard will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. The standard is effective for annual reporting periods beginning on or after 1 January 2019. The work to assess the impact of the standard is ongoing and the Group does not intend to adopt the standard before its effective date.

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 purposes 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

3. SEGMENT INFORMATION (continued)

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

Operating segment revenue and results

Six months ended 30 June 2017

	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	1,098,956	695,913	2,662	623	-	1,798,154
Interest expense to external customers	(498,347)	(185,550)	-	-	-	(683,897)
Inter-segment interest income (Note 1)	254,943	-	-	-	(254,943)	-
Inter-segment interest expense (Note 1)	-	(254,943)	-	-	254,943	-
Net interest income	855,552	255,420	2,662	623	-	1,114,257
Fee and commission income	136,332	-	57,210	-	-	193,542
Fee and commission expenses	(46,289)	-	(58)	-	-	(46,347)
Net (loss) income from trading and investments	462	53,616	-	(79,839)	-	(25,761)
Other operating income	67,919	543	-	11,626	-	80,088
Segment revenue						
Total operating income	1,013,976	309,579	59,814	(67,590)	-	1,315,779
Comprising:						
- Segment revenue from external customers	759,033	564,522	59,814	(67,590)		
- Inter-segment transactions	254,943	(254,943)	-	-		
Operating expenses (Note 2)	(362,435)	(33,079)	(29,878)	(11,627)	-	(437,019)
Impairment allowances on loans and advances	(218,272)	-	-	-	-	(218,272)
Net gains on disposal of assets held for sale	-	-	-	2,878	-	2,878
Net (losses) gains on disposal of property and equipment	(817)	-	30,350	48,857	-	78,390
Net gains on disposal of other investments	-	-	-	-	-	-
Net gains on disposal of and fair value adjustments on investment properties	-	-	-	5,774	-	5,774
Impairment losses on available-for-sale securities	-	-	-	(261)	-	(261)
Segment profit	432,452	276,500	60,286	(21,969)	-	747,269
Unallocated corporate expenses						(180,251)
Share of profits of associates						29,164
Profit before taxation						596,182

Notes:

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

3. SEGMENT INFORMATION (continued) Operating segment assets and liabilities

At 30 June 2017

	Corporate and personal banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Consolidated HK\$'000
Assets					
Segment assets	94,024,543	51,521,385	381,332	470,757	146,398,017
Interests in associates					294,833
Unallocated corporate assets					1,104,151
Consolidated total assets					147,797,001
Liabilities					
Segment liabilities	111,688,719	18,866,608	244,775	240,041	131,040,143
Unallocated corporate liabilities					502,486
Consolidated total liabilities					131,542,629

Other information

Six months ended 30 June 2017

	Corporate and personal banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital expenditure during the period	41,317	1,309	2,086	24	26,423	71,159
Depreciation	29,594	914	1,098	240	10,371	42,217
Release of prepaid lease payments for land	33	-	-	-	-	33

3. SEGMENT INFORMATION (continued)

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 (loss) income from trading and investments	748	44,397	-	10,912	-	56,057
Other operating income	60,286	-	-	11,406	-	71,692
Segment revenue						
Total operating income	803,942	357,545	51,032	22,946	-	1,235,465
Comprising:						
- Segment revenue from external customers	599,644	561,843	51,032	22,946		
- 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	-	-	-	46,337	-	46,337
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:

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

3. SEGMENT INFORMATION (continued) Operating segment assets and liabilities

At 31 December 2016

	Corporate and personal banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Consolidated HK\$'000
Assets					
Segment assets	77,287,514	59,003,434	288,494	454,148	137,033,590
Interests in associates					262,565
Unallocated corporate assets					475,896
Consolidated total assets					137,772,051
Liabilities					
Segment liabilities	103,641,993	17,452,642	139,485	119,599	121,353,719
Unallocated corporate liabilities					504,760
Consolidated total liabilities					121,858,479

Other information

Six months ended 30 June 2016

	Corporate and personal banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
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

3. SEGMENT INFORMATION (continued)

Other information (continued)

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 2017			At 30 June 2017			
	Total operating income	Profit before taxation	Capital expenditure during the period	Total assets	Total liabilities	Total contingent liabilities and commitments	Non-current assets
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	1,121,041	509,034	40,070	125,560,028	116,622,695	22,615,164	1,418,192
Macau and Mainland China	194,738	87,148	31,089	22,236,973	14,919,934	4,948,030	149,100
Total	1,315,779	596,182	71,159	147,797,001	131,542,629	27,563,194	1,567,292

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

3. SEGMENT INFORMATION (continued)

Geographical information (continued)

	Six months ended 30 June 2016			At 31 December 2016			
	Total operating income	Profit before taxation	Capital expenditure during the period	Total assets	Total liabilities	Total contingent liabilities and commitments	Non-current assets
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	1,140,446	671,017	103,431	118,135,827	108,326,735	21,852,799	1,283,254
Macau and Mainland China	95,019	36,256	22,526	19,636,224	13,531,744	3,735,358	108,706
Total	1,235,465	707,273	125,957	137,772,051	121,858,479	25,588,157	1,391,960

Note:

Total operating income consists of net interest income, net fee and commission income, net (loss) income from trading and investments 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 2016.

There have been no changes in the risk management policies since year end.

4. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

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 2017.

	Fair value hierarchy			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
At 30 June 2017				
Financial assets held for trading	213	–	–	213
Available-for-sale securities				
Equity securities	53,816	–	276	54,092
Debt securities	–	27,736,420	–	27,736,420
Derivative financial assets not used for hedging	–	219,630	–	219,630
Derivative financial assets used for hedging	–	94,973	–	94,973
Derivative financial liabilities not used for hedging	–	(335,405)	–	(335,405)
Derivative financial liabilities used for hedging	–	(386,357)	–	(386,357)
Total	54,029	27,329,261	276	27,383,566

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

4. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

4.2 Fair value estimation (continued)

The following table presents the Group's financial assets and liabilities that are measured at fair value as at 31 December 2016.

	Fair value hierarchy			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
At 31 December 2016				
Financial assets held for trading	241	–	–	241
Available-for-sale securities				
Equity securities	59,199	–	275	59,474
Debt securities	–	24,072,268	–	24,072,268
Derivative financial assets not used for hedging	–	250,026	–	250,026
Derivative financial assets used for hedging	–	174,819	–	174,819
Derivative financial liabilities not used for hedging	–	(183,762)	–	(183,762)
Derivative financial liabilities used for hedging	–	(369,852)	–	(369,852)
Total	59,440	23,943,499	275	24,003,214

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

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 interim financial information approximate their fair values.

4. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

4.2 Fair value estimation (continued)

	Carrying amount HK\$'000	Fair value HK\$'000
At 30 June 2017		
Financial assets		
– Held-to-maturity securities	4,575,839	4,641,711
Financial liabilities		
– Loan capital	1,799,411	1,882,638
At 31 December 2016		
Financial assets		
– Held-to-maturity securities	5,563,683	5,645,930
Financial liabilities		
– Loan capital	1,792,267	1,735,717

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

4. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

4.4 Reconciliation of Level 3 fair value measurements of financial assets

	Available- for-sale securities HK\$'000
Balance at 1 January 2016	23,331
Total net losses recognised in the investment revaluation reserve	(84)
Disposals	(22,972)
Balance at 1 January 2017	275
Total net gain recognised in the investment revaluation reserve	1
Disposals	-
Balance at 30 June 2017	276

The majority of the Group's investments are valued based on quoted market information or observable market data. A small percentage, less than 0.01% (31 December 2016: less than 0.01%), 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

6. NET INTEREST INCOME

	Six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000
Interest income		
Balances and placements with central bank and banks	225,559	164,308
Investments in securities	477,387	444,800
Loans and advances	1,095,208	844,808
Interest rate swaps	–	9,103
	1,798,154	1,463,019
Interest expense		
Deposits and balances of banks	(49,406)	(28,487)
Deposits from customers	(498,279)	(382,416)
Financial assets sold under repurchase agreements	(64,430)	(18,396)
Certificates of deposit	(3,218)	(2,685)
Debt securities issued	(30,058)	(6,932)
Loan capital in issue	(38,506)	(34,435)
Interest rate swaps	–	(6,958)
	(683,897)	(480,309)
Net interest income	1,114,257	982,710
Included within interest income		
Interest income on impaired loans and advances	130	489

Included within interest income and interest expense are HK\$1,798,154,000 (2016: HK\$1,453,916,000) and HK\$683,897,000 (2016: HK\$473,351,000) 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\$477,387,000 (2016: HK\$444,800,000).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

7. NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000
Fee and commission income		
Securities dealings	57,210	48,058
Credit lines	31,391	13,312
Trade finance	7,409	5,898
Credit card services	48,082	43,933
Agency services	37,479	46,227
Others	11,971	7,772
Total fee and commission income	193,542	165,200
Less: Fee and commission expenses	(46,347)	(40,194)
Net fee and commission income	147,195	125,006
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	90,786	67,112
– Fee expenses	(45,055)	(39,787)
	45,731	27,325

8. NET (LOSS) INCOME FROM TRADING AND INVESTMENTS

	Six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000 Restated
Foreign exchange	(131,794)	43,525
Net income from financial assets designated at fair value	469	717
Net gains (losses) on financial instruments at fair value through profit or loss	6,705	(1,906)
Net gains (losses) on fair value hedge:		
– Net gains on hedged items attributable to the hedged risk	112,788	337,985
– Net losses on hedging instruments	(106,916)	(335,234)
Net gains on disposal of available-for-sale securities:		
– Debt securities	85,498	10,970
– Equity securities	7,489	–
	(25,761)	56,057

“Net (loss) income from trading and investments – 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.

The Group entered into foreign exchange swaps for its liquidity management and funding activities. It involves swapping a currency (“original currency”) into another currency (“swap currency”) at the spot exchange rate for short-term placement and simultaneously entering into a forward contract to convert the funds back to the original currency on maturity of the placement. The exchange difference between the spot and forward contracts is recognised as a gain or loss in “net (loss) income from trading and investments – foreign exchange”, while the corresponding interest differential between the surplus funds in the original currency and swap currency is reflected in net interest income.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

8. NET (LOSS) INCOME FROM TRADING AND INVESTMENTS (continued)

“Net (loss) income from trading and investments – foreign exchange” also includes certain translation gains and losses reported in accordance with Hong Kong Accounting Standard 21 “The Effects of Changes in Foreign Exchange Rates” in relation to the Group’s Mainland Operation. There were translation losses of approximately HK\$25 million arising from translation of non-Renminbi net monetary assets maintained in the Mainland branches and there were translation losses of approximately HK\$62 million arising from the translation of Renminbi net monetary liabilities at Head Office level in relation to the working capital provided to the Mainland branches. These translation losses from monetary items had been reported as “net (loss) income from trading and investments – foreign exchange” whereas the corresponding translation gains from the consolidation of the Mainland branches had been reported as part of exchange differences arising on translation under other comprehensive income.

Net gains on disposal of the available-for-sale securities were included in the net (loss) income from trading and investments of the Group which form part of the business operation. This is in line with the current business model of the Group. Comparative figures have been reclassified to ensure information is provided on a basis consistent with the current period’s presentation.

9. OTHER OPERATING INCOME

	Six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000
Dividend income		
– Listed investments	1,022	1,492
– Unlisted investments	3,400	3,400
	4,422	4,892
Gross rents from investment properties	4,206	3,693
Less: Outgoings	(214)	(208)
Net rental income	3,992	3,485
Safe deposit box rentals	24,797	24,218
Insurance underwriting premium less claims and commission expense	7,775	7,658
Other banking services income	30,868	27,810
Others	8,234	3,629
	80,088	71,692

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

10. OPERATING EXPENSES

	Six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000
Auditor's remuneration	2,921	1,999
Staff costs (including directors' emoluments)		
– Salaries and other costs	352,274	318,297
– Retirement benefits scheme contributions	24,380	21,132
– Capitalised to intangible assets	(19,620)	(10,900)
Total staff costs	357,034	328,529
Depreciation	42,217	29,283
– Capitalised to intangible assets	(2,084)	(2,107)
	40,133	27,176
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	73,920	64,839
– Capitalised to intangible assets	(1,811)	(1,832)
	72,109	63,007
– Others	12,774	13,511
Other operating expenses	133,050	124,796
– Capitalised to intangible assets	(784)	(740)
	617,270	558,311

Included in the premises and equipment expenses are minimum lease payments under operating leases of HK\$69,543,000 (2016: HK\$60,236,000).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

11. IMPAIRMENT ASSESSMENT ON GOODWILL

For the six-month period ended 30 June 2017, 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 4% to 10%) (2016: growth rate at 5%), long term growth rate (3%) (2016: 3%) and selection of discount rate (12%) (2016: 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 2017 and 30 June 2016.

12. TAXATION

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
The tax charge comprises:		
Hong Kong Profits Tax	61,022	99,876
Overseas taxation	21,349	14,217
Deferred tax	1,924	1,207
	84,295	115,300

Hong Kong Profits Tax is calculated at 16.5% (2016: 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\$511,887,000 (2016: HK\$591,973,000) with deduction of distribution payment for additional equity instruments of HK\$75,676,000 (2016: HK\$75,795,000) and on 652,500,000 (2016: 652,500,000) ordinary shares in issue.

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

14. DIVIDENDS

On 5 June 2017, a dividend of HK\$0.39 per share totalling HK\$254,475,000 was paid to shareholders as the final dividend for 2016.

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.

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 2017 of HK\$97,875,000 (2016: HK\$97,875,000) at a rate of HK\$0.15 (2016: HK\$0.15) per share should be paid to the shareholders of the Bank whose names appear on the Register of Members on 18 September 2017.

15. CASH AND SHORT-TERM FUNDS

	30 June 2017 HK\$'000	31 December 2016 HK\$'000
Cash and balances with central bank and banks	13,967,821	4,009,869
Money at call and short notice	11,748,320	23,415,448
Exchange fund bills	4,844,683	3,095,964
	30,560,824	30,521,281

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 Mainland branches of HK\$245,441,000 (31 December 2016: HK\$376,287,000).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

17. INVESTMENTS IN SECURITIES

	Financial assets at fair value through profit or loss				Total HK\$'000
	Held for trading	Designated at fair value	Available-for-sale securities	Held-to-maturity securities	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
30 June 2017					
Equity securities:					
Listed in Hong Kong	213	-	50,864	-	51,077
Listed overseas	-	-	2,951	-	2,951
	213	-	53,815	-	54,028
Unlisted	-	-	33,530	-	33,530
	213	-	87,345	-	87,558
Debt securities(Unlisted)					
Certificates of deposit	-	-	-	150,041	150,041
Other debt securities	-	-	27,736,420	4,425,798	32,162,218
	-	-	27,736,420	4,575,839	32,312,259
Total:					
Listed in Hong Kong	213	-	50,864	-	51,077
Listed overseas	-	-	2,951	-	2,951
Unlisted	-	-	27,769,950	4,575,839	32,345,789
	213	-	27,823,765	4,575,839	32,399,817
As analysed by issuing entities:					
Central government and central banks	-	-	3,351,624	4,608	3,356,232
Public sector entities	-	-	-	-	-
Banks	-	-	11,725,948	910,669	12,636,617
Corporate entities	213	-	12,746,193	3,660,562	16,406,968
	213	-	27,823,765	4,575,839	32,399,817

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

17. INVESTMENTS IN SECURITIES (continued)

	Financial assets at fair value through profit or loss		Available- for-sale securities HK\$'000	Held-to- maturity securities HK\$'000	Total HK\$'000
	Held for trading HK\$'000	Designated at fair value HK\$'000			
	31 December 2016				
Equity securities:					
Listed in Hong Kong	241	–	56,882	–	57,123
Listed overseas	–	–	2,317	–	2,317
	241	–	59,199	–	59,440
Unlisted	–	–	32,561	–	32,561
	241	–	91,760	–	92,001
Debt securities (Unlisted):					
Certificates of deposit	–	–	3,472,782	141,134	3,613,916
Other debt securities	–	–	20,599,486	5,422,549	26,022,035
	–	–	24,072,268	5,563,683	29,635,951
Total:					
Listed in Hong Kong	241	–	56,882	–	57,123
Listed overseas	–	–	2,317	–	2,317
Unlisted	–	–	24,104,829	5,563,683	29,668,512
	241	–	24,164,028	5,563,683	29,727,952
As analysed by issuing entities:					
Central governments and central banks	–	–	4,006,693	4,645	4,011,338
Public sector entities	–	–	26	39,234	39,260
Banks	–	–	7,314,551	941,530	8,256,081
Corporate entities	241	–	12,842,758	4,578,274	17,421,273
	241	–	24,164,028	5,563,683	29,727,952

17. INVESTMENTS IN SECURITIES (continued)

For the equity securities classified as available-for-sale financial instruments, impairment losses accumulated through the years of HK\$14,978,000 (31 December 2016: HK\$14,978,000) have been provided by the Group.

Unlisted equity securities classified as available-for-sale securities held by the Group amounting to HK\$33,254,000 (31 December 2016: HK\$32,286,000) are measured at cost less impairment. No impairment has been recognised for these equity securities.

As at 31 December 2016, certain held-to-maturity certificates of deposit of HK\$775,000 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. As at 30 June 2017, there was no held-to-maturity certificates of deposit pledged to the State of California of the United States of America.

Debt securities classified as available-for-sale and held-to-maturity amounting to HK\$240,072,000 (31 December 2016: HK\$231,712,000) and HK\$4,608,000 (31 December 2016: HK\$4,645,000) 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.

The Group has disposed certain securities classified as available-for-sale financial instruments during the six-month periods ended 30 June 2017 and 30 June 2016. Net gains on disposal of available-for-sale securities included in net (loss) income from trading and investments (refers to the gains on the disposal of securities which form part of the business operation.) Net gains on disposal of other investments refers to the gains on the disposal of structured investment vehicles which were held for capital appreciation.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

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 2017 and 31 December 2016 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 25). The transferred debt securities serve as collateral to secure these liabilities. During the covered periods, 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.

	30 June 2017		
	Available- for-sale debt securities HK\$'000	Held-to- maturity debt securities HK\$'000	Total HK\$'000
Carrying amount of transferred assets	7,172,614	2,006,514	9,179,128
Carrying amount of associated liabilities (Note 25)	7,163,467	1,472,191	8,635,658
	31 December 2016		
	Available- for-sale debt securities HK\$'000	Held-to- maturity debt securities HK\$'000	Total HK\$'000
Carrying amount of transferred assets	8,967,269	1,656,879	10,624,148
Carrying amount of associated liabilities (Note 25)	8,382,649	1,463,104	9,845,753

19. ADVANCES AND OTHER ACCOUNTS

	30 June 2017 HK\$'000	31 December 2016 HK\$'000
Advances to customers		
Bills receivable	561,373	564,206
Trade bills	251,717	801,981
Other advances to customers	76,558,565	69,322,968
	77,371,655	70,689,155
Interest receivable	487,341	481,079
Impairment allowances		
– Individually assessed	(294,249)	(39,737)
– Collectively assessed	(277,814)	(251,219)
	77,286,933	70,879,278
Advances to banks	107,713	496,256
Other accounts	3,493,411	2,706,071
	80,888,057	74,081,605

Included in the “Other Accounts” is variation margin of HK\$542,663,000 (31 December 2016: HK\$538,331,000) deposited in banks for certain interest rate swaps, foreign currency forward contracts and repurchase agreements and an amount of approximately HK\$2,288,976,000 (31 December 2016: HK\$1,548,577,000) placed as reserve funds with a financial institution in the Mainland China by the Mainland branches. Among which, HK\$1,434,963,000 (31 December 2016: HK\$716,623,000) 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\$854,013,000 (31 December 2016: HK\$831,954,000) are the fixed deposits placed with a bank in the Mainland in compliance with the requirements of Regulations Governing Foreign Financial Institutions of the Mainland.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

19. ADVANCES AND OTHER ACCOUNTS (continued)

The remaining balance of “Other Accounts” of the Group amounting to HK\$661,772,000 (31 December 2016: HK\$619,163,000) 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\$364,821,000 (31 December 2016: HK\$259,568,000).

Impairment allowances on advances:

	Individual assessment HK\$'000	Collective assessment HK\$'000	Total HK\$'000
Balance 1 January 2017	39,737	251,219	290,956
– Increase in impairment allowances	259,373	25,128	284,501
– Amounts reversed	(66,229)	–	(66,229)
Charge of impairment allowances (net)	193,144	25,128	218,272
Amounts written off	(2,059)	–	(2,059)
Recoveries of advances written off in previous years	63,557	–	63,557
Unwinding effect of discount rate	(130)	–	(130)
Exchange adjustments	–	1,467	1,467
Balance 30 June 2017	294,249	277,814	572,063
Balance 1 January 2016	23,688	250,494	274,182
– Increase in impairment allowances	27,070	2,167	29,237
– Amounts reversed	(69,435)	–	(69,435)
Charge (reversal) of impairment allowances (net)	(42,365)	2,167	(40,198)
Amounts written off	(5,758)	–	(5,758)
Recoveries of advances written off in previous years	64,876	–	64,876
Unwinding effect of discount rate	(704)	–	(704)
Exchange difference	–	(1,442)	(1,442)
Balance 31 December 2016	39,737	251,219	290,956

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

19. ADVANCES AND OTHER ACCOUNTS (continued)

Details of the impaired loans are as follows:

	30 June 2017 HK\$'000	31 December 2016 HK\$'000
Gross impaired loans	405,840	48,253
Less: Impairment allowances under individual assessment	(294,249)	(39,737)
Net impaired loans	111,591	8,516
Gross impaired loans as a percentage of gross advances to customers	0.52%	0.07%
Market value of collateral pledged	9,506	9,150

Details of the non-performing loans are as follows:

	30 June 2017 HK\$'000	31 December 2016 HK\$'000
Gross non-performing loans (<i>Note</i>)	557,501	449,772
Less: Impairment allowances under individual assessment	(294,249)	(39,737)
Net non-performing loans	263,252	410,035
Gross non-performing loans as a percentage of gross advances to customers	0.72%	0.64%
Market value of collateral pledged	245,942	760,420

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

19. ADVANCES AND OTHER ACCOUNTS (continued)

In accordance with HKAS 39, individual impairment allowances are assessed by a discounted cash flow method for loans and advances that are individually significant and have objective evidence of impairment. The increase in impairment allowances under individual allowances for the six months ended 30 June 2017 was mainly due to one corporate credit relationship, which is engaged in various business segments including food production based in Mainland China, and is undergoing debt restructuring. The exposure was partially provided for individual impairment allowances which represented the difference between the asset's carrying amount and the present value of estimated future cash flows.

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. INTERESTS IN ASSOCIATES

On 20 March 2017, the Group entered into a Share Sale Agreement to sell the Group's stake in Hong Kong Life Insurance Limited (the "Disposal") for a consideration of approximately HK\$1,183,333,000. Under the Share Sale Agreement, the closing of the Disposal is subject to the satisfaction of certain conditions. As at 30 June 2017, the Group's interest in Hong Kong Life Insurance Limited is accounted for using the equity method as the Disposal was not completed.

21. INVESTMENT PROPERTIES

	2017 HK\$'000	2016 HK\$'000
At 1 January	282,927	264,222
Transfer from land and buildings	–	19,000
Net increase in fair value recognised in the profit or loss	5,774	2,026
Exchange adjustments	1,382	(2,321)
At 30 June / 31 December	290,083	282,927

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	
	2017 HK\$'000	2016 HK\$'000
Net gains on fair value adjustments on investment properties	5,774	–

21. INVESTMENT PROPERTIES (continued)

Investment properties owned by the Group were revalued at 30 June 2017 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\$3,050 to HK\$48,900 (2016: HK\$3,000 to HK\$47,900) 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 2017 and 31 December 2016. There were no transfers into or out of Level 3 during the periods.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

22. PROPERTY AND EQUIPMENT

	Leasehold land HK\$'000	Buildings HK\$'000	Equipment HK\$'000	Total HK\$'000
COST				
At 1 January 2017	478,312	161,440	705,814	1,345,566
Additions	–	–	127,448	127,448
Disposals	(19,644)	(8,570)	(15,044)	(43,258)
Exchange adjustments	–	414	2,960	3,374
At 30 June 2017	458,668	153,284	821,178	1,433,130
ACCUMULATED DEPRECIATION				
At 1 January 2017	140,206	51,501	520,255	711,962
Depreciation	5,307	1,845	35,065	42,217
Eliminated on disposals	(6,833)	(3,485)	(13,318)	(23,636)
Exchange adjustments	–	16	902	918
At 30 June 2017	138,680	49,877	542,904	731,461
CARRYING AMOUNTS				
At 30 June 2017	319,988	103,407	278,274	701,669
At 1 January 2017	338,106	109,939	185,559	633,604
COST				
At 1 January 2016	486,181	163,595	641,040	1,290,816
Additions	–	–	82,389	82,389
Disposals	(3,661)	(814)	(13,356)	(17,831)
Transfer to assets held for sale	(6)	(20)	–	(26)
Transfer to investment properties	(4,202)	(1,070)	–	(5,272)
Exchange adjustments	–	(251)	(4,259)	(4,510)
At 31 December 2016	478,312	161,440	705,814	1,345,566
ACCUMULATED DEPRECIATION				
At 1 January 2016	131,429	48,663	482,947	663,039
Depreciation	10,805	4,072	47,752	62,629
Eliminated on disposals	(93)	(534)	(8,795)	(9,422)
Transfer to assets held for sale	(4)	(20)	–	(24)
Transfer to investment properties	(1,931)	(570)	–	(2,501)
Exchange adjustments	–	(110)	(1,649)	(1,759)
At 31 December 2016	140,206	51,501	520,255	711,962
CARRYING AMOUNTS				
At 31 December 2016	338,106	109,939	185,559	633,604
At 1 January 2016	354,752	114,932	158,093	627,777

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

23. PREPAID LEASE PAYMENTS FOR LAND

The prepaid lease payments for land comprise:

	2017 HK\$'000	2016 HK\$'000
COST		
Outside Hong Kong held on:		
Leases of between 10 to 50 years	2,850	2,850
Net book value at 1 January	2,201	2,269
Release of prepaid operating lease payments	(33)	(66)
Exchange adjustments	70	(2)
Net book value at 30 June / 31 December	2,238	2,201
Analysed as:		
Current portion	33	66
Non-current portion	2,205	2,135
Total	2,238	2,201

24. INTANGIBLE ASSETS

	30 June 2017 HK\$'000	31 December 2016 HK\$'000
Internally developed software	238,896	171,123
Goodwill (Note 11)	39,606	39,606
	278,502	210,729

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

25. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	30 June 2017 HK\$'000	31 December 2016 HK\$'000
Analysed by collateral type:		
Debt securities classified as:		
Available-for-sale	7,163,467	8,382,649
Held-to-maturity	1,472,191	1,463,104
	8,635,658	9,845,753

As at 30 June 2017, debt securities which are classified as available-for-sale and held-to-maturity with carrying amounts of HK\$7,172,614,000 (31 December 2016: HK\$8,967,269,000) and HK\$2,006,514,000 (31 December 2016: HK\$1,656,879,000) respectively were sold under repurchase agreements with other banks. All repurchase agreements are due within 12 months from the end of the reporting periods.

26. DEPOSITS FROM CUSTOMERS

	30 June 2017 HK\$'000	31 December 2016 HK\$'000
Demand deposits and current accounts	10,623,787	9,508,384
Savings deposits	37,314,348	35,751,109
Time, call and notice deposits	63,092,472	57,621,136
	111,030,607	102,880,629

27. 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\$933,162,000 as at 30 June 2017 (31 December 2016: HK\$812,329,000). Certificates of deposit bear contractual interest rates between 1.12% to 1.40% (31 December 2016: 1.10% to 1.41%) per annum and will mature in 2018. 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\$1,722,758,000 as at 30 June 2017 (31 December 2016: HK\$1,663,774,000). 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

28. LOAN CAPITAL

	30 June 2017 HK\$'000	31 December 2016 HK\$'000
US\$225 million fixed rate subordinated note due 2020 under fair value hedge (after adjustment of hedged interest rate risk) (Notes (a) & (b))	1,799,411	1,792,267

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.

29. 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 2017 HK\$'000	31 December 2016 HK\$'000
Deferred tax assets	4,816	4,672
Deferred tax liabilities	(23,651)	(13,245)
	(18,835)	(8,573)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

29. DEFERRED TAXATION (continued)

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 2017	(2,899)	35,365	(8,473)	(29,074)	(3,492)	(8,573)
Charge to the income statement for the period	(1,870)	2,566	(2,620)	-	-	(1,924)
Charge to other comprehensive income for the period	-	-	-	(7,978)	-	(7,978)
Exchange adjustments	-	-	(360)	-	-	(360)
At 30 June 2017	(4,769)	37,931	(11,453)	(37,052)	(3,492)	(18,835)
At 1 January 2016	(3,881)	38,327	(7,653)	(22,626)	(3,492)	675
Credit (charge) to income statement for the year	982	(2,962)	(1,317)	-	-	(3,297)
Charge to other comprehensive income for the year	-	-	-	(6,448)	-	(6,448)
Exchange adjustments	-	-	497	-	-	497
At 31 December 2016	(2,899)	35,365	(8,473)	(29,074)	(3,492)	(8,573)

30. ADDITIONAL EQUITY INSTRUMENTS

	30 June 2017 HK\$'000	31 December 2016 HK\$'000
US\$300 million undated non-cumulative subordinated additional tier 1 capital securities	2,312,030	2,312,030

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 (2016: US\$9,750,000) (equivalent to HK\$75,674,625) (2016: HK\$75,795,000) was paid to the securities holders.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

31. 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 2017								
Assets								
Cash and short-term funds	13,714,883	12,977,468	2,920,958	947,515	-	-	-	30,560,824
Placements with banks	-	-	1,388,140	670,409	-	-	-	2,058,549
Derivative financial instruments	-	101,815	25,517	67,504	80,245	39,522	-	314,603
Financial assets at fair value through profit or loss	-	-	-	-	-	-	213	213
Available-for-sale securities	-	1,554,426	5,157,043	1,357,041	10,357,086	9,310,823	87,346	27,823,765
Held-to-maturity securities	-	160,001	537,466	351,905	3,027,621	498,846	-	4,575,839
Advances to customers	1,354,088	1,819,833	5,807,713	15,987,428	33,603,756	18,712,476	86,361	77,371,655
Advances to banks	-	-	-	-	107,713	-	-	107,713
Other financial assets	951,411	365,429	1,644,967	964,324	27,901	-	(545,343)	3,408,689
Total financial assets	16,020,382	16,978,972	17,481,804	20,346,126	47,204,322	28,561,667	(371,423)	146,221,850
Liabilities								
Deposits and balances of banks	14,532	1,175,896	3,037,662	595,788	-	-	-	4,823,878
Financial assets sold under repurchase agreements	-	124,146	6,818,534	1,692,978	-	-	-	8,635,658
Deposits from customers	48,701,938	21,657,387	26,127,099	13,443,466	1,100,717	-	-	111,030,607
Certificates of deposit	-	110,091	622,926	200,145	-	-	-	933,162
Derivative financial instruments	-	98,862	88,711	128,736	126,982	278,471	-	721,762
Debt securities issued	-	-	-	-	1,722,758	-	-	1,722,758
Loan capital	-	-	-	-	1,799,411	-	-	1,799,411
Other financial liabilities	615,705	233,876	181,347	379,165	14,884	-	-	1,424,977
Total financial liabilities	49,332,175	23,400,258	36,876,279	16,440,278	4,764,752	278,471	-	131,092,213
Net position - Total financial assets and liabilities	(33,311,793)	(6,421,286)	(19,394,475)	3,905,848	42,439,570	28,283,196	(371,423)	15,129,637
Of which certificates of deposit included in:								
Available-for-sale securities	-	1,554,425	4,752,237	414,119	970,487	-	-	7,691,268
Held-to-maturity securities	-	-	-	150,041	-	-	-	150,041
	-	1,554,425	4,752,237	564,160	970,487	-	-	7,841,309
Of which debt securities included in:								
Available-for-sale securities	-	1,554,426	5,157,043	1,357,041	10,357,086	9,310,823	-	27,736,419
Held-to-maturity securities	-	160,001	537,466	351,905	3,027,621	498,846	-	4,575,839
	-	1,714,427	5,694,509	1,708,946	13,384,707	9,809,669	-	32,312,258

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

31. MATURITY PROFILES (continued)

	Repayable within 1 month Repayable on demand HK\$'000	Repayable (except those 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 2016								
Assets								
Cash and short-term funds	4,001,611	24,396,062	677,032	1,446,576	-	-	-	30,521,281
Placements with banks	-	-	799,236	817,304	-	-	-	1,616,540
Derivative financial instruments	-	67,031	43,512	128,548	73,176	112,578	-	424,845
Financial assets at fair value through profit or loss	-	-	-	-	-	-	241	241
Available-for-sale securities	-	1,421,255	155,517	2,921,618	9,413,411	10,160,467	91,760	24,164,028
Held-to-maturity securities	-	852	366,795	1,409,437	3,287,859	498,740	-	5,563,683
Advances to customers	1,516,946	4,257,061	5,215,821	15,551,836	26,561,615	17,405,078	180,798	70,689,155
Advances to banks	-	-	-	389,251	107,005	-	-	496,256
Other financial assets	1,601,690	387,131	203,189	982,696	17,672	-	(296,184)	2,896,194
Total financial assets	7,120,247	30,529,392	7,461,102	23,647,266	39,460,738	28,176,863	(23,385)	136,372,223
Liabilities								
Deposits and balances of banks	9,033	1,013,858	840,552	833,238	-	-	-	2,696,681
Financial assets sold under repurchase agreements	-	43,391	8,634,596	1,167,766	-	-	-	9,845,753
Deposits from customers	45,381,760	23,271,126	23,428,186	10,744,118	55,439	-	-	102,880,629
Certificates of deposit	-	190,085	232,004	390,240	-	-	-	812,329
Derivative financial instruments	-	41,774	29,086	103,717	115,615	263,422	-	553,614
Debt securities issued	-	-	-	-	1,663,774	-	-	1,663,774
Loan capital	-	-	-	-	1,792,267	-	-	1,792,267
Other financial liabilities	464,667	165,098	211,109	389,040	13,975	-	-	1,243,889
Total financial liabilities	45,855,460	24,725,332	33,375,533	13,628,119	3,641,070	263,422	-	121,488,936
Net position - total financial assets and liabilities	(38,735,213)	5,804,060	(25,914,431)	10,019,147	35,819,668	27,913,441	(23,385)	14,883,287
Of which certificates of deposit included in:								
Available-for-sale securities	-	889,719	-	1,790,152	792,911	-	-	3,472,782
Held-to-maturity securities	-	853	-	84,196	56,085	-	-	141,134
	-	890,572	-	1,874,348	848,996	-	-	3,613,916
Of which debt securities included in:								
Available-for-sale securities	-	1,421,255	155,517	2,921,618	9,413,411	10,160,467	-	24,072,268
Held-to-maturity securities	-	852	366,795	1,409,437	3,287,859	498,740	-	5,563,683
	-	1,422,107	522,312	4,331,055	12,701,270	10,659,207	-	29,635,951

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

32. RELATED PARTY TRANSACTIONS

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

	Interest, commission and rental income		Interest, rental and other operating expenses	
	Six months ended 30 June		Six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Ultimate holding company	–	1	8,836	21,306
Intermediate holding company	3,284	4,975	9,446	–
Fellow subsidiaries	12,140	19,584	26,605	9,794
Associates	20,604	36,973	771	2,417
Key management personnel (Note)	341	324	972	524

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 2017 HK\$'000	31 December 2016 HK\$'000	30 June 2017 HK\$'000	31 December 2016 HK\$'000
	Ultimate holding company	–	–	11,200
Intermediate holding company	298,008	295,792	229,354	2,140
Fellow subsidiaries	418,089	2,507	6,130,820	1,842,204
Associates	–	–	238,235	152,867
Key management personnel (Note)	52,009	55,754	201,131	211,290

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 2017, the Group had operating lease commitments with fellow subsidiaries of HK\$22,486,000 (31 December 2016: HK\$19,183,000).

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.

32. RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel

The remuneration of directors, senior management and key personnel during the period was as follows:

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Short-term benefits	80,331	64,968
Post employment benefits	4,943	4,384
	85,274	69,352

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

33. 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 2016.

34. EVENTS AFTER THE REPORTING PERIOD

To raise funds for Basel III-compliant Tier 2 capital, the Bank settled and closed a US\$382,903,000 Tier 2 Subordinated Notes (the "New Notes") offering on 26 July 2017. The New Notes are 10-year non-call 5-year fixed rate notes, with a fixed coupon rate of 3.876% per annum, payable semi-annually for the first five years; the interest rate will be reset on 26 July 2022.

The aggregate principal amount of the New Notes is US\$382,903,000. This includes US\$22,903,000 of "New Exchange Notes" (being the New Notes issued pursuant to the exchange offer by the Bank to the holders of its US\$225 million 6.000% Subordinated Notes due 2020) and US\$360 million of "New Money Notes". The Bank achieved a final deal size of over US\$380 million, the proceeds from the offering will be used to strengthen the Bank's capital base and fund the growth of its operations and development. The New Notes have been listed on the Stock Exchange of Hong Kong under Stock Code of 05249 on 27 July 2017.

35. 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 2017

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 2017				
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	Loans and advances secured by collateral HK\$'000 (Note 1)	Gross impaired advances HK\$'000
Loans for use in Hong Kong					
Industrial, commercial and financial					
– Property development	6,475,026	14,969	–	1,845,575	–
– Property investment	7,904,057	21,864	–	7,516,253	–
– Financial concerns	3,762,517	7,779	–	1,652,879	–
– Stockbrokers	2,051,474	4,240	–	1,337,709	–
– Wholesale and retail trade	2,630,958	18,496	7,262	2,277,097	7,262
– Manufacturing	2,829,185	50,316	113,211	1,536,370	159,382
– Transport and transport equipment	2,754,076	15,746	–	1,059,002	–
– Recreational activities	1,064	–	–	1,064	–
– Information technology	404,516	3,046	–	125,450	–
– Others (Note 2)	9,711,414	69,957	145,334	5,931,443	204,331
Individuals					
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	513,697	57	–	513,697	–
– Loans for the purchase of other residential properties	8,975,310	–	–	8,970,618	–
– Credit card advances	76,801	881	604	–	604
– Others (Note 3)	2,496,379	3,345	1,035	2,077,837	1,035
	50,586,474	210,696	267,446	34,844,994	372,614
Trade finance	2,406,532	5,385	26,115	1,054,401	30,151
Loans for use outside Hong Kong	24,378,649	61,733	688	4,742,740	3,075
	77,371,655	277,814	294,249	40,642,135	405,840

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.

1. ADVANCES TO CUSTOMERS – BY INDUSTRY SECTORS (continued)

	31 December 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	4,718,611	16,133	–	1,962,584	–
– Property investment	7,088,653	36,377	–	6,512,554	–
– Financial concerns	2,521,908	7,860	–	1,468,264	–
– Stockbrokers	2,943,866	9,009	–	1,660,372	–
– Wholesale and retail trade	2,827,690	28,426	7,256	2,379,035	7,256
– Manufacturing	2,424,713	24,217	3,899	1,652,931	8,357
– Transport and transport equipment	1,854,325	14,335	–	906,457	–
– Recreational activities	1,135	–	–	1,135	–
– Information technology	136,692	1,486	–	12,572	–
– Others (Note 2)	10,866,348	40,134	5,677	6,434,983	5,677
Individuals					
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	496,907	233	–	496,907	–
– Loans for the purchase of other residential properties	8,506,503	–	–	8,502,916	–
– Credit card advances	111,614	1,720	751	–	751
– Others (Note 3)	3,362,930	5,148	746	2,401,894	746
	47,861,895	185,078	18,329	34,392,604	22,787
Trade finance	2,585,427	8,028	21,408	886,960	25,466
Loans for use outside Hong Kong	20,241,833	58,113	–	4,247,662	–
	70,689,155	251,219	39,737	39,527,226	48,253

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.

SUPPLEMENTARY INFORMATION

For the six months ended 30 June 2017

1. ADVANCES TO CUSTOMERS – BY INDUSTRY SECTORS (continued)

The Group's advances to customers overdue for over three months as at 30 June 2017 and 31 December 2016, and new impairment allowances and advances written-off during the six months ended 30 June 2017 and 2016 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	2017 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	–	–	–
– Others	4,331	141,213	212
Individuals			
– Loans for the purchase of other residential properties	5,780	–	–
Loans for use outside Hong Kong	1,788	777	–
		2016	
	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	–	–	–
– Others	3,013	2,458	236
Individuals			
– Loans for the purchase of other residential properties	5,780	472	472
Loans for use outside Hong Kong	–	94	–

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 2017				
	Total advances HK\$'000	Advances overdue for over three months HK\$'000	Impaired advances HK\$'000	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000
Hong Kong	65,254,542	58,113	402,765	293,561	218,906
Mainland China	9,144,725	–	–	–	49,934
Macau	2,727,458	1,788	3,075	688	8,974
Others	244,930	–	–	–	–
	77,371,655	59,901	405,840	294,249	277,814

	31 December 2016				
	Total advances HK\$'000	Advances overdue for over three months HK\$'000	Impaired advances HK\$'000	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000
Hong Kong	56,974,017	55,448	48,253	39,737	202,120
Mainland China	10,670,402	–	–	–	40,052
Macau	2,517,063	–	–	–	9,047
Others	527,673	–	–	–	–
	70,689,155	55,448	48,253	39,737	251,219

SUPPLEMENTARY INFORMATION

For the six months ended 30 June 2017

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 2017				Total HK\$'000
	Non-bank private sector				
	Banks HK\$'000	Official sector HK\$'000	Non-bank financial institutions HK\$'000	Non- financial private sector HK\$'000	
Offshore centres	4,178,518	1,800	9,284,679	16,961,628	30,426,625
of which					
– Hong Kong	4,063,008	1,800	4,053,875	7,248,818	15,367,501
Developing					
Asia-Pacific	11,604,134	223,078	1,025,322	8,165,071	21,017,605
of which					
– Mainland China	11,125,771	223,078	624,987	7,546,937	19,520,773
Developed countries	7,059,417	4,635,126	1,278,303	1,001,033	13,973,879

	At 31 December 2016				Total HK\$'000
	Non-bank private sector				
	Banks HK\$'000	Official sector HK\$'000	Non-bank financial institutions HK\$'000	Non- financial private sector HK\$'000	
Offshore centres	4,939,083	2,957	7,782,051	13,070,152	25,794,243
of which					
– Hong Kong	1,899,423	2,957	2,672,304	5,131,784	9,706,468
Developing					
Asia-Pacific	16,365,527	215,778	2,568,047	9,036,914	28,186,266
of which					
– Mainland China	14,646,785	215,778	2,167,612	8,787,682	25,817,857
Developed countries	9,744,648	3,780,272	1,043,634	715,024	15,283,578

4. OVERDUE AND RESCHEDULED ASSETS

	30 June 2017		31 December 2016	
	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	4,027	0.0	1,429	0.0
– 1 year or less but over 6 months	2,961	0.0	27,448	0.0
– Over 1 year	52,913	0.1	26,571	0.0
Total overdue advances	59,901	0.1	55,448	0.1
Rescheduled advances	74,807	0.1	265,023	0.4
Individual impairment allowances made in respect of overdue loans and advances	35,905		33,630	
Covered portion of overdue loans and advances	24,692		22,412	
Uncovered portion of overdue loans and advances	35,209		33,036	
	59,901		55,448	
Market value of collateral held against covered portion of overdue loans and advances	62,170		89,224	

There were no advances to banks or other assets which were overdue for over three months as at 30 June 2017 and 31 December 2016, nor were there any rescheduled advances to banks.

Reposessed assets held by the Group as at 30 June 2017 was Nil (31 December 2016: HK\$2,500,000).

SUPPLEMENTARY INFORMATION

For the six months ended 30 June 2017

5. MAINLAND ACTIVITIES EXPOSURES

The table below summarizes 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 2017		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)	12,242,422	1,194,404	13,436,826
2. Local government, local government-owned entities and their subsidiaries and JVs	2,529,749	46,057	2,575,806
3. Mainland China nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	11,071,217	2,783,689	13,854,906
4. Other entities of central government not reported in item 1 above	2,583,578	1,219,544	3,803,122
5. Other entities of local government not reported in item 2 above	394,178	45,023	439,201
6. Mainland China nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	10,390,585	1,655,082	12,045,667
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	4,492,974	1,359,629	5,852,603
Total	43,704,703	8,303,428	52,008,131
Total assets after provision (Note)	135,944,457		
On-balance sheet exposures as percentage of total assets (Note)	32%		

5. MAINLAND ACTIVITIES EXPOSURES (continued)

Type by counterparties	31 December 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)	11,885,965	1,136,390	13,022,355
2. Local government, local government-owned entities and their subsidiaries and JVs	3,123,582	247,363	3,370,945
3. Mainland China nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	8,081,232	1,432,214	9,513,446
4. Other entities of central government not reported in item 1 above	3,279,271	554,276	3,833,547
5. Other entities of local government not reported in item 2 above	250,068	–	250,068
6. Mainland China nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	7,656,328	1,975,802	9,632,130
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	402,801	406,500	809,301
Total	34,679,247	5,752,545	40,431,792
Total assets after provision (Note)	136,919,757		
On-balance sheet exposures as percentage of total assets (Note)	25%		

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.

SUPPLEMENTARY INFORMATION

For the six months ended 30 June 2017

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 2017		Total
	USD	RMB	
Equivalent in thousand of HK\$			
Spot assets	36,553,070	26,958,637	63,511,707
Spot liabilities	(26,574,286)	(24,554,633)	(51,128,919)
Forward purchases	61,245,067	10,378,386	71,623,453
Forward sales	(71,148,151)	(12,380,684)	(83,528,835)
Net long position	75,700	401,706	477,406

	MOP	RMB	Total
Net structural position	48,545	351,377	399,922

	31 December 2016		Total
	USD	RMB	
Equivalent in thousand of HK\$			
Spot assets	43,198,586	25,692,734	68,891,320
Spot liabilities	(26,518,744)	(23,225,764)	(49,744,508)
Forward purchases	14,816,584	5,446,876	20,263,460
Forward sales	(31,251,838)	(7,627,195)	(38,879,033)
Net long position	244,588	286,651	531,239

	MOP	RMB	Total
Net structural position	48,545	351,377	399,922

7. CONTINGENT LIABILITIES AND COMMITMENTS

	30 June 2017 HK\$'000	31 December 2016 HK\$'000
Contingent liabilities and commitments		
– contractual amounts		
Direct credit substitutes	774,038	805,429
Trade-related contingencies	297,780	596,068
Forward asset purchases	128,990	161,609
Undrawn formal standby facilities, credit lines and other commitments		
Which are unconditionally cancellable without prior notice	9,931,325	6,489,024
With an original maturity of one year and under	8,721,215	8,880,273
With an original maturity of over one year	7,501,671	8,397,394
Lease commitments	208,175	258,360
	27,563,194	25,588,157

The credit risk-weighted amount of contingent liabilities and commitments is HK\$5,562,690,000 (31 December 2016: HK\$6,103,286,000).

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 2017			31 December 2016		
	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	132,936,336	192,136	470,460	46,805,949	238,799	222,385
Interest rate contracts	21,426,044	121,663	191,906	16,851,695	186,046	113,171
		313,799	662,366		424,845	335,556

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

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For the six months ended 30 June 2017

7. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

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 2017	31 December 2016
	%	%
Total capital ratio	15.78	16.32
Tier 1 capital ratio	13.94	14.16
Common Equity Tier 1 ("CET 1") capital ratio	11.70	11.81
	30 June 2017	31 December 2016
	%	%
Capital buffers (as a percentage of risk-weighted assets)		
Capital conservation buffer ratio	1.250	0.625
Countercyclical capital buffer ratio	0.951	0.491
	2.201	1.116

8. CAPITAL ADEQUACY RATIOS, LEVERAGE RATIO AND LIQUIDITY RATIOS (continued)

	30 June 2017 %	31 December 2016 %
Leverage ratio	9.20	9.57
	Six months ended 30 June 2017 %	Six months ended 30 June 2016 %
Average liquidity maintenance ratio for the period	39.92	43.01

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.

SUPPLEMENTARY INFORMATION

For the six months ended 30 June 2017

9. OTHER FINANCIAL INFORMATION

The Bank has set up a “Regulatory Disclosures” 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 Disclosures” 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;
- The disclosure on leverage ratio pursuant to section 24A of the Banking (Disclosure) Rules; and
- 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.

10. BASIS OF CONSOLIDATION (continued)

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 2017 HK\$'000	31 December 2016 HK\$'000	30 June 2017 HK\$'000	31 December 2016 HK\$'000
Chong Hing (Nominees) Limited	Provision of nominee services	100	100	100	100
Chong Hing Securities Limited	Stockbroking	795,501	680,437	477,823	565,335
Chong Hing Commodities and Futures Limited	Investment holding and commodities and futures broking	69,550	66,779	64,847	63,102
Chong Hing Insurance Company Limited	Insurance underwriting	487,529	351,924	170,336	211,312
Chong Hing (Management) Limited	Provision of management services	105	173	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 meets to review and direct the relevant policies, and to monitor the bank-wide positions. The day-to-day management of the liquidity, foreign exchange, interest rate and other market risks, and the compliance with the ALCO and the Risk Management 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.

SUPPLEMENTARY INFORMATION

For the six months ended 30 June 2017

11. RISK MANAGEMENT (continued)

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 may be unable to fund the increase in assets or meet obligations as they fall due without incurring unacceptable losses.

The Group adopts conservative risk appetite in liquidity risk management and maintains adequate liquid assets to meet its day-to-day obligations as well as to withstand liquidity stress not less than one month. The Asset and Liability Management Committee (ALCO) is delegated by the Board, or its sub-committee, has reviewed and approved liquidity risk management policy which specifies a set of liquidity risk metrics and risk control limits for effective liquidity risk management. The key liquidity metrics, e.g. Liquidity ratio, loan-to-deposit ratio, maturity profile of assets and liabilities, and inter-bank undertakings are monitored under ALCO's supervision and be addressed to ALCO about the Group's liquidity position.

Since 1 January 2015, the HKMA has imposed Liquidity Maintenance Ratio ("LMR") as a regulatory standard which is a part of the implementation of Basel III liquidity regime in Hong Kong. During the period, the Group has sufficiently maintained the LMR well above the statutory minimum requirement of 25%.

11. RISK MANAGEMENT (continued)**(iv) Market risk**

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

Market risk arising from the trading book is 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.

11. RISK MANAGEMENT (continued)

(vii) Operational and legal risk

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

Executive directors, 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. Through proper and adequate communications and public relation efforts, the reputation of the Group is fostered. A reputation risk management mechanism guided by the senior management including executive directors has been established to handle including, without limitation, media exposure as well as 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.

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