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## **2017 INTERIM RESULTS**

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### **RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017**

#### **HIGHLIGHTS**

- Operating profit before impairment allowances amounted to HK\$699 million, representing an improvement of 3.2% from the corresponding period in 2016. Net interest income at HK\$1,114 million was 13.4% higher than the same period last year. Net interest margin at 1.54% was 9 basis points less than the corresponding period in previous year.
- Profit attributable to equity owners amounted to HK\$512 million, representing a decline of 13.5% from the corresponding period in 2016.
- Return on shareholders' equity of 6.26% (7.98% in 2016) and earnings per share of HK\$0.67 (HK\$0.79 in 2016).
- Total capital ratio of 15.78%, Tier 1 capital ratio of 13.94% and Common Equity Tier 1 capital ratio of 11.70% at 30 June 2017 (Total capital ratio of 16.32%, Tier 1 capital ratio of 14.16% and Common Equity Tier 1 capital ratio of 11.81% at 31 December 2016).
- 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.
- An interim cash dividend of HK\$0.15 per share is declared for the six months ended 30 June 2017 (2016 interim cash dividend: HK\$0.15 per share).

The board of directors (the "Board") of Chong Hing Bank Limited (the "Bank") is pleased to announce the unaudited consolidated results of the Bank and its subsidiaries (the "Group") for the six months ended 30 June 2017, together with the comparative figures for the corresponding period last year. The financial information in this announcement is extracted from the interim financial information for the six months ended 30 June 2017. The interim financial information has been reviewed by the Bank's Audit Committee.

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## CHAIRMAN'S STATEMENT

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".

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

## **CHIEF EXECUTIVE'S STATEMENT**

### **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.

## 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	<b>1,114,257</b>	982,710	+13.4%
2. Net fee and commission income	<b>147,195</b>	125,006	+17.8%
3. Net (loss) income from trading and investments	<b>(25,761)</b>	56,057	-146.0%
4. Other operating income	<b>80,088</b>	71,692	+11.7%
5. Operating expenses	<b>617,270</b>	558,311	+10.6%
6. Operating profit before impairment allowances	<b>698,509</b>	677,154	+3.2%
7. Net charge of impairment allowances on loans and advances	<b>218,272</b>	16,483	+1,224.2%
8. Profit attributable to equity owners	<b>511,887</b>	591,973	-13.5%
9. Return on shareholders' equity ( <i>Note 1</i> )	<b>6.26%</b> (annualised)	7.98% (annualised)	-1.72 pp
10. Earnings per share ( <i>Note 2</i> )	<b>HK\$0.67</b>	HK\$0.79	-15.2%
11. Net interest margin	<b>1.54%</b>	1.63%	-0.09 pp
12. Operating income to expense ratio	<b>46.91%</b>	45.19%	+1.72 pp
13. Average liquidity maintenance ratio	<b>39.92%</b>	43.01%	-3.09 pp

	<b>As of 30 June 2017 HK\$'000 (Unaudited)</b>	As of 31 December 2016 HK\$'000	Growth Rate/ Variance (compared to 2016 year-end)	
14.	Total loans and advances to customers	<b>77,371,655</b>	70,689,155	+9.5%
15.	Impaired loan ratio	<b>0.52%</b>	0.07%	+0.45 pp
16.	Provision coverage of impaired loans and advances	<b>142.03%</b>	602.98%	-461 pp
17.	Non-performing loan ratio	<b>0.72%</b>	0.64%	+0.08 pp
18.	Total customer deposits	<b>111,030,607</b>	102,880,629	+7.9%
19.	Loan to deposit ratio	<b>68.88%</b>	67.40%	+1.48 pp
20.	Investments in securities	<b>32,399,817</b>	29,727,952	+9.0%
21.	Total assets	<b>147,797,001</b>	137,772,051	+7.3%
22.	Net asset value per share (excluding additional equity instruments and before the interim dividend)	<b>HK\$21.37</b>	HK\$20.85	+2.5%
23.	Total capital ratio	<b>15.78%</b>	16.32%	-0.54 pp
24.	Tier 1 capital ratio	<b>13.94%</b>	14.16%	-0.22 pp
25.	Common Equity Tier 1 capital ratio	<b>11.70%</b>	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.

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.
- 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.

### ***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”.

## **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

# CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2017

	Six months ended 30 June		Variance %
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited) Restated	
Interest income	1,798,154	1,463,019	+22.91
Interest expense	(683,897)	(480,309)	+42.39
Net interest income	1,114,257	982,710	+13.39
Fee and commission income	193,542	165,200	+17.16
Fee and commission expenses	(46,347)	(40,194)	+15.31
Net fee and commission income	147,195	125,006	+17.75
Net (loss) income from trading and investments	(25,761)	56,057	-145.96
Other operating income	80,088	71,692	+11.71
Operating expenses	(617,270)	(558,311)	+10.56
Operating profit before impairment allowances	698,509	677,154	+3.15
Net charge of impairment allowances on loans and advances	(218,272)	(16,483)	+1,224.22
Operating profit after impairment allowances	480,237	660,671	-27.31
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	-100.00
Net gains on disposal of and fair value adjustments on investment properties	5,774	–	–
Impairment losses on available-for-sale securities	(261)	(9,485)	-97.25
Share of profits of associates	29,164	9,808	+197.35
Profit before taxation	596,182	707,273	-15.71
Taxation	(84,295)	(115,300)	-26.89
Profit for the period			
– Attributable to equity owners of the Bank	511,887	591,973	-13.53
Earnings per share – basic and diluted	HK\$0.67	HK\$0.79	-15.19

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

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



# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	<b>30 June 2017 HK\$'000 (Unaudited)</b>	31 December 2016 HK\$'000 (Audited)	<b>Variance %</b>
<b>Assets</b>			
Cash and short-term funds	<b>30,560,824</b>	30,521,281	+0.13
Placements with banks maturing between one to twelve months	<b>2,058,549</b>	1,616,540	+27.34
Derivative financial instruments	<b>314,603</b>	424,845	-25.95
Financial assets at fair value through profit or loss	<b>213</b>	241	-11.62
Available-for-sale securities	<b>27,823,765</b>	24,164,028	+15.15
Held-to-maturity securities	<b>4,575,839</b>	5,563,683	-17.76
Advances and other accounts	<b>80,888,057</b>	74,081,605	+9.19
Tax recoverable	<b>3,010</b>	3,128	-3.77
Assets held for sale	–	2	-100.00
Interests in associates	<b>294,833</b>	262,565	+12.29
Investment properties	<b>290,083</b>	282,927	+2.53
Property and equipment	<b>701,669</b>	633,604	+10.74
Prepaid lease payments for land	<b>2,238</b>	2,201	+1.68
Deferred tax assets	<b>4,816</b>	4,672	+3.08
Intangible assets	<b>278,502</b>	210,729	+32.16
<b>Total assets</b>	<b>147,797,001</b>	137,772,051	+7.28
<b>Liabilities</b>			
Deposits and balances of banks	<b>4,823,878</b>	2,696,681	+78.88
Financial assets sold under repurchase agreements	<b>8,635,658</b>	9,845,753	-12.29
Deposits from customers	<b>111,030,607</b>	102,880,629	+7.92
Certificates of deposit	<b>933,162</b>	812,329	+14.87
Derivative financial instruments	<b>721,762</b>	553,614	+30.37
Other accounts and accruals	<b>1,424,977</b>	1,243,889	+14.56
Current tax liabilities	<b>426,765</b>	356,298	+19.78
Debt securities issued	<b>1,722,758</b>	1,663,774	+3.55
Loan capital	<b>1,799,411</b>	1,792,267	+0.40
Deferred tax liabilities	<b>23,651</b>	13,245	+78.57
<b>Total liabilities</b>	<b>131,542,629</b>	121,858,479	+7.95
<b>Equity attributable to owners of the Bank</b>			
Share capital	<b>5,435,904</b>	5,435,904	–
Additional equity instruments	<b>2,312,030</b>	2,312,030	–
Reserves	<b>8,506,438</b>	8,165,638	+4.17
<b>Total equity</b>	<b>16,254,372</b>	15,913,572	+2.14
<b>Total liabilities and equity</b>	<b>147,797,001</b>	137,772,051	+7.28

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Share capital HK\$'000	Additional equity instruments HK\$'000	Goodwill HK\$'000	Investment revaluation reserve HK\$'000	Land and building revaluation reserve HK\$'000	General reserve HK\$'000	Translation reserve HK\$'000	Regulatory reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
<b>At 1 January 2017</b>	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	-	-	-	-	-	-	-	-	(254,475)	(254,475)
Earmark of retained profits as regulatory reserve	-	-	-	-	-	-	-	(88,000)	88,000	-
<b>At 30 June 2017</b>	5,435,904	2,312,030	(182)	216,778	174,247	1,388,500	(71,349)	651,000	6,147,444	16,254,372

	Share capital HK\$'000	Additional equity instruments HK\$'000	Goodwill HK\$'000	Investment revaluation reserve HK\$'000	Land and building revaluation reserve HK\$'000	General reserve HK\$'000	Translation reserve HK\$'000	Regulatory reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
<b>At 1 January 2016</b>	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	-	-	-	-	-	-	-	-	(241,425)	(241,425)
Earmark of retained profits as regulatory reserve	-	-	-	-	-	-	-	(4,000)	4,000	-
<b>At 30 June 2016</b>	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.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

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

<b>Six months ended 30 June</b>	
<b>2017</b>	<b>2016</b>
<b>HK\$'000</b>	<b>HK\$'000</b>
<b>(Unaudited)</b>	<b>(Unaudited)</b>

### **INVESTING ACTIVITIES**

Interest received on available-for-sale securities and held-to-maturity securities	<b>418,539</b>	516,205
Dividends received on investments	<b>4,422</b>	4,892
Dividends received from associates	<b>3,150</b>	3,150
Purchase of available-for-sale securities	<b>(10,045,675)</b>	(7,951,516)
Purchase of property and equipment	<b>(127,448)</b>	(43,844)
Purchase of intangible assets	<b>(65,689)</b>	(82,113)
Proceeds from redemption of held-to-maturity securities	<b>958,661</b>	2,941,876
Proceeds from sale and redemption of available-for-sale securities	<b>6,759,087</b>	5,690,227
Proceeds from disposal of assets held for sale	<b>2,880</b>	–
Proceeds from disposal of property and equipment	<b>98,012</b>	195

### **NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES**

<b>(1,994,061)</b>	1,079,072
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### **FINANCING ACTIVITIES**

Net proceeds from issue of debt securities	–	1,740,244
Interest paid on loan capital	<b>(35,864)</b>	(32,717)
Interest paid on debt securities issued	<b>(59,030)</b>	–
Dividends paid to ordinary shareholders	<b>(254,475)</b>	(241,425)
Distribution paid on additional equity instruments	<b>(75,676)</b>	(75,795)

### **NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES**

<b>(425,045)</b>	1,390,307
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### **NET INCREASE IN CASH AND CASH EQUIVALENTS CASH AND CASH EQUIVALENTS AT 1 JANUARY**

<b>1,065,380</b>	2,364,105
<b>29,053,408</b>	19,022,227

### **CASH AND CASH EQUIVALENTS AT 30 JUNE**

<b>30,118,788</b>	21,386,332
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#### Represented by:

Cash and balances with central bank and banks	<b>13,967,821</b>	3,049,776
Money at call and short notice with original maturity of three months or less	<b>11,662,002</b>	16,818,806
Exchange fund bills with original maturity of three months or less	<b>3,458,550</b>	–
Placements with banks maturing between one to twelve months with original maturity of less than three months	<b>1,030,415</b>	1,517,750

<b>30,118,788</b>	21,386,332
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## FINANCIAL REVIEW

*For the six months ended 30 June 2017*

### **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.

## 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:

1. Inter-segment pricing for funding transactions is charged at prevailing customer deposits interest rates.
2. The difference between the operating expenses in the condensed consolidated income statement and the operating expenses in the operating segments is the unallocated corporate expenses.

**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
<b>Assets</b>					
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					<u>147,797,001</u>
<b>Liabilities</b>					
Segment liabilities	111,688,719	18,866,608	244,775	240,041	131,040,143
Unallocated corporate liabilities					502,486
Consolidated total liabilities					<u>131,542,629</u>

**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



**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	-	1,175,465
- 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.

## SEGMENT INFORMATION (continued)

### Operating segment assets and liabilities

At 31 December 2016

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

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.

## SEGMENT INFORMATION (continued)

### Geographical information

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

	Six months ended 30 June 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	4,946,728	149,100
Total	1,315,779	596,182	71,159	147,797,001	131,542,629	27,561,892	1,567,292

  

	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.

## FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

### 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.

### 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	
<b>At 30 June 2017</b>				
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

## FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

### 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	
<b>At 31 December 2016</b>				
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)
<b>Total</b>	<b>59,440</b>	<b>23,943,499</b>	<b>275</b>	<b>24,003,214</b>

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.

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

## FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

### 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.

### Reconciliation of Level 3 fair value measurements of financial assets

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

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.

## **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.

## NET INTEREST INCOME

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



## NET FEE AND COMMISSION INCOME

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

## NET (LOSS) INCOME FROM TRADING AND INVESTMENTS

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

“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.

## OTHER OPERATING INCOME

	Six months ended 30 June	
	2017	2016
	HK\$'000	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
	<b>80,088</b>	71,692

## OPERATING EXPENSES

	<b>Six months ended 30 June</b>	
	<b>2017</b>	2016
	<b>HK\$'000</b>	<i>HK\$'000</i>
Auditor's remuneration	<b>2,921</b>	1,999
Staff costs (including directors' emoluments)		
– Salaries and other costs	<b>352,274</b>	318,297
– Retirement benefits scheme contributions	<b>24,380</b>	21,132
– Capitalised to intangible assets	<b>(19,620)</b>	(10,900)
Total staff costs	<b>357,034</b>	328,529
Depreciation	<b>42,217</b>	29,283
– Capitalised to intangible assets	<b>(2,084)</b>	(2,107)
	<b>40,133</b>	27,176
Release of prepaid lease payments for land	<b>33</b>	33
Premises and equipment expenses, excluding depreciation and release of prepaid lease payments for land		
– Rentals and rates for premises	<b>73,920</b>	64,839
– Capitalised to intangible assets	<b>(1,811)</b>	(1,832)
	<b>72,109</b>	63,007
– Others	<b>12,774</b>	13,511
Other operating expenses	<b>133,050</b>	124,796
– Capitalised to intangible assets	<b>(784)</b>	(740)
	<b>617,270</b>	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).

## 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.

## 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
	<b>84,295</b>	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.

## 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.

## 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.

## CASH AND SHORT-TERM FUNDS

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

## DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2017		
	Notional amount <i>HK\$'000</i>	Fair value	
		Assets <i>HK\$'000</i>	Liabilities <i>HK\$'000</i>
Derivatives held for trading			
– Foreign currency forward contracts	<b>108,813,617</b>	<b>192,136</b>	<b>312,793</b>
– Interest rate swaps	<b>5,855,359</b>	<b>26,689</b>	<b>21,808</b>
– Foreign exchange options	<b>15,600</b>	<b>805</b>	<b>804</b>
Derivatives designated as hedging instruments			
– Interest rate swaps	<b>15,558,018</b>	<b>94,973</b>	<b>386,357</b>
Total		<b>314,603</b>	<b>721,762</b>
	31 December 2016		
	Notional amount <i>HK\$'000</i>	Fair value	
		Assets <i>HK\$'000</i>	Liabilities <i>HK\$'000</i>
Derivatives held for trading			
– Foreign currency forward contracts	46,805,949	238,799	173,054
– Interest rate swaps	567,520	11,227	10,708
Derivatives designated as hedging instruments			
– Interest rate swaps	16,284,175	174,819	369,852
		424,845	553,614

As at 30 June 2017, the currencies of foreign currency forward contracts mainly comprise buying Hong Kong dollars and United States dollars (31 December 2016: Hong Kong dollars and United States dollars), and the currencies of foreign currency forward contracts mainly comprise selling Hong Kong dollars and United States dollars (31 December 2016: United States dollars and Hong Kong dollars). As at 30 June 2017 and 31 December 2016, all of these contracts have settlement dates within one year from the end of the reporting periods.

## INVESTMENTS IN SECURITIES

	Financial assets at fair value through profit or loss				
	Held for trading	Designated at fair value	Available- for-sale securities	Held-to- maturity securities	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>30 June 2017</b>					
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



## INVESTMENTS IN SECURITIES (continued)

	Financial assets at fair value through profit or loss				Total HK\$'000
	Held for trading HK\$'000	Designated at fair value HK\$'000	Available-for-sale securities HK\$'000	Held-to-maturity securities HK\$'000	
<b>31 December 2016</b>					
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

## 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.

## 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". 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.

	<b>Available- for-sale debt securities HK\$'000</b>	<b>30 June 2017 Held-to- maturity debt securities HK\$'000</b>	<b>Total HK\$'000</b>
Carrying amount of transferred assets	7,172,614	2,006,514	9,179,128
Carrying amount of associated liabilities	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	8,382,649	1,463,104	9,845,753

## ADVANCES AND OTHER ACCOUNTS

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

## 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:

	<b>Individual assessment</b> <i>HK\$'000</i>	<b>Collective assessment</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>Balance 1 January 2017</b>	<b>39,737</b>	<b>251,219</b>	<b>290,956</b>
– Increase in impairment allowances	<b>259,373</b>	<b>25,128</b>	<b>284,501</b>
– Amounts reversed	<b>(66,229)</b>	<b>–</b>	<b>(66,229)</b>
Charge of impairment allowances (net)	<b>193,144</b>	<b>25,128</b>	<b>218,272</b>
Amounts written off	<b>(2,059)</b>	<b>–</b>	<b>(2,059)</b>
Recoveries of advances written off in previous years	<b>63,557</b>	<b>–</b>	<b>63,557</b>
Unwinding effect of discount rate	<b>(130)</b>	<b>–</b>	<b>(130)</b>
Exchange adjustments	<b>–</b>	<b>1,467</b>	<b>1,467</b>
<b>Balance 30 June 2017</b>	<b>294,249</b>	<b>277,814</b>	<b>572,063</b>
<b>Balance 1 January 2016</b>	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)
<b>Balance 31 December 2016</b>	<b>39,737</b>	<b>251,219</b>	<b>290,956</b>

## ADVANCES AND OTHER ACCOUNTS (continued)

Details of the impaired loans are as follows:

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

Details of the non-performing loans are as follows:

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

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.

## 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.

## INVESTMENT PROPERTIES

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

	<b>Six months ended 30 June</b>	
	<b>2017</b> <b>HK\$'000</b>	2016 HK\$'000
Net gains on fair value adjustments on investment properties	<b>5,774</b>	–

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.

## PROPERTY AND EQUIPMENT

	Leasehold land <i>HK\$'000</i>	Buildings <i>HK\$'000</i>	Equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>COST</b>				
<b>At 1 January 2017</b>	<b>478,312</b>	<b>161,440</b>	<b>705,814</b>	<b>1,345,566</b>
Additions	–	–	<b>127,448</b>	<b>127,448</b>
Disposals	<b>(19,644)</b>	<b>(8,570)</b>	<b>(15,044)</b>	<b>(43,258)</b>
Exchange adjustments	–	<b>414</b>	<b>2,960</b>	<b>3,374</b>
<b>At 30 June 2017</b>	<b>458,668</b>	<b>153,284</b>	<b>821,178</b>	<b>1,433,130</b>
<b>ACCUMULATED DEPRECIATION</b>				
<b>At 1 January 2017</b>	<b>140,206</b>	<b>51,501</b>	<b>520,255</b>	<b>711,962</b>
Depreciation	<b>5,307</b>	<b>1,845</b>	<b>35,065</b>	<b>42,217</b>
Eliminated on disposals	<b>(6,833)</b>	<b>(3,485)</b>	<b>(13,318)</b>	<b>(23,636)</b>
Exchange adjustments	–	<b>16</b>	<b>902</b>	<b>918</b>
<b>At 30 June 2017</b>	<b>138,680</b>	<b>49,877</b>	<b>542,904</b>	<b>731,461</b>
<b>CARRYING AMOUNTS</b>				
<b>At 30 June 2017</b>	<b>319,988</b>	<b>103,407</b>	<b>278,274</b>	<b>701,669</b>
<b>At 1 January 2017</b>	<b>338,106</b>	<b>109,939</b>	<b>185,559</b>	<b>633,604</b>
<b>COST</b>				
<b>At 1 January 2016</b>	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)
<b>At 31 December 2016</b>	478,312	161,440	705,814	1,345,566
<b>ACCUMULATED DEPRECIATION</b>				
<b>At 1 January 2016</b>	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)
<b>At 31 December 2016</b>	140,206	51,501	520,255	711,962
<b>CARRYING AMOUNTS</b>				
<b>At 31 December 2016</b>	338,106	109,939	185,559	633,604
<b>At 1 January 2016</b>	354,752	114,932	158,093	627,777

## PREPAID LEASE PAYMENTS FOR LAND

The prepaid lease payments for land comprise:

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

## INTANGIBLE ASSETS

	<b>30 June</b> <b>2017</b> <b>HK\$'000</b>	31 December 2016 <i>HK\$'000</i>
Internally developed software	<b>238,896</b>	171,123
Goodwill	<b>39,606</b>	39,606
	<b>278,502</b>	210,729



## FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

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

## DEPOSITS FROM CUSTOMERS

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

## 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.

## LOAN CAPITAL

	<b>30 June 2017 HK\$'000</b>	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))	<b>1,799,411</b>	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.

## 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:

	<b>30 June 2017 HK\$'000</b>	31 December 2016 HK\$'000
Deferred tax assets	<b>4,816</b>	4,672
Deferred tax liabilities	<b>(23,651)</b>	(13,245)
	<b>(18,835)</b>	(8,573)

**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 <i>HK\$'000</i>	Collectively assessed impairment allowance <i>HK\$'000</i>	Investment properties <i>HK\$'000</i>	Revaluation of available- for-sale securities <i>HK\$'000</i>	Remeasurement of retirement benefits <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>At 1 January 2017</b>	(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)
<b>At 30 June 2017</b>	<b>(4,769)</b>	<b>37,931</b>	<b>(11,453)</b>	<b>(37,052)</b>	<b>(3,492)</b>	<b>(18,835)</b>
<b>At 1 January 2016</b>	(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
<b>At 31 December 2016</b>	<b>(2,899)</b>	<b>35,365</b>	<b>(8,473)</b>	<b>(29,074)</b>	<b>(3,492)</b>	<b>(8,573)</b>

## ADDITIONAL EQUITY INSTRUMENTS

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

## 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 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	
<b>At 30 June 2017</b>								
<b>Assets</b>								
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	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	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	
<b>Total financial assets</b>	<b>16,020,382</b>	<b>16,978,972</b>	<b>17,481,804</b>	<b>20,346,126</b>	<b>47,204,322</b>	<b>28,561,667</b>	<b>(371,423)</b>	<b>146,221,850</b>
<b>Liabilities</b>								
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	
<b>Total financial liabilities</b>	<b>49,332,175</b>	<b>23,400,258</b>	<b>36,876,279</b>	<b>16,440,278</b>	<b>4,764,752</b>	<b>278,471</b>	<b>-</b>	<b>131,092,213</b>
<b>Net position</b>								
- 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

## 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
<b>At 31 December 2016</b>								
<b>Assets</b>								
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
<b>Total financial assets</b>	<b>7,120,247</b>	<b>30,529,392</b>	<b>7,461,102</b>	<b>23,647,266</b>	<b>39,460,738</b>	<b>28,176,863</b>	<b>(23,385)</b>	<b>136,372,223</b>
<b>Liabilities</b>								
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
<b>Total financial liabilities</b>	<b>45,855,460</b>	<b>24,725,332</b>	<b>33,375,533</b>	<b>13,628,119</b>	<b>3,641,070</b>	<b>263,422</b>	<b>-</b>	<b>121,488,936</b>
<b>Net position - total financial assets and liabilities</b>	<b>(38,735,213)</b>	<b>5,804,060</b>	<b>(25,914,431)</b>	<b>10,019,147</b>	<b>35,819,668</b>	<b>27,913,441</b>	<b>(23,385)</b>	<b>14,883,287</b>
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

## 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		Six months ended	
	30 June		30 June	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Ultimate holding company	–	1	<b>8,836</b>	21,306
Intermediate holding company	<b>3,284</b>	4,975	<b>9,446</b>	–
Fellow subsidiaries	<b>12,140</b>	19,584	<b>26,605</b>	9,794
Associates	<b>20,604</b>	36,973	<b>771</b>	2,417
Key management personnel (Note)	<b>341</b>	324	<b>972</b>	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	31 December	30 June	31 December
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Ultimate holding company	–	–	<b>11,200</b>	1,453,839
Intermediate holding company	<b>298,008</b>	295,792	<b>229,354</b>	2,140
Fellow subsidiaries	<b>418,089</b>	2,507	<b>6,130,820</b>	1,842,204
Associates	–	–	<b>238,235</b>	152,867
Key management personnel (Note)	<b>52,009</b>	55,754	<b>201,131</b>	211,290

## RELATED PARTY TRANSACTIONS (continued)

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.

## 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
	<b>85,274</b>	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.

## 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.



## 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.

## COMPARATIVE AMOUNTS

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

## CAPITAL ADEQUACY RATIOS, LEVERAGE RATIO AND LIQUIDITY RATIOS

	<b>30 June 2017</b>	31 December 2016
	%	%
Total capital ratio	<b>15.78</b>	16.32
Tier 1 capital ratio	<b>13.94</b>	14.16
Common Equity Tier 1 (“CET 1”) capital ratio	<b>11.70</b>	11.81

	<b>30 June 2017</b>	31 December 2016
	%	%
Capital buffers (as a percentage of risk-weighted assets)		
Capital conservation buffer ratio	<b>1.250</b>	0.625
Countercyclical capital buffer ratio	<b>0.951</b>	0.491
	<b>2.201</b>	1.116

	<b>30 June 2017</b>	31 December 2016
	%	%
Leverage ratio	<b>9.20</b>	9.57

	<b>Six months ended 30 June 2017</b>	Six months ended 30 June 2016
	%	%
Average liquidity maintenance ratio for the period	<b>39.92</b>	43.01

## **CAPITAL ADEQUACY RATIOS, LEVERAGE RATIO AND LIQUIDITY RATIOS** (continued)

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.

## ADDITIONAL INFORMATION

### **STATUTORY FINANCIAL STATEMENTS AND ACCOUNTING POLICIES**

The information in this announcement is unaudited and does not constitute statutory financial statement.

Certain financial information in this announcement is extracted from the interim report prepared under HKAS34 'Interim Financial Reporting' issued by the Hong Kong Institute of Certified Public Accountants ('HKICPA'). The interim report was reviewed by the Audit Committee. The Board of Directors of the Bank has approved the interim report on 25 August 2017.

The financial information relating to the year ended 31 December 2016 that is included in this announcement as comparative figures do not constitute the Bank's statutory annual consolidated financial statements for that year but is derived from those financial statements. 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).

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.

## **NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE**

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:

### **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.

## **OTHER FINANCIAL INFORMATION**

The Bank has set up a "Regulatory Disclosures" section on its website to house all information relating to the disclosure of regulatory capital to comply with the Banking (Disclosure) Rules. In accordance with section 24 of the 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](http://www.chbank.com/en/regulatory-disclosures/index.shtml) in the "Regulatory Disclosures" section in accordance with the Banking (Disclosure) Rules.

## **COMPLIANCE WITH CORPORATE GOVERNANCE CODE**

The Bank is an authorised institution supervised by 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the module on “Corporate Governance of Locally Incorporated Authorised Institutions” under the Supervisory Policy Manual issued by the HKMA to its corporate governance structure and practices.

Pursuant to the 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 for Securities Transactions by Directors of Listed Issuers under Appendix 10 to the Listing Rules (the “Model Code”). All the Directors confirmed, following specific enquiry by the Bank, that they have complied with the required standards set out in the Model Code and the Bank’s own code for securities transactions by Directors throughout the six months ended 30 June 2017.

## **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 RESULTS AND INTERIM REPORT**

This announcement is published on the websites of the Bank ([www.chbank.com](http://www.chbank.com)) and Hong Kong Exchanges and Clearing Limited (the "HKEX") ([www.hkexnews.hk](http://www.hkexnews.hk)). The 2017 Interim Report will be available on the websites of the Bank and the HKEX, and the printed copies will be despatched to the shareholders of the Bank, both by the end of September 2017.

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

Hong Kong, 25 August 2017

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

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