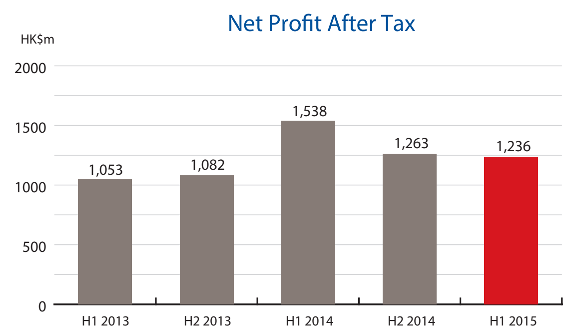
中信银行(国际)
CHINA CITIC BANK INTERNATIONAL

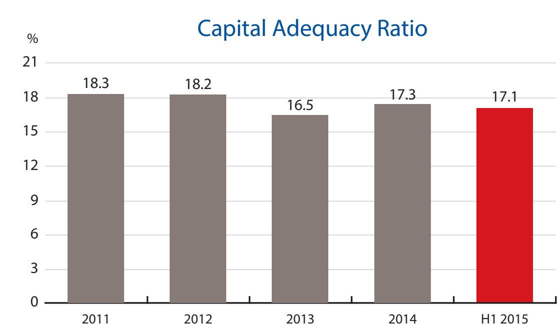
你首选的中资银行
The China Bank of Choice

2015 Interim Results Highlights

Financial Performance

- **Net profit after tax** was HK$1,236 million, down 19.6% year-on-year, but similar to the level achieved in H2 2014
- **Operating income** was HK$2,696 million, down 12.6% from H1 2014, mainly due to lower RMB interbank placements with narrowed interest spread and weak loan demand, which together resulted in 19.3% reduction in **net interest income** to HK$ 1,728 million. **Non-interest income** rose 2.6% to HK$968 million, mainly due to higher insurance and investment fees
- **ROA** dropped 39 basis points year-on-year to 0.97%
- **ROE** down 5.1 percentage points year-on-year to 12.02%
- **Total assets** grew 0.49% from end-2014 to HK$250.4 billion
- **Customer deposits** and **loans** grew in tandem by 4-5% from end-2014 to HK$197.3 billion and HK$158.2 billion respectively. Retail to wholesale deposits increased about 2 percentage points to 48%
- **Capital adequacy ratio** at 17.1% and **CET1 ratio** at 10.8%, well above regulatory requirements





Core Businesses

- **Wholesale & Cross-border Banking Group** strengthened collaboration between the Hong Kong head office and overseas branches besides further developing referral business contributed by CITIC Group and China CITIC Bank. Wholesale & Cross-border Banking Group has been reforming business model, delivering banking solutions which include capital financing and structured financing schemes, with a potential geographical expansion of cross-border businesses from coastal China to inland areas and free trade zones. Total wholesale customer loans rose 6.0% from end-2014 to HK$118.2 billion, while total operating income increased 2.7% year-on-year to HK$1,580 million.
- **Personal & Business Banking Group** continued its investment in enhancing e-banking capabilities and strengthening sales and services channels. Personal & Business Banking Group has also kept expanding its products range with innovative ideas and launched new structured products, fixed income products and unit trusts. Total number of CITIC*first* and private banking customers was 23,564. Retail deposits grew 7.1% from end-2014 to a record of HK$94.3 billion, while total operating income increased 12.4% year-on-year to HK$975 million.
- **Treasury & Markets Group** Central Treasury Unit's interest income declined mainly due to lower RMB interbank placements with narrowed interest spread. Despite volatile market conditions, Global Markets operating income only dropped slightly by 3.1% to HK$288 million. Strong performance in interest-rate and derivatives trading operations was achieved, with total trading revenue soaring 117.1% year-on-year to HK$152 million. While marketing fee income was affected as structured products related to RMB appreciation were no long in vogue, marketing teams have focused on growing FX flow business and investment products catering for corporate wealth management.

中信银行(国际)
CHINA CITIC BANK INTERNATIONAL

CHINA CITIC BANK INTERNATIONAL LIMITED

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

ANNOUNCEMENT OF 2015 INTERIM RESULTS

The Board of Directors of China CITIC Bank International 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 2015. The interim financial report is unaudited, but has been reviewed by PricewaterhouseCoopers, in accordance with Hong Kong Standards on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

CONSOLIDATED INCOME STATEMENT
For the six months ended 30 June 2015 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2015	2014
	Note	***HK$'000***	*HK$'000*
Interest income	*4(a)*	**3,365,382**	3,724,273
Interest expense	*4(b)*	**(1,637,441)**	(1,584,344)
Net interest income		**1,727,941**	2,139,929
Fee and commission income		**512,243**	518,674
Fee and commission expense		**(17,521)**	(16,439)
Net fee and commission income	*5*	**494,722**	502,235
Net trading income	*6*	**407,995**	414,963
Net gain from financial instruments designated at fair value through profit or loss	*7*	**–**	975
Net hedging gain/(loss)	*8*	**815**	(1,755)
Net gain on disposal of available-for-sale securities	*9*	**43,208**	7,439
Other operating income	*10*	**21,334**	19,365
Operating income		**2,696,015**	3,083,151
Operating expenses	*11*	**(1,276,771)**	(1,205,961)
Operating profit before impairment		**1,419,244**	1,877,190
Impairment losses written-back/(charged) on loans and advances and other accounts	*12*	**54,459**	(2,554)
Operating profit		**1,473,703**	1,874,636
Net loss on disposal of property and equipment		**(376)**	(5)
Revaluation gain/(loss) on investment properties		**3,846**	(857)
Profit before taxation		**1,477,173**	1,873,774
Income tax	*13*	**(240,884)**	(335,715)
Profit for the period		**1,236,289**	1,538,059
Attributable to equity shareholders of the Bank		**1,236,289**	1,538,059

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2015 – unaudited

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2015	2014
	HK$'000	*HK$'000*
Profit for the period	**1,236,289**	1,538,059
Other comprehensive income for the period (after tax and reclassification adjustments)		
Items that may subsequently be reclassified to income statement:		
Exchange differences on translation of financial statements of overseas subsidiaries	**3,679**	(41,050)
Available-for-sale securities		
– change in fair value	**64,296**	141,829
– transfer to income statement on disposal	**(41,170)**	(6,969)
– transfer from deferred tax	**(3,733)**	(32,126)
Other comprehensive income for the period	**23,072**	61,684
Total comprehensive income for the period	**1,259,361**	1,599,743
Attributable to equity shareholders of the Bank	**1,259,361**	1,599,743

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2015 – unaudited
(Expressed in Hong Kong dollars)

	Note	At 30 June 2015 HK$'000	At 31 December 2014 HK$'000
Assets			
Cash and balances with banks, central banks and other financial institutions	*14*	**10,629,203**	20,676,200
Placements with and advances to banks, central banks and other financial institutions	*15*	**31,135,790**	43,893,840
Trading assets	*16*	**2,302,544**	3,291,332
Loans and advances to customers and other accounts	*17*	**161,512,220**	153,872,296
Available-for-sale securities	*18*	**43,903,737**	26,513,380
Property and equipment	*19*		
– Investment property		**186,744**	182,898
– Other property and equipment		**669,283**	676,035
Tax recoverable	*24(a)*	**2**	2,775
Deferred tax assets	*24(b)*	**14,085**	32,115
Total assets		**250,353,608**	249,140,871
Equity and liabilities			
Deposits and balances of banks and other financial institutions	*20*	**3,597,144**	4,129,401
Deposits from customers	*21*	**197,344,983**	188,929,559
Trading liabilities	*22*	**1,768,443**	2,974,807
Certificates of deposit issued	*23*	**7,527,349**	14,156,976
Current taxation	*24(a)*	**339,633**	162,951
Deferred tax liabilities	*24(b)*	**19,123**	4,327
Other liabilities	*25*	**7,552,516**	7,777,093
Loan capital	*26*	**8,777,990**	8,754,408
Total Liabilities		**226,927,181**	226,889,522
Equity			
Share capital	*27(a)*	**7,566,271**	7,566,271
Reserves	*27(b)*	**13,549,988**	12,374,910
Total equity attributable to equity shareholders of the Bank		**21,116,259**	19,941,181
Additional equity instruments	*28*	**2,310,168**	2,310,168
Total Equity		**23,426,427**	22,251,349
Total Equity and Liabilities		**250,353,608**	249,140,871

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2015 – unaudited
(Expressed in Hong Kong dollars)

	Share capital *HK$'000*	Share premium *HK$'000*	Capital reserve *HK$'000*	General reserve *HK$'000*	Exchange differences reserve *HK$'000*	Property revaluation reserve *HK$'000*	Investment revaluation reserve *HK$'000*	Statutory reserve *HK$'000*	Regulatory general reserve *HK$'000*	Retained profits *HK$'000*	Total reserves (note 27(b)) *HK$'000*	Additional equity instruments *HK$'000*	Total equity *HK$'000*
At 1 January 2015	**7,566,271**	**–**	**6,589**	**100,000**	**97,554**	**55**	**86,890**	**55,839**	**149,500**	**11,878,483**	**12,374,910**	**2,310,168**	**22,251,349**
Changes in equity for the six months ended 30 June 2015:													
Profit for the period	–	–	–	–	–	–	–	–	–	1,236,289	1,236,289	–	1,236,289
Other comprehensive income for the period	–	–	–	–	3,679	–	19,393	–	–	–	23,072	–	23,072
Total comprehensive income for the period	–	–	–	–	3,679	–	19,393	–	–	1,236,289	1,259,361	–	1,259,361
Transfer from retained profits	–	–	–	–	–	–	–	–	–	(84,283)	(84,283)	84,283	–
Distribution payment for Additional Tier 1 Capital Securities ("AT1 Capital Securities")	–	–	–	–	–	–	–	–	–	–	–	(84,283)	(84,283)
At 30 June 2015	**7,566,271**	**–**	**6,589**	**100,000**	**101,233**	**55**	**106,283**	**55,839**	**149,500**	**13,030,489**	**13,549,988**	**2,310,168**	**23,426,427**
At 1 January 2014	7,283,341	282,930	6,589	100,000	140,901	55	(4,846)	38,349	149,500	9,179,198	9,892,676	–	17,176,017
Changes in equity for the six months ended 30 June 2014:													
Profit for the period	–	–	–	–	–	–	–	–	–	1,538,059	1,538,059	–	1,538,059
Other comprehensive income for the period	–	–	–	–	(41,050)	–	102,734	–	–	–	61,684	–	61,684
Total comprehensive income for the period	–	–	–	–	(41,050)	–	102,734	–	–	1,538,059	1,599,743	–	1,599,743
Issue of Additional Tier 1 Capital Securities	–	–	–	–	–	–	–	–	–	–	–	2,310,168	2,310,168
Transition to no-par value regime on 3 March 2014	282,930	(282,930)	–	–	–	–	–	–	–	–	(282,930)	–	–
At 30 June 2014	7,566,271	–	6,589	100,000	99,851	55	97,888	38,349	149,500	10,717,257	11,209,489	2,310,168	21,085,928
At 1 July 2014	7,566,271	–	6,589	100,000	99,851	55	97,888	38,349	149,500	10,717,257	11,209,489	2,310,168	21,085,928
Changes in equity for the six months ended 31 December 2014:													
Profit for the period	–	–	–	–	–	–	–	–	–	1,263,086	1,263,086	–	1,263,086
Other comprehensive income for the period	–	–	–	–	(2,297)	–	(10,998)	–	–	–	(13,295)	–	(13,295)
Total comprehensive income for the period	–	–	–	–	(2,297)	–	(10,998)	–	–	1,263,086	1,249,791	–	1,249,791
Transfer from retained profits	–	–	–	–	–	–	–	17,490	–	(101,860)	(84,370)	84,370	–
Distribution payment for Additional Tier 1 Capital Securities ("AT1 Capital Securities")	–	–	–	–	–	–	–	–	–	–	–	(84,370)	(84,370)
At 31 December 2014	7,566,271	–	6,589	100,000	97,554	55	86,890	55,839	149,500	11,878,483	12,374,910	2,310,168	22,251,349

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the six months ended 30 June 2015 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2015	2014
	Note	***HK$'000***	*HK$'000*
Operating activities			
Cash (used in)/generated from operations		**(21,205,356)**	8,889,455
Overseas tax paid		**(32,196)**	(47,475)
Net cash (used in)/generated from operations		**(21,237,552)**	8,841,980
Investing activities			
Dividends received from equity investment securities		**4,327**	3,870
Purchase of property and equipment		**(60,593)**	(57,024)
Proceeds from disposal of property and equipment		**5**	–
Net cash used in investing activities		**(56,261)**	(53,154)
Financing activities			
Proceeds from issue of Additional Tier 1 Capital Securities		**–**	2,310,168
Distribution paid on Additional Tier 1 Capital Securities		**(84,283)**	–
Interest paid on loan capital		**(248,081)**	(248,095)
Net cash (used in)/generated from financing activities		**(332,364)**	2,062,073
Net (decrease)/increase in cash and cash equivalents		**(21,626,177)**	10,850,899
Cash and cash equivalents at 1 January		**62,537,493**	43,612,527
Cash and cash equivalents at 30 June	*29*	**40,911,316**	54,463,426

NOTES TO THE INTERIM FINANCIAL REPORT – UNAUDITED

(Expressed in Hong Kong dollars unless otherwise indicated)

(1) Basis of preparation

The interim financial report has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the HKICPA. It also contains the disclosure information required under the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority ("HKMA").

The preparation of an interim financial report that conforms with HKAS 34 requires that management make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year-to-date basis. Actual results may differ from these estimates.

In preparing this interim financial report, 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 2014.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2014 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2015 annual financial statements. Details of these changes in accounting policies are set out in note 2.

(2) Changes in accounting policies

This interim financial report has been prepared on a basis consistent with the accounting policies adopted in the 2014 accounts.

Amendments to HKFRSs effective for the financial year ending 31 December 2015 do not have a material impact on the Group.

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

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

(3) Segment reporting

Segment information is presented consistently with reportable segments which are regularly reviewed or evaluated internally by the chief operating decision-maker to allocate resources to the segments and to assess their performance. The Group has identified the following four main reportable segments:

Wholesale and cross-border banking business includes wholesale banking business in Hong Kong and overseas branches, and China banking. Wholesale banking mainly comprises corporate lending and syndicated loans, trade financing and cash management. Overseas branches include the management office unit in Hong Kong and the branches operated overseas. China banking mainly includes a subsidiary bank in China and the China banking management office in Hong Kong.

Personal and business banking mainly comprises deposit account services, residential mortgages, other consumer lending, credit card services and small and medium enterprises ("SMEs") banking business, wealth management services and private banking.

Treasury and markets covers the provision of foreign exchange services, money market activities, the management of investment securities and central cash management.

Others mainly comprises unallocated revenue and expenses, head office and corporate expenses.

For the purpose of segment reporting, the allocation of operating income reflects the benefits of funding resources allocated to the business segments based on the internal funds transfer pricing mechanism. Cost allocation is based on the direct costs incurred by the respective business segments and the apportionment of overheads on a reasonable basis to the business segments. Rental charges at the market rate for the use of bank premises are reflected as inter-segment income for the "Others" segment and inter-segment expenses for the respective business segments.

(3) **Segment reporting (continued)**

(a) **Reportable segments**

	Six months ended 30 June 2015				
	Wholesale and cross-border banking *HK$'000*	**Personal and business banking** *HK$'000*	**Treasury and markets** *HK$'000*	**Others** *HK$'000*	**Consolidated** *HK$'000*
Net interest income/(expenses)	**1,313,762**	**635,165**	**(238,126)**	**17,140**	**1,727,941**
Other operating income	**253,506**	**339,387**	**323,581**	**8,392**	**924,866**
Net gain on disposal of available-for-sale securities	**12,426**	**–**	**30,782**	**–**	**43,208**
Operating income	**1,579,694**	**974,552**	**116,237**	**25,532**	**2,696,015**
Operating expenses	**(233,616)**	**(326,321)**	**(34,677)**	**(682,157)**	**(1,276,771)**
Inter-segment income/(expenses)	**(127,283)**	**(192,457)**	**(47,716)**	**367,456**	**–**
Operating profit/(loss) before impairment	**1,218,795**	**455,774**	**33,844**	**(289,169)**	**1,419,244**
Impairment losses written-back/(charged) on loans and advances and other accounts	**76,631**	**(14,261)**	**(16,870)**	**8,959**	**54,459**
Operating profit/(loss)	**1,295,426**	**441,513**	**16,974**	**(280,210)**	**1,473,703**
Net (loss)/gain on disposal of property and equipment	**(40)**	**(338)**	**–**	**2**	**(376)**
Revaluation gain on investment properties	**–**	**–**	**–**	**3,846**	**3,846**
Profit/(loss) before taxation	**1,295,386**	**441,175**	**16,974**	**(276,362)**	**1,477,173**
Income tax	**–**	**–**	**–**	**(240,884)**	**(240,884)**
Profit/(loss) for the period	**1,295,386**	**441,175**	**16,974**	**(517,246)**	**1,236,289**
Other segment items:					
Depreciation	**8,322**	**11,349**	**158**	**46,863**	**66,692**
	At 30 June 2015				
Other segment items:					
Segment assets	**132,668,870**	**40,406,095**	**95,786,884**	**(18,508,241)**	**250,353,608**
Segment liabilities	**124,848,120**	**100,329,192**	**20,562,339**	**(18,812,470)**	**226,927,181**
Capital expenditure incurred during the period	**4,053**	**21,054**	**169**	**35,317**	**60,593**

(3) Segment reporting (continued)

(a) Reportable segments (continued)

	Six months ended 30 June 2014				
	Wholesale and cross-border banking *HK$'000*	Personal and business banking *HK$'000*	Treasury and markets *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
Net interest income	1,228,187	566,339	325,714	19,689	2,139,929
Other operating income	309,675	300,528	317,178	8,402	935,783
Net gain on disposal of available-for-sale securities	–	–	7,439	–	7,439
Operating income	1,537,862	866,867	650,331	28,091	3,083,151
Operating expenses	(228,225)	(279,330)	(24,909)	(673,497)	(1,205,961)
Inter-segment income/(expenses)	(109,514)	(172,655)	(51,271)	333,440	–
Operating profit/(loss) before impairment	1,200,123	414,882	574,151	(311,966)	1,877,190
Impairment losses (charged)/written-back on loans and advances and other accounts	12,994	(16,942)	–	1,394	(2,554)
Operating profit/(loss)	1,213,117	397,940	574,151	(310,572)	1,874,636
Net loss on disposal of property and equipment	(4)	(1)	–	–	(5)
Revaluation loss on investment properties	–	–	–	(857)	(857)
Profit/(loss) before taxation	1,213,113	397,939	574,151	(311,429)	1,873,774
Income tax	–	–	–	(335,715)	(335,715)
Profit/(loss) for the period	1,213,113	397,939	574,151	(647,144)	1,538,059
Other segment items:					
Depreciation	11,265	11,454	586	44,120	67,425
	At 31 December 2014				
Other segment items:					
Segment assets	130,351,057	39,694,486	99,685,253	(20,589,925)	249,140,871
Segment liabilities	126,065,104	94,067,374	27,986,539	(21,229,495)	226,889,522
Capital expenditure incurred during the year	10,446	29,622	755	49,577	90,400

(3) Segment reporting (continued)

(b) Geographical information

The geographical information analysis is based on the location of the principal operations of the subsidiaries, or in the case of the Bank itself, the location of the branches responsible for reporting the results or booking the assets and liabilities.

	Six months ended 30 June			
	2015	2014	**2015**	2014
	Profit/(loss) before taxation	Profit/(loss) before taxation	**Operating income/(loss)**	Operating income/(loss)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**1,154,892**	1,638,923	**2,294,400**	2,644,197
Mainland China	**81,387**	88,558	**141,049**	217,482
United States	**93,874**	23,602	**72,315**	51,056
Singapore	**124,755**	106,685	**160,275**	154,380
Others	**22,261**	16,012	**27,972**	16,042
Inter-segment items	**4**	(6)	**4**	(6)
	1,477,173	1,873,774	**2,696,015**	3,083,151

	At 30 June 2015	At 31 December 2014	**At 30 June 2015**	At 31 December 2014
	Total assets	Total assets	**Total liabilities**	Total liabilities
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**231,359,877**	227,842,192	**208,925,371**	206,440,191
Mainland China	**15,496,290**	16,034,172	**13,616,128**	14,172,138
United States	**4,590,159**	5,161,545	**4,517,950**	5,109,847
Singapore	**14,237,300**	17,643,601	**14,069,953**	17,415,840
Others	**1,730,052**	1,745,167	**1,705,939**	1,723,713
Inter-segment items	**(17,060,070)**	(19,285,806)	**(15,908,160)**	(17,972,207)
	250,353,608	249,140,871	**226,927,181**	226,889,522

(4) Interest income and interest expense

(a) Interest income

	Six months ended 30 June	
	2015	2014
	HK$'000	*HK$'000*
Listed securities	**84,735**	14,033
Unlisted securities	**239,331**	225,136
Balances and placements with banks and other financial institutions	**542,280**	1,344,518
Advances and other accounts *(Note)*	**2,499,036**	2,140,586
Interest income on financial assets that are not at fair value through profit or loss	**3,365,382**	3,724,273

(4) Interest income and interest expense (continued)

(b) Interest expense

	Six months ended 30 June	
	2015	2014
	HK$'000	*HK$'000*
Deposits from customers, banks and other financial institutions and others	**1,292,681**	1,157,267
Certificates of deposit issued	**93,128**	154,296
Debt securities issued	**–**	20,962
Loan capital issued	**251,632**	251,819
Interest expense on financial liabilities that are not at fair value through profit or loss	**1,637,441**	1,584,344

Note:

Included in the above is interest income accrued on impaired financial assets of HK$3,721,000 (six months ended 30 June 2014: HK$2,362,000), which includes interest income on the unwinding of the discount on the loan impairment losses of HK$3,410,000 for the six months ended 30 June 2015 (six months ended 30 June 2014: HK$1,988,000).

(5) Net fee and commission income

	Six months ended 30 June	
	2015	2014
	HK$'000	*HK$'000*
Fee and commission income		
Bills commission	**59,469**	74,155
Card-related income	**14,336**	11,884
General banking services	**59,027**	45,027
Insurance	**147,617**	133,226
Investment and structured investment products	**95,774**	67,638
Loans, overdrafts and facilities fees	**135,666**	186,426
Others	**354**	318
	512,243	518,674
Fee and commission expense	**(17,521)**	(16,439)
	494,722	502,235
Of which:		
Net fee and commission income (other than the amounts included in determining the effective interest rate) relating to financial assets and liabilities not at fair value through profit or loss:		
– Fee and commission income	**209,471**	272,465
– Fee and commission expense	**(7,838)**	(6,160)
	201,633	266,305

(6) Net trading income

	Six months ended 30 June	
	2015	2014
	HK$'000	*HK$'000*
Gains less losses from dealing in foreign currencies	**614,971**	258,080
Gains less losses from trading securities	**2,291**	138
Gains less losses from other dealing activities	**(311,541)**	107,281
Net interest income on trading activities		
– Listed	**435**	–
– Unlisted	**101,839**	49,464
	407,995	414,963

(7) Net gain from financial instruments designated at fair value through profit or loss

	Six months ended 30 June	
	2015	2014
	HK$'000	*HK$'000*
Net gain	**–**	769
Interest income		
– Unlisted	**–**	206
	–	975

(8) Net hedging gain/(loss)

	Six months ended 30 June	
	2015	2014
	HK$'000	*HK$'000*
Net gain/(loss) on fair value hedge	**815**	(1,755)

(9) Net gain on disposal of available-for-sale securities

	Six months ended 30 June	
	2015	2014
	HK$'000	*HK$'000*
Net revaluation gain transferred from reserves	**41,170**	6,969
Net gain arisen in current period	**2,038**	470
	43,208	7,439

(10) Other operating income

	Six months ended 30 June	
	2015	2014
	HK$'000	*HK$'000*
Dividend income from available-for-sale equity securities		
– Listed	**227**	70
– Unlisted	**4,100**	3,800
Rental income from investment properties less direct outgoings of HK$143,000 (six months ended 30 June 2014: HK$159,000)	**3,742**	3,435
Others	**13,265**	12,060
	21,334	19,365

(11) Operating expenses

	Six months ended 30 June 2015 HK$'000	2014 HK$'000
(a) Staff costs		
Salaries and other staff costs	**720,646**	740,155
Retirement costs	**41,022**	37,565
	761,668	777,720
(b) Depreciation		
Depreciation of property and equipment		
– Assets held for use under operating leases	**10,227**	14,618
– Other assets	**56,465**	52,807
	66,692	67,425
(c) Other operating expenses		
Property and equipment expenses (excluding depreciation) *(Note)*		
– Rental of property	**129,206**	121,659
– Others	**78,918**	71,819
Auditors' remuneration	**5,227**	3,829
Advertising	**23,509**	19,270
Communication, printing and stationery	**45,308**	41,873
Legal and professional fees	**10,383**	14,076
Others	**155,860**	88,290
	448,411	360,816
Total operating expenses	**1,276,771**	1,205,961

Note:

Included in other operating expenses are the minimum lease payment under operating leases of HK$704,000 (six months ended 30 June 2014: HK$688,000) for renting equipment, and HK$123,280,000 (six months ended 30 June 2014: HK$115,665,000) for renting property and other assets for the six months ended 30 June 2015.

(12) Impairment losses on loans and advances and other accounts

	Six months ended 30 June 2015 HK$'000	2014 HK$'000
Impairment losses written-back/(charged)		
– Loans and advances	**71,329**	(3,393)
– Other accounts	**(16,870)**	839
	54,459	(2,554)
Impairment losses written-back/(charged) on loans and advances and other accounts		
– Individual assessment	**(56,043)**	(16,021)
– Collective assessment	**110,502**	13,467
	54,459	(2,554)
of which:		
– Additions	**(219,967)**	(150,612)
– Releases	**257,139**	128,792
– Recoveries	**17,287**	19,266
	54,459	(2,554)

(13) Income tax in the consolidated income statement

	Six months ended 30 June **2015** *HK$'000*	2014 *HK$'000*
Current tax – Hong Kong Profits Tax		
Provision for the period	**179,131**	264,553
Current tax – Overseas		
Provision for the period	**25,915**	58,606
Under-provision in respect of prior periods	**6,701**	8,498
	32,616	67,104
Deferred tax		
Origination of temporary differences *(note 24(b))*	**29,137**	4,058
	240,884	335,715

The provision for Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 June 2014: 16.5%) of the estimated assessable profits for the period. Taxation for overseas branches and subsidiaries is charged at the appropriate current rates of taxation in the relevant countries.

(14) Cash and balances with banks, central banks and other financial institutions

	At 30 June 2015 *HK$'000*	At 31 December 2014 *HK$'000*
Cash in hand	**229,742**	259,296
Balances with central banks	**1,431,970**	1,694,313
Balances with banks	**5,447,903**	7,260,074
Balances with other financial institutions	**3,519,588**	11,462,517
	10,629,203	20,676,200

(15) Placements with and advances to banks, central banks and other financial institutions

	At 30 June 2015 *HK$'000*	At 31 December 2014 *HK$'000*
Placements with banks	**26,193,509**	37,451,365
Advances to banks	**4,942,281**	6,442,475
	31,135,790	43,893,840
Maturing:		
– Within 1 month	**15,640,833**	22,533,026
– Between 1 month and 1 year	**15,494,957**	21,360,814
	31,135,790	43,893,840

There were no impaired advances to banks and other financial institutions at 30 June 2015 and 31 December 2014, nor were there any individually assessed impairment allowances made for them on these two dates.

(16) Trading assets

	At 30 June 2015 HK$'000	At 31 December 2014 HK$'000
Trading securities – Debt securities	**100,608**	8,348
Trading securities – Investment funds	**1,928**	2,204
Positive fair values of derivatives *(notes 33 and 34(b))*	**2,200,008**	3,280,780
	2,302,544	3,291,332
Issued by:		
Sovereigns	**356**	–
Banks and other financial institutions	**–**	8,348
Corporate entities	**102,180**	2,204
	102,536	10,552
Analysed by place of listing:		
Listed in Hong Kong	**42,877**	–
Listed outside Hong Kong	**18,714**	8,348
Unlisted	**40,945**	2,204
	102,536	10,552

(17) Loans and advances to customers and other accounts

(a) Loans and advances to customers and other accounts less impairment allowances

	At 30 June 2015 HK$'000	At 31 December 2014 HK$'000
Gross loans and advances to customers	**158,163,587**	150,720,146
Impairment allowances		
– Individually assessed	**(87,493)**	(163,880)
– Collectively assessed	**(252,683)**	(373,664)
	157,823,411	150,182,602
Accrued interest and other accounts	**3,706,448**	3,690,462
Impairment allowances		
– Individually assessed	**(17,639)**	(768)
	3,688,809	3,689,694
	161,512,220	153,872,296
Included in loans and advances to customers:		
Trade bills	**8,341,207**	9,287,362
Impairment allowances		
– Individually assessed	**(714)**	–
– Collectively assessed	**(1,457)**	(2,181)
	8,339,036	9,285,181

(17) Loans and advances to customers and other accounts (continued)

(b) Loans and advances to customers analysed by industry sectors

The following economic sector analysis is based on the categories and definitions used by the HKMA.

	At 30 June 2015		At 31 December 2014	
	Gross loans and advances to customers ***HK$'000***	**% of gross loans and advances to customers covered by collateral**	Gross loans and advances to customers *HK$'000*	% of gross loans and advances to customers covered by collateral
Industrial, commercial and financial				
– Property development	**8,170,592**	**52**	5,594,282	40
– Property investment	**18,383,464**	**73**	17,016,206	82
– Financial concerns	**7,719,006**	**38**	8,429,777	46
– Stockbrokers	**7,352,396**	**31**	771,179	51
– Wholesale and retail trade	**16,693,320**	**80**	16,727,330	85
– Manufacturing	**8,280,970**	**40**	7,167,172	46
– Transport and transport equipment	**2,060,812**	**37**	2,163,895	40
– Recreational activities	**266,064**	**81**	273,556	81
– Information technology	**9,262**	**100**	15,202	100
– Others	**5,506,549**	**65**	4,663,393	80
Individuals				
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**10,057**	**100**	10,756	100
– Loans for the purchase of other residential properties	**11,591,149**	**100**	11,296,562	100
– Credit card advances	**366,055**	**–**	357,418	–
– Others	**7,918,849**	**86**	6,830,531	85
Gross loans and advances for use in Hong Kong	**94,328,545**	**66**	81,317,259	74
Trade finance	**14,277,269**	**18**	15,691,063	18
Gross loans and advances for use outside Hong Kong	**49,557,773**	**36**	53,711,824	38
Gross loans and advances to customers	**158,163,587**	**53**	150,720,146	55

(c) Impaired loans and advances to customers

	At 30 June 2015 ***HK$'000***	At 31 December 2014 *HK$'000*
Gross impaired loans and advances to customers	**771,433**	711,638
Impairment allowances – Individually assessed	**(87,493)**	(163,880)
	683,940	547,758
Gross impaired loans and advances as a % of total loans and advances to customers	**0.49%**	0.47%

Impaired loans and advances are individually assessed loans which exhibit objective evidence of impairment on an individual basis.

Individually assessed impairment allowances were made after taking into account the realisable value of collateral in respect of such loans and advances of HK$472,418,000 (31 December 2014: HK$472,737,000) for the Group. This collateral mainly comprises mortgage interest on residential or commercial properties and cash placed with the Group.

(17) Loans and advances to customers and other accounts (continued)

(c) Impaired loans and advances to customers (continued)

The analysis of impaired loans and advances to customers of the individual loan usage category, which accounted for 10% or more of the gross loans and advances to customers, is as follows:

	At 30 June 2015		
	Individual impairment allowances *HK$'000*	**Collective impairment allowances** *HK$'000*	**Impaired loans and advances to customers** *HK$'000*
Property investment	**–**	**964**	**44,759**
Wholesale and retail trade	**32,265**	**58,710**	**139,885**
Gross loans and advances for use outside Hong Kong	**9,075**	**77,971**	**318,201**
	41,340	**137,645**	**502,845**

	At 31 December 2014		
	Individual impairment allowances *HK$'000*	Collective impairment allowances *HK$'000*	Impaired loans and advances to customers *HK$'000*
Property investment	–	1,128	11,601
Wholesale and retail trade	743	56,097	3,048
Trade finance	61,715	169,997	150,865
Gross loans and advances for use outside Hong Kong	92,561	6,206	412,503
	155,019	233,428	578,017

(18) Available-for-sale securities

	At 30 June 2015 *HK$'000*	At 31 December 2014 *HK$'000*
Certificates of deposit held	**10,400,938**	4,104,439
Debt securities	**19,196,135**	14,217,767
Treasury bills (including Exchange Fund Bills)	**14,220,717**	8,106,952
Equity securities	**85,947**	84,222
	43,903,737	26,513,380
Issued by:		
Sovereigns	**14,408,923**	8,239,847
Banks and other financial institutions	**19,142,823**	9,615,782
Corporate entities	**10,351,991**	8,595,459
Public entities	**–**	62,292
	43,903,737	26,513,380
Analysed by place of listing:		
Listed in Hong Kong	**4,151,226**	2,385,545
Listed outside Hong Kong	**4,156,603**	1,214,469
Unlisted	**35,595,908**	22,913,366
	43,903,737	26,513,380
Fair value of individually impaired debt securities	**99,022**	96,761

(19) Property and equipment

	Investment properties *HK$'000*	Other premises *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Total *HK$'000*
Cost or valuation:				
At 1 January 2015	**182,898**	**632,009**	**1,224,783**	**2,039,690**
Additions	**–**	**–**	**60,593**	**60,593**
Disposals	**–**	**–**	**(7,038)**	**(7,038)**
Surplus on revaluation	**3,846**	**–**	**–**	**3,846**
Exchange adjustments	**–**	**–**	**(725)**	**(725)**
At 30 June 2015	**186,744**	**632,009**	**1,277,613**	**2,096,366**
The analysis of cost or valuation of the above assets is as follows:				
Cost	**–**	**614,412**	**1,277,613**	**1,892,025**
Valuation				
– 1985	**–**	**17,597**	**–**	**17,597**
– 2015	**186,744**	**–**	**–**	**186,744**
	186,744	**632,009**	**1,277,613**	**2,096,366**
At 1 January 2014	180,056	632,009	1,158,739	1,970,804
Additions	–	–	90,400	90,400
Disposals	–	–	(20,595)	(20,595)
Surplus on revaluation	2,842	–	–	2,842
Exchange adjustments	–	–	(3,761)	(3,761)
At 31 December 2014	182,898	632,009	1,224,783	2,039,690
The analysis of cost or valuation of the above assets is as follows:				
Cost	–	614,412	1,224,783	1,839,195
Valuation				
– 1985	–	17,597	–	17,597
– 2014	182,898	–	–	182,898
	182,898	632,009	1,224,783	2,039,690
Accumulated depreciation:				
At 1 January 2015	**–**	**292,090**	**888,667**	**1,180,757**
Charge for the period	**–**	**6,810**	**59,882**	**66,692**
Written back on disposals	**–**	**–**	**(6,657)**	**(6,657)**
Exchange adjustments	**–**	**–**	**(453)**	**(453)**
At 30 June 2015	**–**	**298,900**	**941,439**	**1,240,339**
At 1 January 2014	–	278,471	792,653	1,071,124
Charge for the year	–	13,619	119,009	132,628
Written back on disposals	–	–	(20,136)	(20,136)
Exchange adjustments	–	–	(2,859)	(2,859)
At 31 December 2014	–	292,090	888,667	1,180,757
Net book value:				
At 30 June 2015	**186,744**	**333,109**	**336,174**	**856,027**
At 31 December 2014	182,898	339,919	336,116	858,933

(19) Property and equipment (continued)

Investment properties

All investment properties of the Group were revalued and assessed by the management of the Group at 30 June 2015 with reference to the property valuation report which conducted by an independent firm of surveyors. The basis of the property valuation was on market value, which is consistent with the definition of fair value under HKFRS 13, *Fair value measurement*. The revaluation surplus of HK$3,846,000 (31 December 2014: revaluation surplus of HK$2,842,000) was recognised and credited to the income statement for the period ended 30 June 2015.

(20) Deposits and balances of banks and other financial institutions

	At 30 June 2015 *HK$'000*	At 31 December 2014 *HK$'000*
Deposits and balances from banks	**3,597,144**	4,129,401

(21) Deposits from customers

	At 30 June 2015 *HK$'000*	At 31 December 2014 *HK$'000*
Demand deposits and current deposits	**20,223,884**	17,921,958
Savings deposits	**34,039,815**	31,157,185
Time, call and notice deposits	**143,081,284**	139,850,416
	197,344,983	188,929,559

(22) Trading liabilities

	At 30 June 2015 *HK$'000*	At 31 December 2014 *HK$'000*
Negative fair value of derivatives *(notes 33 and 34(b))*	**1,768,443**	2,974,807

(23) Certificates of deposit issued

	At 30 June 2015 *HK$'000*	At 31 December 2014 *HK$'000*
Non-trading	**7,527,349**	14,156,976

(24) **Income tax in the consolidated statement of financial position**

(a) **Current taxation in the consolidated statement of financial position represents:**

	At 30 June 2015 *HK$'000*	At 31 December 2014 *HK$'000*
Provision for Hong Kong Profits Tax for the period/year	**179,131**	495,234
Provisional Profits Tax paid	**–**	(372,760)
	179,131	122,474
Balance of Profits Tax provision relating to prior years	**122,474**	–
	301,605	122,474
Provision for overseas taxation	**38,026**	37,702
	339,631	160,176
Of which:		
Tax recoverable	**(2)**	(2,775)
Current taxation	**339,633**	162,951
	339,631	160,176

(b) **Deferred tax assets and liabilities recognised**

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the period are as follows:

	Depreciation allowances in excess of related depreciation *HK$'000*	Impairment allowances for loans and advances *HK$'000*	Revaluation adjustments for properties *HK$'000*	Revaluation adjustments for available-for-sale securities *HK$'000*	Others *HK$'000*	Total *HK$'000*
Deferred tax arising from:						
At 1 January 2015	**34,263**	**(63,045)**	**1,621**	**18,271**	**(18,898)**	**(27,788)**
Charged/(credited) to consolidated income statement *(note 13)*	**(839)**	**23,963**	**–**	**–**	**6,013**	**29,137**
Charged to reserves	**–**	**–**	**–**	**3,733**	**–**	**3,733**
Exchange and other adjustments	**(37)**	**13**	**–**	**–**	**(20)**	**(44)**
At 30 June 2015	**33,387**	**(39,069)**	**1,621**	**22,004**	**(12,905)**	**5,038**
At 1 January 2014	34,013	(44,897)	1,579	(2,823)	(18,366)	(30,494)
Charged/(credited) to consolidated income statement	373	(18,148)	42	–	(621)	(18,354)
Charged to reserves	–	–	–	21,094	–	21,094
Exchange and other adjustments	(123)	–	–	–	89	(34)
At 31 December 2014	34,263	(63,045)	1,621	18,271	(18,898)	(27,788)

(24) Income tax in the consolidated statement of financial position (continued)

(b) Deferred tax assets and liabilities recognised (continued)

	At 30 June 2015 ***HK$'000***	At 31 December 2014 *HK$'000*
Net deferred tax assets recognised on the consolidated statement of financial position	**(14,085)**	(32,115)
Net deferred tax liabilities recognised on the consolidated statement of financial position	**19,123**	4,327
	5,038	(27,788)

(c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$2,630,000 at 30 June 2015 (31 December 2014: HK$2,653,000), as it is improbable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under the current tax legislation.

(25) Other liabilities

	At 30 June 2015 ***HK$'000***	At 31 December 2014 *HK$'000*
Accruals and other payables	**7,552,516**	7,777,093

(26) Loan capital

	At 30 June 2015 ***HK$'000***	At 31 December 2014 *HK$'000*
Subordinated notes with US$500 million at 6.875% *	**4,143,663**	4,150,696
Subordinated notes with US$300 million at 3.875% **	**2,307,183**	2,291,268
Subordinated notes with US$300 million at 6.000% ***	**2,327,144**	2,312,444
	8,777,990	8,754,408

* Under a US$2 billion Medium Term Note Programme ("the Programme") issued in December 2007 and the new Offering Circular issued in June 2010, the Bank issued subordinated notes on 24 June 2010 with a face value of US$500 million (equivalent to HK$3,888.9 million). The notes bear an interest rate of 6.875% per annum, payable semi-annually. The notes are listed on the Singapore Exchange Securities Trading Limited and will mature on 24 June 2020.

** Under the Programme and the new Offering Circular issued in August 2012, the Bank issued subordinated notes on 27 September 2012 with a face value of US$300 million (equivalent to HK$2,326.1 million). The notes bear interest at a fixed rate of 3.875% per annum, payable semi-annually until 28 September 2017, and thereafter fixed at an interest rate of the prevailing five-year US Treasury bonds yield plus 3.250% per annum if the notes are not redeemed on or before the call date at the option of the Bank. The notes are listed on the Singapore Exchange Securities Trading Limited and will mature on 28 September 2022.

*** Under the Programme and the new Offering Circular issued in October 2013, the Bank issued subordinated notes on 7 November 2013 with a face value of US$300 million (equivalent to HK$2,325.8 million) and qualified as Basel III-compliant Tier-2 capital. The notes bear interest at a fixed rate of 6.000% per annum, payable semi-annually until 7 May 2019, and thereafter fixed at the interest rate of the prevailing five-year US Treasury bonds yield plus 4.718% per annum if the notes are not redeemed on the call date. The notes are listed on the Hong Kong Stock Exchange and will mature on 7 May 2024.

(27) Capital and reserves

(a) Share capital

(i) Ordinary shares

	At 30 June 2015		At 31 December 2014	
	No. of shares	***HK$'000***	*No. of shares*	*HK$'000*
Ordinary shares, issued and fully paid:				
At 1 January	**7,283,341,176**	**7,566,271**	7,283,341,176	7,283,341
Transition to no-par value regime on 3 March 2014	**–**	**–**	–	282,930
At 30 June/31 December	**7,283,341,176**	**7,566,271**	7,283,341,176	7,566,271

As at 31 December 2014, 8,000,000,000 ordinary shares, with par value of $1 each, were authorised for issue. Under the new Hong Kong Companies Ordinance (Cap. 622), effective 3 March 2014, the concepts of "authorised share capital" and "par value" no longer exist. As part of the transition to the no-par value regime, the amount standing to the credit of the share premium account on 3 March 2014 has become part of the Bank's share capital under the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622). These changes do not have an impact on the number of shares in issue or the relative entitlement of any of the members.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings of the Bank. All ordinary shares rank equally with regard to the Bank's residual assets.

(ii) Shares issued during the period

There was no share issuance during the period ended 30 June 2015.

(b) Nature and purpose of components of reserves

(i) Share premium

Prior to 3 March 2014, the application of the share premium account was governed by section 48B of the predecessor Hong Kong Companies Ordinance (Cap. 32). In accordance with the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), on 3 March 2014 any amount standing to the credit of the share premium account has become part of the Bank's share capital (see note 27 (a)). The use of share capital as from 3 March 2014 is governed by the new Hong Kong Companies Ordinance (Cap. 622).

(ii) Capital reserve

The capital reserve is not available for distribution to shareholders.

(iii) General reserve

General reserve was set up from the transfer of retained earnings, and it is available for distribution to shareholders.

(iv) Exchange differences reserve

The exchange differences reserve comprises all foreign exchange differences arising from the translation of the financial statement of foreign operations.

(v) Property revaluation reserve

The property revaluation reserve is not available for distribution to shareholders because it does not constitute realised profits within the meaning of section 297(2) of the new Hong Kong Companies Ordinance.

(vi) Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the end of the reporting period.

(27) Capital and reserves (continued)

(b) Nature and purpose of components of reserves (continued)

(vii) Statutory reserve

Under the relevant legislation of mainland China, the Bank's wholly-owned PRC subsidiary bank, CITIC Bank International (China) Limited ("CBI (China)") is required to transfer 10% of its profit after taxation to a non-distributable statutory reserve until such reserve has reached 50% of its registered share capital.

(viii) Regulatory general reserve

Pursuant to the banking regulations of mainland China, CBI (China) is required to set up a regulatory general reserve through a direct transfer from the current year's profit appropriation of 1% of the total risk assets at the end of the reporting period to cover its unidentified potential loss exposures. The regulatory general reserve forms part of the equity of the Group.

(ix) Retained profits

A regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision by earmarking amounts in respect of impairment losses recognised which the Bank will or may incur in loans and advances. Movements in the reserve are earmarked directly through retained profits and in consultation with the HKMA. At 30 June 2015, HK$2,450,769,000 (31 December 2014: HK$2,172,126,000) was included in the retained profits in this respect, which was distributable to equity holders of the Bank subject to consultation with the HKMA.

(28) Additional equity instruments

	At 30 June 2015 ***HK$'000***	At 31 December 2014 *HK$'000*
Undated non-cumulative subordinated capital securities with US$300 million*	**2,310,168**	2,310,168

* Under a US$2 billion Medium Term Note Programme ("the Programme") issued in December 2007 and the new Offering Circular issued in April 2014, the Bank issued a Basel III compliant Undated Non-Cumulative Subordinated Additional Tier 1 Capital Securities (the "AT1 Capital Securities") on 22 April 2014 with a face value of US$300 million (equivalent to HK$2,313.47 million). The AT1 Capital Securities are perpetual and bear a 7.250% coupon until the first call date on 22 April 2019. The coupon will be reset every five years if the AT1 Capital Securities are not redeemed to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 5.627% per annum.

According to the terms and conditions, the AT1 Capital Securities confer a right to receive non-cumulative distributions (each a Distribution) on the principal amount (subject to adjustments following the occurrence of a non-viability event as defined) from, and including, the issue date at the applicable distribution rate, payable semi-annually in arrear on 22 April and 22 October each year. The Banks may, at its sole discretion, elect to cancel the distribution payment or redeem the AT1 Capital Securities, which are subject to prior written consent of the HKMA. A distribution of US$10,875,000 (equivalent to HK$84,283,000) was paid during the period ended 30 June 2015 (31 December 2014: US$10,875,000, equivalent to HK$84,370,000).

(29) Cash and cash equivalents

	At 30 June 2015 ***HK$'000***	At 30 June 2014 *HK$'000*
Components of cash and cash equivalents in the consolidated cash flow statement		
Cash and balances with banks, central banks and other financial institutions	**9,439,412**	6,113,957
Placements with and advances to banks, central banks and other financial institutions with original maturity within 3 months	**20,811,492**	39,377,765
Treasury bills and certificates of deposit held with original maturity within 3 months:		
– Available-for-sale securities	**10,660,412**	8,971,704
	40,911,316	54,463,426

(30) Maturity profile

The following maturity profile is based on the remaining period at the end of the reporting period date and the contractual maturity date.

As the trading portfolio may be sold before maturity or deposits from customers mature without being withdrawn, the contractual maturity dates do not represent expected dates of future cash flows.

	At 30 June 2015							
	Total *HK$'000*	Repayable on demand *HK$'000*	Within 1 month *HK$'000*	3 months or less but over 1 month *HK$'000*	1 year or less but over 3 months *HK$'000*	5 years or less but over 1 year *HK$'000*	Over 5 years *HK$'000*	Undated *HK$'000*
Assets								
Cash and balances with banks, central banks and other financial institutions	10,629,203	9,439,412	–	–	–	–	–	1,189,791
Placements with and advances to banks, central banks and other financial institutions	31,135,790	–	15,640,833	8,864,179	6,630,778	–	–	–
Trading assets	2,302,544	2,200,008	–	38,829	189	61,590	–	1,928
Loans and advances to customers and other accounts	161,512,220	6,115,732	22,389,195	24,333,566	44,492,788	39,536,842	19,929,682	4,714,415
Available-for-sale securities	43,903,737	–	2,968,757	8,975,669	14,105,737	15,583,548	2,184,078	85,948
Tax recoverable	2	–	–	–	2	–	–	–
Undated assets	870,112	–	–	–	–	–	–	870,112
Total assets	250,353,608	17,755,152	40,998,785	42,212,243	65,229,494	55,181,980	22,113,760	6,862,194
Liabilities								
Deposits and balances of banks and other financial institutions	3,597,144	824,344	2,632,794	66,604	73,402	–	–	–
Deposits from customers	197,344,983	54,263,700	75,157,160	47,357,491	19,599,562	967,070	–	–
Trading liabilities	1,768,443	1,768,443	–	–	–	–	–	–
Certificates of deposit issued	7,527,349	–	410,845	2,765,337	1,858,709	2,492,458	–	–
Current taxation	339,633	–	–	–	339,633	–	–	–
Other liabilities	7,552,516	–	–	–	–	–	–	7,552,516
Loan capital	8,777,990	–	–	–	–	8,777,990	–	–
Undated liabilities	19,123	–	–	–	–	–	–	19,123
Total liabilities	226,927,181	56,856,487	78,200,799	50,189,432	21,871,306	12,237,518	–	7,571,639
Asset-liability gap		(39,101,335)	(37,202,014)	(7,977,189)	43,358,188	42,944,462	22,113,760	

(30) Maturity profile (continued)

	At 31 December 2014							
	Total	Repayable on demand	Within 1 month	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets								
Cash and balances with banks, central banks and other financial institutions	20,676,200	19,518,657	–	–	–	–	–	1,157,543
Placements with and advances to banks, central banks and other financial institutions	43,893,840	–	22,533,026	15,597,146	5,763,668	–	–	–
Trading assets	3,291,332	3,280,780	–	–	–	8,348	–	2,204
Loans and advances to customers and other accounts	153,872,296	6,017,897	19,324,567	16,249,567	45,876,028	42,282,806	19,933,040	4,188,391
Available-for-sale securities	26,513,380	–	1,839,021	6,987,625	3,831,146	12,493,724	1,277,642	84,222
Tax recoverable	2,775	–	–	–	2,775	–	–	–
Undated assets	891,048	–	–	–	–	–	–	891,048
Total assets	249,140,871	28,817,334	43,696,614	38,834,338	55,473,617	54,784,878	21,210,682	6,323,408
Liabilities								
Deposits and balances of banks and other financial institutions	4,129,401	1,381,394	595,819	2,152,188	–	–	–	–
Deposits from customers	188,929,559	49,079,142	65,420,892	49,636,226	22,449,123	2,344,176	–	–
Trading liabilities	2,974,807	2,974,807	–	–	–	–	–	–
Certificates of deposit issued	14,156,976	–	629,282	3,761,041	6,861,723	2,904,930	–	–
Current taxation	162,951	–	–	–	162,951	–	–	–
Other liabilities	7,777,093	–	–	–	–	–	–	7,777,093
Loan capital	8,754,408	–	–	–	–	4,603,713	4,150,695	–
Undated liabilities	4,327	–	–	–	–	–	–	4,327
Total liabilities	226,889,522	53,435,343	66,645,993	55,549,455	29,473,797	9,852,819	4,150,695	7,781,420
Asset-liability gap		(24,618,009)	(22,949,379)	(16,715,117)	25,999,820	44,932,059	17,059,987	

(31) Material related-party transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related-party transactions:

(a) Transactions with group companies

During the period, the Group entered into a number of transactions with related parties in the normal course of its banking business including, inter alia, lending, acceptance and placement of inter-bank deposits, and participation in loan syndicates, correspondent banking transactions and foreign exchange transactions. The transactions were priced based on relevant market rates at the time of each transaction, and were under the same terms as those available to other counterparties and customers of the Group. In the directors' opinion, these transactions were conducted under normal commercial terms.

The amount of related-party transactions during the periods and outstanding balances at the end of the period/year are set out below:

	Intermediate parents *(note (i))*		Immediate parent		Fellow subsidiaries		Associates *(note (ii))*		Related companies *(note (iii))*	
	Six months ended 30 June									
				(Restated)		(Restated)				(Restated)
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Interest income	**208,872**	500,749	**–**	–	**3,680**	4,616	**13,975**	1,709	**46,937**	41,641
Interest expense	**(19,229)**	(1,300)	**(4,033)**	(2,938)	**(34,180)**	(18,949)	**(7,933)**	(7,897)	**(12,004)**	(1,112)
Other operating income	**–**	9	**–**	134	**–**	–	**29,448**	19,637	**–**	–
Operating expenses	**(551)**	(202)	**(4,444)**	–	**(2,222)**	(2,202)	**–**	(1,732)	**(1)**	(2)
Net trading gain/(loss)	**(106,656)**	(74,151)	**–**	–	**(1,139)**	11,355	**7,070**	2,592	**(134,511)**	151,215
	At 30 June 2015/31 December 2014									
Assets										
Available-for-sale securities	**222,280**	220,715	**–**	–	**–**	–	**233,158**	230,823	**–**	–
Derivative financial instruments	**5,048**	49,311	**–**	–	**476**	189	**–**	–	**162,766**	175,384
Other receivables	**11,676**	42,413	**–**	–	**2,077**	4,740	**2,576**	2,550	**20,871**	25,394
Liabilities										
Derivative financial instruments	**95,054**	5,578	**–**	–	**44**	815	**–**	–	**23,775**	169,777
Other payables	**220**	11,924	**7,630**	3,603	**31,219**	19,919	**835**	819	**2,323**	3,416
Lending activities:										
At 30 June/31 December	**7,820,127**	16,238,902	**–**	–	**325,412**	426,075	**1,030,618**	677,632	**1,312,403**	753,949
Average for the period/year	**8,260,007**	20,532,090	**–**	–	**360,296**	380,752	**1,296,888**	410,947	**1,043,928**	311,507
Acceptance of deposits:										
At 30 June/31 December	**12,063,972**	3,575,064	**2,214,879**	2,232,715	**5,263,898**	2,711,566	**7,762,766**	3,758,123	**1,197,522**	1,341,765
Average for the period/year	**7,649,517**	3,270,537	**2,222,624**	878,986	**4,398,832**	2,383,581	**6,015,417**	3,122,858	**1,298,156**	1,184,057
	At 30 June 2015/31 December 2014									
Off-statement of financial position items										
Acceptances, guarantees and letters of credit										
– contract amounts in payable	**(441,867)**	(147,328)	**–**	–	**(18,425)**	(56,293)	**–**	–	**–**	–
Lease commitments	**–**	–	**–**	–	**5,158**	6,892	**–**	–	**–**	–
Other commitments	**–**	–	**–**	–	**739,263**	341,352	**420,567**	357,450	**–**	–
Derivative financial instruments										
– notional amounts	**5,081,931**	7,177,716	**–**	–	**1,633,214**	1,623,793	**–**	–	**9,247,641**	11,573,592

(31) Material related-party transactions (continued)

(a) Transactions with group companies (continued)

No impairment allowances were made in respect of the above loans to and placements with related parties.

Note:

(i) As there were group restructurings performed under the ultimate controlling party during the year ended 31 December 2014, certain related parties have been redesignated from either fellow subsidiaries or related companies to intermediate parents. Comparative figures for the period ended 30 June 2014 have also been restated accordingly.

(ii) Associates of the Group include the associates of the ultimate controlling party and immediate parent respectively.

(iii) Related companies refers to a shareholder of the immediate parent, which exercise significant influence on the immediate parent, and companies with common directors of the intermediate parents.

(b) Transactions with key management personnel

Remuneration for key management personnel of the Group, including amounts paid to the Group's directors and certain employees with the highest emoluments are as follows:

	Six months ended 30 June	
	2015	2014
	HK$'000	*HK$'000*
Short-term employee benefits	**45,930**	39,939
Post-employment benefits	**1,683**	1,545
	47,613	41,484

Total remuneration is included in "staff costs" (note 11(a)).

During the period, the Group provided credit facilities to key management personnel of the Group and its holding companies, their close family members and companies controlled or significantly influenced by them. The credit facilities were provided in the ordinary course of business and on substantially similar as comparable transactions with persons of a similar standing or, where applicable, with other employees.

	2015	2014
	HK$'000	*HK$'000*
At 1 January	**21,477**	20,311
At 30 June 2015/31 December 2014	**17,971**	21,477
Maximum amount during the period/year	**22,216**	40,381

No impairment losses have been recorded against balances outstanding with key management personnel during the period, and no individually assessed impairment allowance has been made on balances with key management personnel and their immediate relatives at the period end.

(32) Fair value measurement of financial instruments

(a) Financial instruments measured at fair value

(i) Fair value hierarchy

Fair value estimates are generally subjective in nature, and are made at a specific point in time based on the characteristics of the financial instruments and relevant market information. Fair values are determined according to the following fair value hierarchy:

		Fair value measurements as at 30 June 2015 using		
	Fair value at 30 June (Total) *HK$'000*	**Quoted prices in active market for identical assets (Level 1)** *HK$'000*	**Significant other observable inputs (Level 2)** *HK$'000*	**Significant unobservable inputs (Level 3)** *HK$'000*
Assets				
Trading assets				
– Debt securities	**100,608**	**100,608**	**–**	**–**
– Investment funds	**1,928**	**–**	**–**	**1,928**
– Positive fair values of derivatives	**2,200,008**	**21,195**	**2,178,813**	**–**
	2,302,544	**121,803**	**2,178,813**	**1,928**
Available-for-sale securities				
– Certificates of deposit held	**10,400,938**	**608,633**	**9,792,305**	**–**
– Treasury bills (including Exchange Fund Bills)	**14,220,717**	**14,220,717**	**–**	**–**
– Debt securities	**19,196,135**	**18,299,483**	**892,652**	**4,000**
– Equity securities	**85,947**	**62,420**	**–**	**23,527**
	43,903,737	**33,191,253**	**10,684,957**	**27,527**
	46,206,281	**33,313,056**	**12,863,770**	**29,455**
Liabilities				
Trading liabilities				
– Negative fair value of derivatives	**1,768,443**	**1,087**	**1,767,356**	**–**

		Fair value measurements as at 31 December 2014 using		
	Fair value at 31 Dec (Total) *HK$'000*	Quoted prices in active market for identical assets (Level 1) *HK$'000*	Significant other observable inputs (Level 2) *HK$'000*	Significant unobservable inputs (Level 3) *HK$'000*
Assets				
Trading assets				
– Debt securities	8,348	8,348	–	–
– Investment funds	2,204	–	–	2,204
– Positive fair values of derivatives	3,280,780	13,442	3,267,338	–
	3,291,332	21,790	3,267,338	2,204
Available-for-sale securities				
– Certificates of deposit held	4,104,439	203,432	3,901,007	–
– Treasury bills (including Exchange Fund Bills)	8,106,952	8,106,952	–	–
– Debt securities	14,217,767	12,683,088	1,530,679	4,000
– Equity securities	84,222	60,650	–	23,572
	26,513,380	21,054,122	5,431,686	27,572
	29,804,712	21,075,912	8,699,024	29,776
Liabilities				
Trading liabilities				
– Negative fair value of derivatives	2,974,807	1,375	2,973,432	–

During the period ended 30 June 2015 and year ended 31 December 2014, there were no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy.

(32) Fair value measurement of financial instruments (continued)

(a) Financial instruments measured at fair value (continued)

(ii) Determination of fair value

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1 – Quoted (unadjusted) market price in active markets for identical instruments.

Level 2 – Valuation techniques based on observable inputs, either directly or indirectly, where all significant inputs are observable from market data. This category includes financial instruments with quoted prices in active markets for similar instruments; or quoted prices in markets that are considered less than active for identical or similar instruments.

Level 3 – Valuation techniques using significant unobservable inputs where the valuation techniques include one or more significant inputs that are unobservable. This category includes financial instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect the differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using valuation techniques. Valuation techniques include net present value, discounted cash flow models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other parameters used in estimating discount rates, bond price and foreign currency exchange rates.

The most common valuation techniques applied by the Group to determine the fair value of financial instruments are from interest rates and currency swaps, which are observable market data with high reliability and do not require the significant involvement of management's judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter ("OTC") derivatives like interest rate swaps. However, the availability of observable market prices and inputs varies depending on the products and markets, and is prone to changes based on specific events and general conditions in the financial markets.

Certain financial instruments need to be employed with valuation techniques where one or more significant market inputs involved are not observable. Examples of these financial instruments are structured investments, OTC structured derivatives and certain securities for which there is no active market. For valuation models involving significant unobservable inputs, a high degree of management judgement or estimation is required to select the appropriate valuation model, determine the expected future cash flows on the financial instruments being valued, determine the probability of counterparty default and prepayments, and select the appropriate discount rates.

(iii) Information about Level 3 fair value measurements

	Valuation techniques	**Significant unobservable inputs**	**Fair value measurement sensitivity to unobservable inputs**
Investment funds	Broker quote	Not applicable	Not applicable
Debt securities	Discounted cash flow model	Forecasted cash flows and estimated risk-free rate	Significant increase in the estimated risk-free rate would result in a lower fair value
Equity securities	See note below	See note below	Not applicable

Note:

Equity securities under Level 3 fair value measurements are generally classified as available-for-sale and are not traded in active market. In the absence of an active market, the fair value is estimated based on the analysis of the investee's financial position, results and dividend discounts or other factors. Accordingly, it is not practical to quote significant unobservable inputs.

(32) Fair value measurement of financial instruments (continued)

(a) Financial instruments measured at fair value (continued)

(iii) Information about Level 3 fair value measurements (continued)

The following table shows a reconciliation between the opening and the closing balance of fair value measurements in Level 3 of the fair value hierarchy:

	At 30 June 2015			
Assets	**Trading assets**	**Available-for-sale securities**		**Total**
	Investment funds *HK$'000*	**Debt securities** *HK$'000*	**Equity securities** *HK$'000*	*HK$'000*
At 1 January 2015	**2,204**	**4,000**	**23,572**	**29,776**
Sales	**(156)**	**–**	**–**	**(156)**
Changes in fair value recognised in the income statement				
– Gains less losses from dealing in foreign currencies	**–**	**–**	**(45)**	**(45)**
– Gains less losses from trading securities	**(120)**	**–**	**–**	**(120)**
At 30 June 2015	**1,928**	**4,000**	**23,527**	**29,455**
Total gains or losses for the year included in the income statement for assets held at the end of the reporting period recorded in:				
– Gains less losses from dealing in foreign currencies	**–**	**–**	**(45)**	**(45)**
– Gains less losses from trading securities	**(120)**	**–**	**–**	**(120)**

	At 31 December 2014				
Assets	Trading assets	Securities designated at fair value through profit or loss	Available-for-sale securities		Total
	Investment funds *HK$'000*	Debt securities *HK$'000*	Debt securities *HK$'000*	Equity securities *HK$'000*	*HK$'000*
At 1 January 2014	2,675	50,277	4,000	23,647	80,599
Sales	(568)	–	–	–	(568)
Settlement	–	(51,137)	–	–	(51,137)
Changes in fair value recognised in the income statement					
– Gains less losses from dealing in foreign currencies	–	–	–	(75)	(75)
– Gains less losses from trading securities	97	–	–	–	97
– Net gain from financial instruments designated at fair value through profit or loss	–	860	–	–	860
At 31 December 2014	2,204	–	4,000	23,572	29,776
Total gains or losses for the year included in the income statement for assets held at the end of the reporting period recorded in:					
– Gains less losses from dealing in foreign currencies	–	–	–	(75)	(75)
– Gains less losses from trading securities	97	–	–	–	97
– Net gain from financial instruments designated at fair value through profit or loss	–	860	–	–	860

(32) Fair value measurement of financial instruments (continued)

(a) Financial instruments measured at fair value (continued)

(iv) Effects of changes from using significant unobservable assumptions to reasonable possible alternative assumptions

The fair value of Level 3 financial instruments is measured using valuation models that incorporate assumptions that are not based on observable market data. The following table shows the sensitivity of Level 3 fair value measurements due to parallel movement of plus or minus 10% of change in fair value to reasonably possible alternative assumptions.

	At 30 June 2015			
	Effect on income statement		**Effect on other comprehensive income**	
	Favourable ***HK$'000***	**(Unfavourable)** ***HK$'000***	**Favourable** ***HK$'000***	**(Unfavourable)** ***HK$'000***
Assets				
Trading assets				
– Investment funds	**193**	**(193)**	**–**	**–**
Available-for-sale securities				
– Debt securities	**–**	**–**	**400**	**(400)**
– Equity securities	**–**	**–**	**2,353**	**(2,353)**

	At 31 December 2014			
	Effect on income statement		Effect on other comprehensive income	
	Favourable *HK$'000*	(Unfavourable) *HK$'000*	Favourable *HK$'000*	(Unfavourable) *HK$'000*
Assets				
Trading assets				
– Investment funds	220	(220)	–	–
Available-for-sale securities				
– Debt securities	–	–	400	(400)
– Equity securities	–	–	2,357	(2,357)

The Group believes that its estimates of fair value for the above financial instruments are appropriate but the use of different methodologies or assumptions could lead to different measurements of fair value.

(b) Fair values of financial instruments carried at other than fair value

All financial instruments are stated at fair value or carried at amounts not materially different from their fair value at 30 June 2015 and 31 December 2014 unless otherwise stated.

(i) Financial assets

The Group's financial assets mainly include cash; placements with banks, central banks and other financial institutions; loans and advances to customers; investments; and financial derivative instruments.

The fair values of placements with banks, central banks and other financial institutions are mainly priced at market interest rates, and mature within one year. Accordingly, the carrying values approximate the fair value.

The fair values of loans and advances to customers, taking into account the relevant market interest rates and being mostly priced at floating rates close to the market interest rate which are mainly repriced within 3 months, equals their carrying amount.

Trading assets, securities designated at fair value through profit or loss and available-for-sale securities (except for unlisted available-for-sale debt/equity securities) are stated at fair value in the financial statements.

(32) Fair value measurement of financial instruments (continued)

(b) Fair values of financial instruments carried at other than fair value (continued)

(ii) Financial liabilities

All financial liabilities are stated at fair value or carried at amounts not materially different from their fair values at 30 June 2015 and 31 December 2014, except the following:

	At 30 June 2015				
	Carrying amount *HK$'000*	**Fair value** *HK$'000*	**Level 1** *HK$'000*	**Level 2** *HK$'000*	**Level 3** *HK$'000*
Financial liabilities					
Certificates of deposit issued – Non-trading	**7,527,349**	**7,564,545**	**–**	**7,564,545**	**–**
Loan capital	**8,777,990**	**9,192,298**	**9,192,298**	**–**	**–**
	16,305,339	**16,756,843**	**9,192,298**	**7,564,545**	**–**

	At 31 December 2014				
	Carrying amount *HK$'000*	Fair value *HK$'000*	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*
Financial liabilities					
Certificates of deposit issued – Non-trading	14,156,976	14,189,910	–	14,189,910	–
Loan capital	8,754,408	9,062,529	9,062,529	–	–
	22,911,384	23,252,439	9,062,529	14,189,910	–

(33) Offsetting Financial Instruments

Master netting arrangement

The Group enters into enforceable master netting arrangements with counterparties. In the event of a default, all outstanding transactions with the counterparty will be terminated and all amounts outstanding will be settled on a net basis. Otherwise, all outstanding transactions with the counterparty are settled on a gross basis and generally do not result in offsetting the assets and liabilities in the statement of financial position. The Group discloses information for financial statement users to evaluate the effect or potential effect of netting arrangements, including the rights of set-off associated with the Group's recognised financial assets and recognised financial liabilities, on the Group's financial position.

	At 30 June 2015			
		Related amounts that are not offset in the statement of financial position		
	Net amounts of financial instruments presented in the statement of financial position *HK$'000*	**Financial instruments** *HK$'000*	**Cash collateral received** *HK$'000*	**Net amount** *HK$'000*
Financial assets				
– Derivative financial instruments *(note 16)*	**2,200,008**	**(895,892)**	**(93,567)**	**1,210,549**
Financial liabilities				
– Derivative financial instruments *(note 22)*	**1,768,443**	**(895,892)**	**–**	**872,551**

(33) Offsetting Financial Instruments (continued)

Master netting arrangement (continued)

	At 31 December 2014			
	Net amounts of financial instruments presented in the statement of financial position	Related amounts that are not offset in the statement of financial position		
		Financial instruments	Cash collateral received	Net amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
– Derivative financial instruments *(note 16)*	3,280,780	(1,256,523)	(42,880)	1,981,377
Financial liabilities				
– Derivative financial instruments *(note 22)*	2,974,807	(1,256,523)	–	1,718,284

(34) Derivatives

(a) Notional amounts of derivatives

Derivatives refer to financial contracts whose value depends on the value of one or more underlying asset or index. The notional amounts of these instruments indicate the volume of outstanding transactions and do not represent amounts at risk.

The following is a summary of the notional amounts of each significant type of derivative entered into by the Group:

	At 30 June 2015			At 31 December 2014		
	Held for hedging	**Others (including held for trading)**	**Total**	Held for hedging	Others (including held for trading)	Total
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Currency derivatives						
Forwards	**–**	**94,384,696**	**94,384,696**	–	139,047,500	139,047,500
Swaps	**–**	**173,767,578**	**173,767,578**	–	178,135,526	178,135,526
Options purchased	**–**	**23,534,818**	**23,534,818**	–	38,197,706	38,197,706
Options written	**–**	**20,497,001**	**20,497,001**	–	34,182,827	34,182,827
Interest rate derivatives						
Forwards	**–**	**–**	**–**	–	38,771	38,771
Swaps	**12,844,097**	**28,781,356**	**41,625,453**	10,304,627	42,181,334	52,485,961
Options purchased	**–**	**–**	**–**	–	–	–
Options written	**–**	**77,521**	**77,521**	–	77,541	77,541
	12,844,097	**341,042,970**	**353,887,067**	10,304,627	431,861,205	442,165,832

Trading includes the Group's proprietary positions in financial instruments, positions which arise from the execution of trade orders from customers and market making, and positions taken in order to hedge other elements of the trading book.

(b) Fair values and credit risk-weighted amounts of derivatives

	At 30 June 2015			At 31 December 2014		
	Fair value assets	**Fair value liabilities**	**Credit risk-weighted amount**	Fair value assets	Fair value liabilities	Credit risk-weighted amount
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Interest rate derivatives	**323,710**	**32,415**	**240,623**	322,251	52,102	306,374
Currency derivatives	**1,876,298**	**1,736,028**	**3,774,386**	2,958,529	2,922,705	6,651,175
	2,200,008	**1,768,443**	**4,015,009**	3,280,780	2,974,807	6,957,549
	(note 16)	**(note 22)**		(note 16)	(note 22)	

(34) Derivatives (continued)

(b) Fair values and credit risk-weighted amounts of derivatives (continued)

The credit risk-weighted amount is the amount calculated in accordance with the Banking (Capital) Rules on capital adequacy and it depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 150% (31 December 2014: 0% to 150%) for contingent liabilities and commitments, and from 0% to 150% (31 December 2014: 0% to 150%) for exchange rate, interest rate and other derivatives contracts.

The Group did not enter into any bilateral netting arrangement during the period, and accordingly, these amounts are shown on a gross basis.

(c) Fair value of derivatives designated as hedging instruments

The following is a summary of the fair value of derivatives held by the Group for hedging purposes by product type:

	At 30 June 2015		At 31 December 2014	
	Fair value assets *HK$'000*	**Fair value liabilities** *HK$'000*	Fair value assets *HK$'000*	Fair value liabilities *HK$'000*
Interest rate contracts	**307,934**	**21,832**	301,925	37,532

Fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of certain fixed rate assets or liabilities due to movements in the market interest rates.

(d) Remaining life of derivatives

The following tables provide an analysis of the notional amounts of the Group's derivatives by relevant maturity grouping, based on the remaining periods to settlement at the end of the reporting period:

	At 30 June 2015 Notional amounts with remaining life of			
	Total *HK$'000*	**1 year or less** *HK$'000*	**Over 1 year to 5 years** *HK$'000*	**Over 5 years** *HK$'000*
Interest rate derivatives	**41,702,974**	**24,355,971**	**16,070,637**	**1,276,366**
Currency derivatives	**312,184,093**	**264,546,314**	**47,637,779**	**–**
	353,887,067	**288,902,285**	**63,708,416**	**1,276,366**

	At 31 December 2014 Notional amounts with remaining life of			
	Total *HK$'000*	1 year or less *HK$'000*	Over 1 year to 5 years *HK$'000*	Over 5 years *HK$'000*
Interest rate derivatives	52,602,273	30,383,764	18,341,458	3,877,051
Currency derivatives	389,563,559	289,581,827	99,981,732	–
	442,165,832	319,965,591	118,323,190	3,877,051

(35) Assets subject to sale and repurchase transactions

At 30 June 2015, the Group had entered into repurchase agreements ("the Agreements") with certain banks or financial institutions to sell available-for-sale securities which were subject to the Agreements to repurchase these securities at the agreed dates and prices. The consideration received under the Agreements was reported as 'Deposits and balances of banks and financial institutions' at 30 June 2015. At 30 June 2015, no outstanding transferred financial assets in which the Group has a continuing involvement had been derecognised in their entirety.

According to the Agreements, there was no transfer of the legal ownership of these securities to the counterparty banks during the cover period. However, the Group was not allowed to sell or pledge these securities during the covered period unless both parties mutually agreed with such arrangement. Accordingly, these securities were not derecognised from the financial statements but regarded as 'collateral' for the secured lending from these counterparty banks, which could only claim the collateral when an event of default existed.

(35) Assets subject to sale and repurchase transactions (continued)

Carrying amounts of financial assets and associated financial liabilities not qualifying for derecognition

	At 30 June 2015 ***HK$'000***	At 31 December 2014 *HK$'000*
Included in available-for-sale securities	**550,663**	313,979
Included in deposits and balances of banks and other financial institutions	**522,238**	288,900

(36) Contingent assets, liabilities and commitments

(a) Contingent liabilities and commitments to extend credit

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

	At 30 June 2015 ***HK$'000***	At 31 December 2014 *HK$'000*
Direct credit substitutes	**4,937,503**	4,583,293
Transaction-related contingencies	**580,766**	681,837
Trade-related contingencies	**2,021,643**	2,046,934
Other commitments:		
– which are unconditionally cancellable or automatically cancellable due to deterioration in the creditworthiness of the borrower	**80,492,281**	84,205,202
– with an original maturity of not more than 1 year	**524,163**	1,395,605
– with an original maturity of more than 1 year	**1,043,390**	1,476,055
	89,599,746	94,388,926
Credit risk-weighted amounts	**2,921,456**	3,466,453

Contingent liabilities and commitments are credit-related instruments, including letters of credit, guarantees and commitments to extend credit. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers. The contractual amounts represent the amounts at risk if the contract is fully drawn upon and the client defaults. As the facilities may expire without being drawn upon, the contractual amounts do not represent expected future cash flows.

The risk weights used in the computation of credit risk-weighted amounts range from 0% to 150% (31 December 2014: 0% to 150%).

(b) Capital commitments

Capital commitments for the purchase of properties and equipment outstanding at the date of financial position and not provided for in the financial statements are as follows:

	At 30 June 2015 ***HK$'000***	At 31 December 2014 *HK$'000*
Authorised and contracted for	**175,071**	51,209

(c) Contingent liability in respect of legal claim

The Group is not involved in any legal action that would be significant to the financial position of the Group at 30 June 2015.

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(Expressed in Hong Kong dollars unless otherwise indicated)

(A) Summary of financial position

	At 30 June 2015 ***HK$'000***	At 31 December 2014 *HK$'000*
Loans and advances to customers and trade bills	**158,163,587**	150,720,146
Impairment allowances on loans and advances to customers	**340,176**	537,544
Total assets	**250,353,608**	249,140,871
Total customers deposits	**204,872,332**	203,086,535
Total equity attributable to equity shareholders of the Bank	**21,116,259**	19,941,181
Financial ratios		
Common Equity Tier 1 ("CET1") capital ratio	**10.8%**	10.5%
Tier 1 capital ratio	**12.1%**	11.8%
Total capital ratio	**17.1%**	17.3%
Average liquidity maintenance ratio*	**62.1%**	N/A
Average liquidity ratio for the period/year ended* (six months ended 30 June 2014: 59.1%)	**N/A**	64.9%
Loans to deposits	**77.2%**	74.2%
Loans to total assets	**63.2%**	60.5%
Cost to income (six months ended 30 June 2014: 39.1%)	**47.4%**	40.9%
Return on assets (six months ended 30 June 2014: 1.36%)	**0.97%**	1.19%
Return on average total equity attributable to equity shareholders of the Bank (six months ended 30 June 2014: 17.09%)	**12.02%**	14.86%

* In accordance to the Banking (Disclosure) (Amendment) Rules 2014, the Bank is required to disclose the average value of liquidity maintenance ratio ("LMR") for the reporting period concerned only in respect of those months that fall on or after 1 January 2015. The LMR is being calculated based on the arithmetic mean of the average value of its LMR for each month during the reporting period, which is also computed on the consolidated basis covering the Bank and certain of its subsidiaries as required by the Hong Kong Monetary Authority ("HKMA") and is in accordance with the Banking (Liquidity) Rules under the Hong Kong Banking Ordinance.

Accordingly, the LMR under Banking (Liquidity) Rules for the period ended 30 June 2015 is not directly comparable with the disclosure of average liquidity ratios for previous reporting periods concerned that precede 1 January 2015. Comparative figure has not been provided where the current period is the first period of disclosure.

(B) Capital adequacy

(i) Capital base

Capital adequacy ratios ("CAR") comply with the Banking (Capital) Rules issued by the HKMA. The CAR are computed on a consolidated basis covering the Bank and some of its subsidiaries as required by the HKMA. The Bank has adopted the "standardised approach" for calculating the risk-weighted amount for credit risk and market risk and the "basic indicator approach" for calculating operational risk.

	At 30 June 2015 *HK$'000*	At 31 December 2014 *HK$'000*
CET1 capital: instruments and reserves		
Directly issued qualifying CET1 capital instruments plus any related share premium	**7,566,271**	7,566,271
Retained earnings	**13,030,349**	11,895,973
Disclosed reserves	**519,500**	478,938
CET1 capital before regulatory deductions	**21,116,120**	19,941,182
CET1 capital: regulatory deductions		
Deferred tax assets net of deferred tax liabilities	**–**	27,788
Gains and losses due to changes in own credit risk on fair valued liabilities	**(278,236)**	(255,928)
Cumulative fair value gains arising from the revaluation of land and buildings (own use and investment properties)	**112,128**	108,282
Regulatory reserve for general banking risks	**2,450,769**	2,172,126
Debt valuation adjustments in respect of derivative contracts	**3,507**	5,536
Total regulatory deductions to CET1 capital	**2,288,168**	2,057,804
CET1 capital	**18,827,952**	17,883,378
Additional Tier 1 capital		
Total Additional Tier 1 capital	**2,313,467**	2,313,467
Tier 1 capital	**21,141,419**	20,196,845
Tier 2 capital: instruments and provisions		
Qualifying Tier 2 capital instruments plus any related share premium	**6,658,375**	7,277,935
Reserve attributable to fair value gains on revaluation of holdings of land and buildings	**50,458**	48,727
Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	**2,013,981**	1,942,736
Tier 2 capital base before deductions	**8,722,814**	9,269,398
Tier 2 capital: regulatory deductions	**–**	–
Total regulatory deductions to Tier 2 capital	**8,722,814**	9,269,398
Total capital (Total capital = Tier 1 + Tier 2)	**29,864,233**	29,466,243

(B) Capital adequacy (continued)

(ii) Risk-weighted amount

	At 30 June 2015 HK$'000	At 31 December 2014 HK$'000
– Credit risk	**161,611,535**	156,635,831
– Market risk	**3,749,663**	4,913,000
– Operational risk	**9,558,825**	9,042,513
	174,920,023	170,591,344

(iii) Capital adequacy ratios

– CET1 capital ratio	**10.8%**	10.5%
– Tier 1 capital ratio	**12.1%**	11.8%
– Total capital ratio	**17.1%**	17.3%

(iv) Capital instruments

The following is a summary of the Group's CET1, AT1 capital securities and Tier 2 capital instruments.

	At 30 June 2015 HK$'000	At 31 December 2014 HK$'000
CET1 capital instruments issued by the Bank		
Ordinary shares:		
7,283,341,176 issued and fully paid ordinary shares	**7,566,271**	7,566,271

	At 30 June 2015 HK$'000	At 31 December 2014 HK$'000
Additional Tier 1 Capital Securities		
Undated non-cumulative subordinated capital securities with US$300 million	**2,310,168**	2,310,168

	At 30 June 2015 HK$'000	At 31 December 2014 HK$'000
Tier 2 capital instruments		
Issued by the Bank		
– Subordinated note due 2020 (nominal value: US$500 million)	**4,143,663**	4,150,696
– Subordinated note due 2022 (nominal value: US$300 million)	**2,307,183**	2,291,268
– Subordinated note due 2024 (nominal value: US$300 million)	**2,327,144**	2,312,444
	8,777,990	8,754,408

(B) Capital adequacy (continued)

(v) Additional information

To comply with the Banking (Disclosure) Rules ("BDR"), the Group has established "Regulatory Disclosure" section on its corporate website, www.cncbinternational.com, and included all the information related to the disclosure of regulatory capital instruments and the reconciliation of the Group's published financial statements. The Regulatory Disclosure section will include:

– A description of the main features and the full terms and conditions of the Group's capital instruments.

– A detailed breakdown of the Group's CET1 capital, Additional Tier 1 Capital Securities, Tier 2 capital and regulatory deductions, using the standard template as specified by the HKMA.

– A full reconciliation between the Group's accounting and regulatory balance sheets, using the standard template as specified by the HKMA.

(vi) Basis of consolidation

Unless otherwise stated, all financial information contained in the interim financial report is prepared on the consolidation basis for accounting purpose. The main difference between the consolidation basis for accounting and regulatory purposes is that the former includes the Bank and all its subsidiaries whereas the latter includes the Bank and only some of the Group's subsidiaries, which are discussed below:

The HKMA has granted approval under section 28(2)(a) of the Banking (Capital) Rules for the Bank to calculate its CAR on a solo-consolidated basis instead of on a solo basis in respect of the following subsidiary:

		At 30 June 2015	
Names of subsidiary	**Principal activities**	**Total assets** *HK$'000*	**Total equity** *HK$'000*
Viewcon Hong Kong Limited	Mortgage financing	**1,397**	**1,372**

On the other hand, the Bank is required under section 3C(1) of the Banking (Capital) Rules to calculate its total capital on a consolidated basis in respect of the following subsidiaries:

		At 30 June 2015	
Names of subsidiaries	**Principal activities**	**Total assets** *HK$'000*	**Total equity** *HK$'000*
Carford International Limited	Property holding	**35,430**	**12,761**
CITIC Bank International (China) Limited	Banking	**15,278,498**	**1,814,036**
CITIC Insurance Brokers Limited	Insurance broker	**149,647**	**115,279**
CKWB-SN Limited	Issue of structured notes and investments	**–**	**–**
CKWH-UT2 Limited	Issue of subordinated notes	**–**	**–**
HKCB Finance Limited	Consumer financing	**6,216,669**	**584,769**
Ka Wah International Merchant Finance Limited	Inactive	**3,944**	**3,944**
The Ka Wah Bank (Trustee) Limited	Trustee services	**4,853**	**3,473**
Viewcon Hong Kong Limited	Mortgage financing	**1,397**	**1,372**

(B) Capital adequacy (continued)

(vi) Basis of consolidation (continued)

Subsidiaries not included in consolidation for regulatory purpose are nominee services companies authorised and supervised by a regulator and are subject to supervisory arrangements regarding the maintenance of adequate capital to support business activities comparable to those prescribed for authorised institutions under the Banking (Capital) Rules and the Banking Ordinance. The following subsidiaries are deducted from the Bank's capital base under Part 3 of the Banking (Capital) Rules:

		At 30 June 2015	
Names of subsidiaries	**Principal activities**	**Total assets** *HK$'000*	**Total equity** *HK$'000*
The Hongkong Chinese Bank (Nominees) Limited	Nominee services	**4**	**4**
The Ka Wah Bank (Nominees) Limited	Nominee services	**2,404**	**141**
Security Nominees Limited	Nominee services	**–**	**–**
Sino-Allied Development Limited	Inactive	**10**	**10**

As at 30 June 2015, there are no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation, the method of consolidation of which differs.

There is also no subsidiary which is included in the regulatory scope of consolidation but not in the accounting scope of consolidation.

(C) Leverage ratio

In accordance to the Banking (Disclosure) (Amendment) Rules 2014, the Bank is required to disclose: (i) summary comparison table; and (ii) leverage ratio common disclosure template. The leverage ratio is computed on a consolidated basis covering the Bank and some of its subsidiaries as required by the HKMA.

(i) Summary comparison table

		Leverage ratio framework	
		At 30 June 2015 *HK$'000*	At 31 December 2014 *HK$'000*
(1)	Total consolidated assets as per published financial statements	**250,353,608**	249,140,871
(2)	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	**–**	–
(3)	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	**(4,610,422)**	(5,086,362)
(4)	Adjustments for derivative financial instruments	**5,066,967**	7,633,120
(5)	Adjustments for securities financing transactions (i.e. repos and similar secured lending)	**583,616**	340,586
(6)	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposure)	**14,705,671**	15,116,800
(7)	Other adjustments	**–**	–
(8)	**Leverage ratio exposure**	**266,099,440**	267,145,015

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(C) Leverage ratio (continued)

(ii) Leverage ratio common disclosure template

		Leverage ratio framework	
		At 30 June 2015	At 31 December 2014
		HK$'000	*HK$'000*
	On-balance sheet exposures		
(1)	On-balance sheet items (excluding derivatives and securities financing transactions ("SFTs"), but including collateral)	**245,855,314**	244,190,579
(2)	Less: Asset amounts deducted in determining Basel III Tier 1 capital	**(112,128)**	(136,070)
(3)	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of items 1 and 2)**	**245,743,186**	244,054,509
	Derivative exposures		
(4)	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	**1,304,115**	2,024,257
(5)	Add-on amounts for potential future exposure ("PFE") associated with all derivatives transactions	**3,762,852**	5,608,863
(6)	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	**–**	–
(7)	Less: Deductions of receivables assets for cash variation margin provided in derivatives transactions	**–**	–
(8)	Less: Exempted central counterparty ("CCP") leg of client-cleared trade exposures	**–**	–
(9)	Adjusted effective notional amount of written credit derivatives	**–**	–
(10)	Less: Adjusted effective notional offsets and add-on deductions for written credit derivatives	**–**	–
(11)	**Total derivative exposures (sum of items 4 to 10)**	**5,066,967**	7,633,120
	Securities financing transaction exposures		
(12)	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	**555,191**	315,507
(13)	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	**–**	–
(14)	Counterparty credit risk ("CCR") exposure for SFT assets	**28,425**	25,079
(15)	Agent transactions exposures	**–**	–
(16)	**Total securities financing transaction exposures (sum of items 12 to 15)**	**583,616**	340,586
	Other off-balance sheet exposures		
(17)	Off-balance sheet exposure at gross notional amount	**91,588,251**	96,116,594
(18)	Less: Adjustments for conversion to credit equivalent amounts	**(76,882,580)**	(80,999,794)
(19)	**Off-balance sheet items (sum of items 17 and 18)**	**14,705,671**	15,116,800
	Capital and total exposures		
(20)	Tier 1 capital (X)	**21,141,419**	20,196,845
(21)	**Total exposures (sum of items 3, 11, 16 and 19) (Y)**	**266,099,440**	267,145,015
	Leverage ratio		
(22)	**Basel III leverage ratio (X)/(Y)**	**7.94%**	7.56%

(D) Segmental information on loans and advances to customers – by geographical areas

	At 30 June 2015				
	Loans and advances to customers *HK$'000*	**Overdue loans and advances to customers** *HK$'000*	**Impaired loans and advances to customers** *HK$'000*	**Individual impairment allowances** *HK$'000*	**Collective impairment allowances** *HK$'000*
Hong Kong	**90,248,328**	**347,367**	**471,269**	**52,931**	**129,133**
Mainland China	**47,344,531**	**324,127**	**207,076**	**10,654**	**89,374**
United States	**1,753,750**	**–**	**39,358**	**9,784**	**573**
Singapore	**8,176,360**	**–**	**–**	**–**	**15,940**
Others	**10,640,618**	**39,755**	**53,730**	**14,124**	**17,663**
	158,163,587	**711,249**	**771,433**	**87,493**	**252,683**

	At 31 December 2014				
	Loans and advances to customers *HK$'000*	Overdue loans and advances to customers *HK$'000*	Impaired loans and advances to customers *HK$'000*	Individual impairment allowances *HK$'000*	Collective impairment allowances *HK$'000*
Hong Kong	78,018,916	298,667	402,842	67,166	153,841
Mainland China	50,439,354	538,048	301,405	93,692	147,056
United States	1,485,746	–	–	–	5,075
Singapore	10,826,984	–	–	–	40,176
Others	9,949,146	7,406	7,391	3,022	27,516
	150,720,146	844,121	711,638	163,880	373,664

The above geographical analysis is classified by the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor.

Overdue loans and advances are loans that have been overdue for more than three months.

Impaired loans and advances are individually assessed loans which exhibit objective evidence of impairment on an individual basis.

(E) Overdue loans and advances to customers

	30 June 2015		At 31 December 2014	
	HK$'000	**% of total loans and advances to customers**	*HK$'000*	% of total loans and advances to customers
The gross amount of loans and advances has been overdue for periods of:				
– 6 months or less but over 3 months	**183,282**	**0.12**	357,292	0.24
– 1 year or less but over 6 months	**264,488**	**0.17**	276,202	0.18
– over 1 year	**263,479**	**0.17**	210,627	0.14
	711,249	**0.46**	844,121	0.56
Secured overdue loans and advances	**519,672**		618,750	
Unsecured overdue loans and advances	**191,577**		225,371	
	711,249		844,121	
Market value of collateral held against the secured overdue loans and advances	**823,843**		722,497	
Individual impairment allowance made	**58,503**		152,749	

(E) Overdue loans and advances to customers (continued)

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid at the period end. Loans repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the demand notice, and/or when the loans have remained continuously outside the approved limit advised to the borrower for more than the overdue period in question.

Eligible collateral held in respect of the overdue loans and advances, is "Eligible Physical Collateral" which mainly comprises real estate properties. The eligible collateral should generally satisfy the following:

(a) The market value of the asset should be readily determinable or can be reasonably established and verified.

(b) The asset is marketable and there exists a readily available secondary market for disposing of the asset.

(c) The Bank's right to repossess the asset is legally enforceable and without impediment.

(d) The Bank is able to secure control over the asset if necessary.

There were no advances to banks and other financial institutions and other assets which were overdue for over three months at 30 June 2015 and 31 December 2014 respectively.

(F) Rescheduled loans

	At 30 June 2015		At 31 December 2014	
	HK$'000	**% of total loans and advances to customers**	*HK$'000*	% of total loans and advances to customers
Rescheduled loans	**489,846**	**0.31**	659,530	0.44

Rescheduled loans are those advances which have been restructured or renegotiated because of a deterioration in the financial position of the borrower, or the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms are non-commercial to the Group. Rescheduled loans to customers are stated net of any advances that have subsequently become overdue for over three months and are reported as overdue advances in note (E).

There were no advances to banks and other financial institutions which were rescheduled at 30 June 2015 and 31 December 2014 respectively.

(G) Repossessed assets

	At 30 June 2015 ***HK$'000***	At 31 December 2014 *HK$'000*
Included in loans and advances to customers and other accounts	**29,080**	27,667

The amount represents the estimated market value of the repossessed assets at 30 June 2015 and 31 December 2014 respectively.

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(H) International claims

International claim refers to the sum of cross-border claims in all currencies and local claims in foreign currencies determined as based on the calculation methodology specified in the HKMA's Return of International Banking Statistics. International claims are on-balance sheet exposures of counterparties which attributable to the country or segment, after taking into account risk recognised transfer, constitute to not less than 10% of the aggregate claims are shown as follows:

	At 30 June 2015				
			Non-bank private sector		
	Banks	**Official Sector**	**Non-bank financial institutions**	**Non-financial private sector**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Developed countries	**9,424,183**	**7,315,413**	**140,606**	**2,081,086**	**18,961,288**
Offshore centres	**3,657,676**	**463,268**	**3,846,934**	**40,504,843**	**48,472,721**
of which Hong Kong	**2,796,989**	**462,461**	**3,211,439**	**24,466,559**	**30,937,448**
Developing Asia-Pacific	**51,365,443**	**306,045**	**6,296,738**	**26,584,204**	**84,552,430**
of which mainland China	**46,290,622**	**120,006**	**6,296,738**	**25,081,956**	**77,789,322**

International claims is required to disclose in accordance to Banking (Disclosure) (Amendment) Rules 2014, which mainly involved changes of reporting basis and the categorisation on the types of counterparties, and come into operation in 2015. Disclosures of cross-border claims reported for the year of 2014 are not directly comparable.

	At 31 December 2014			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Asia Pacific excluding Hong Kong	52,628,231	100,162	51,177,858	103,906,251
of which mainland China	47,098,571	93,619	38,969,292	86,161,482
of which Singapore	160,305	621	10,218,723	10,379,649

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(I) Mainland activities

Mainland Activities are mainland China exposures to non-bank counterparties and their categories and the type of direct exposures defined by the HKMA's Return of Mainland Activities and also follow under the Banking (Disclosure) (Amendment) Rules 2014. Comparative figures for the year ended 31 December 2014 have been restated in order to align with current period's disclosure and the HKMA's requirements.

	At 30 June 2015 On-statement of financial position exposure *HK$'000*	Off-statement of financial position exposure *HK$'000*	Total *HK$'000*
(1) Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	**11,618,936**	**268,620**	**11,887,556**
(2) Local governments, local government-owned entities and their subsidiaries and JVs	**12,025,167**	**471,605**	**12,496,772**
(3) PRC national residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	**46,782,474**	**6,664,381**	**53,446,855**
(4) Other entities of central government not reported in item 1 above	**1,158,245**	**60,526**	**1,218,771**
(5) Other entities of local governments not reported in item 2 above	**297,128**	**–**	**297,128**
(6) PRC national residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	**11,556,532**	**1,784,143**	**13,340,675**
(7) Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	**18,523,398**	**1,276,191**	**19,799,589**
Total	**101,961,880**	**10,525,466**	**112,487,346**
Total assets after provision	**250,353,608**		
On-balance sheet exposures as percentage of total assets	**40.7%**		

(I) Mainland activities (continued)

	At 31 December 2014		
	On-statement of financial position exposure *HK$'000*	Off-statement of financial position exposure *HK$'000*	Total *HK$'000*
(1) Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	9,940,072	652,725	10,592,797
(2) Local governments, local government-owned entities and their subsidiaries and JVs	10,327,287	218,071	10,545,358
(3) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	43,787,342	7,909,177	51,696,519
(4) Other entities of central government not reported in item 1 above	1,264,173	50,000	1,314,173
(5) Other entities of local governments not reported in item 2 above	347,946	–	347,946
(6) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	12,267,824	2,151,472	14,419,296
(7) Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	15,975,333	1,624,931	17,600,264
Total	93,909,977	12,606,376	106,516,353
Total assets after provision	249,140,871		
On-balance sheet exposures as percentage of total assets	37.7%		

(J) Risk management

The Group manages its risks under the oversight of the Board of Directors and its delegated committees. The Risk Management Group has been entrusted with the ongoing responsibilities of driving and implementing the Group's risk management framework and governance encompassing the identification, quantification, monitoring, reporting, and mitigation of the risks to which the group is exposed. The Group continually enhances its risk management framework, practices and infrastructure in line with the market and economic environment, product offerings and international best practice. The Group's internal auditor performs regular independent audits to ensure due compliance with internal policies and regulatory requirements.

The Group continued to further strengthen its risk management infrastructure, tools and capabilities. The Group's Risk Appetite framework and Global Risk Indicator ("GRI") were further enhanced, articulating and measuring the Group's overall risk profile comprising credit, market, operational (including legal), liquidity, interest rate, strategic and reputation risks. Furthermore, comprehensive Bank-wide stress-testing programs and Capital Management plans were enhanced and recovery plans were developed.

The Group manages the following main types of risk:

(i) Credit risk management

Credit risk is managed by regular analyses of the current and potential risk of loss arising from a customer's or counterparty's inability to meet financial obligations. The Group is exposed to credit risk through its lending, trading and capital market activities. The Group defines the credit exposure to a customer as the amount of maximum potential loss arising from all these activities. These exposures include both on- and off-statement financial position transactions, including unfunded lending commitments such as loan commitments, letters of credit and financial guarantees.

Credit risk management is undertaken by monitoring the implementation of adopted credit policies that define the Group's risk appetite, the borrower's creditworthiness, credit risk classification, and the framework for making lending decisions. The Group applies the same credit policy in respect of contingent liabilities as that of financial instruments recorded on the statement of financial position, based on loan approval procedures, use of limits to reduce risk, and monitoring. Credit risk is also minimised by obtaining collateral in the form of pledged assets and guarantees from borrowers and third parties.

The Group's credit risk management practices are designed to preserve the independence and integrity of the risk assessment process. The Group assesses credit risk based upon the risk profile of the borrower, the source of repayment and the nature of the underlying collateral after giving consideration to current events and market environment developments. Concentration risk is also managed at the portfolio level in terms of product, industry and geography.

(J) Risk management (continued)

(ii) Market risk management

Market risk arises from all financial instruments sensitive to market fluctuation, including securities, foreign exchange contracts, equity and derivative instruments, as well as available-for-sale (AFS) securities or structural positions. The Group mainly separates exposures to market risk into trading and AFS portfolios. Trading portfolios include positions arising from proprietary position-taking and other mark-to-market positions designated to the trading book. AFS portfolios include positions that primarily arise from the Group's investment portfolio and liquidity portfolio in securities, which are neither intended to be held to maturity nor purchased for trading. The change in valuation for the trading portfolios from market risks affects the income statement, while that for the AFS portfolios affects the investment revaluation reserve. The Group needs to ensure impacts on both the income statement and the reserves from market risks have proper prudent controls. The objectives of market risk management are to:

– identify, monitor and control market risk exposures through the measurement of the risks, establish position limits, sensitivity limits and value at risk ("VaR") limits based on the Group's Tier 1 capital base, and communicate risks to senior management;

– support business growth with reference to a risk-controlled framework; and

– ensure a proper balance between risk and return.

Market risk framework

The Group has a clear market risk appetite as set out through a set of global risk indicators ("GRI"), the establishment of a limit structure, and policies for the trading and AFS portfolios. Limits are ordered according to the hierarchy of policy limits, business limits and transaction limits. This market risk appetite has been approved by the Asset and Liability Committee ("ALCO") and is endorsed by the Board through the Credit & Risk Management Committee ("CRMC"). The hierarchy of the limit structure is set up to control the position, size, profit and loss, and sensitivities from the portfolio level to the individual trader level. All business units with market risks are required to strictly comply with the policies and the limits. The Treasury & Markets ("T&M") unit is the primary business unit involved in market risk exposures.

The Market Risk and Liquidity Modelling ("MR&LM") unit is an independent risk measurement and control unit overseen by the Head of MR&LM, who reports to the Chief Risk Officer ("CRO"). MR&LM uses a set of quantitative techniques to identify, measure and control the market risks, which are regularly reported to the ALCO and the Board through the CRMC. These techniques include sensitivity analyses, VaR and stress tests, which are measured relative to the Group's capital base.

The following table provides an overview of the types of quantitative measures in various market risk reports:

	Trading Portfolios	AFS Portfolios
Risk type	**Risk measures**	**Risk measures**
Foreign exchange	VaR	Not applicable
Interest rate	VaR and sensitivity	VaR and sensitivity
Commodity	VaR	Not applicable
Equity	VaR	Sensitivity
Credit spread	Not applicable	VaR and sensitivity
Portfolio type	VaR, sensitivity and stress test	VaR, sensitivity and stress test

The Group's approval process for new products is controlled by the "Group New Product Approval Policy" ("the Policy") approved by the CRMC. According to the Policy, new products are subject to risk clearance by various functional units, including the Financial Management Group, the Operations and Technology Group, the Risk Management Group, the Legal Department and the Compliance Department. After obtaining functional clearance, the sponsoring Business Head shall submit the Product Proposal for the approval of the CRO and the CEO/Alternate Chief Executive Officer ("ACEO")/Deputy CEO ("DCEO") as appropriate.

Methodology and characteristics of the market risk model

The following explains the types of quantitative risk measures the Group adopts.

Sensitivity analysis

Sensitivity measures are used to monitor the market risk positions of each type of risk exposure. For example, the present value of a basis point movement in interest rates and the present value of a basis point movement in credit spreads for credit spread risk are used for monitoring purposes.

(J) Risk management (continued)

(ii) Market risk management (continued)

Methodology and characteristics of the market risk model (continued)

Value at risk

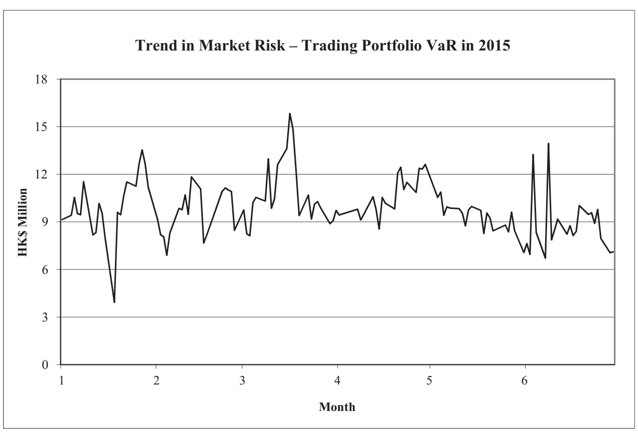
VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The model is designed to capture the different risk types including interest rate risk, foreign exchange risk, credit spread risk, equity risk, commodity risk and volatility risk.

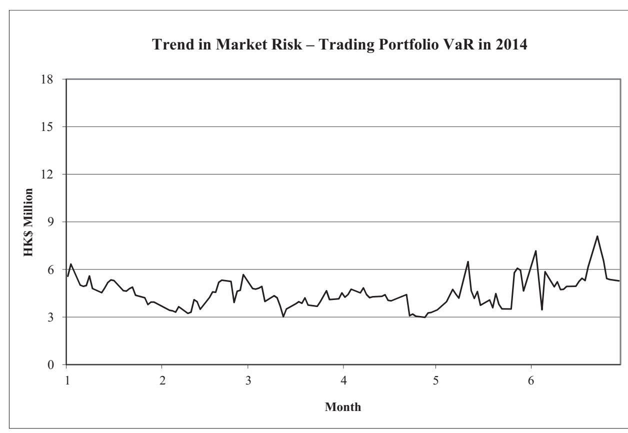
The VaR models used by the Group are predominantly based on historical simulations, and Monte Carlo simulations are also used as a reference. These models derive plausible future scenarios from historical market rates and prices, taking into account the correlation of different markets and rates such as interest rates and foreign exchange rates. The models also incorporate the effect of embedded options of the underlying exposures.

The historical simulation model used by the Group includes the following elements:

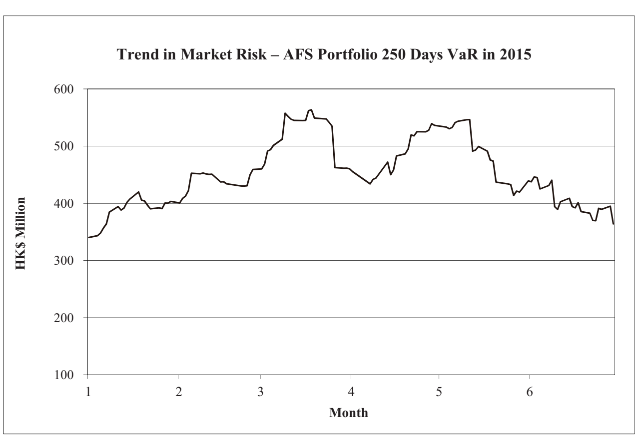
– Potential market movements are calculated with reference to data from the previous two years for the trading portfolios and the AFS portfolios, including the historical market rates, prices and associated volatilities.

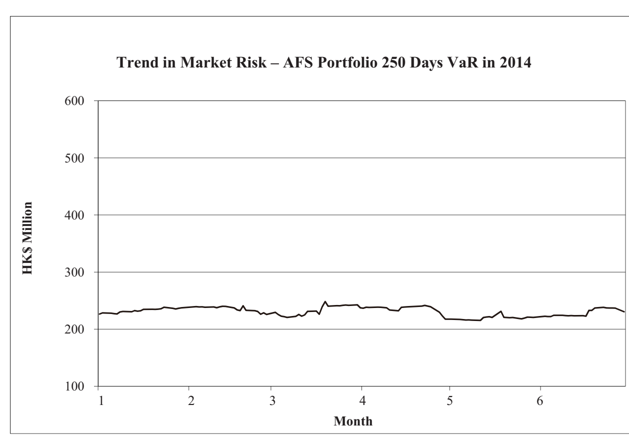
– For the trading portfolio, VaR is calculated with a 99% confidence level and for a one-day holding period.





– For the AFS portfolio, VaR is calculated with a 99% confidence level and for a 250-day holding period; and





(J) Risk management (continued)

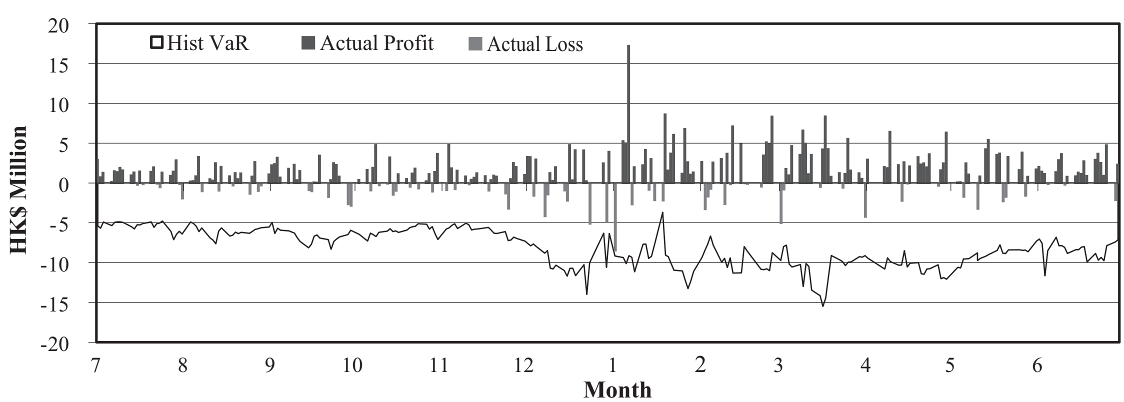
(ii) Market risk management (continued)

Methodology and characteristics of the market risk model (continued)

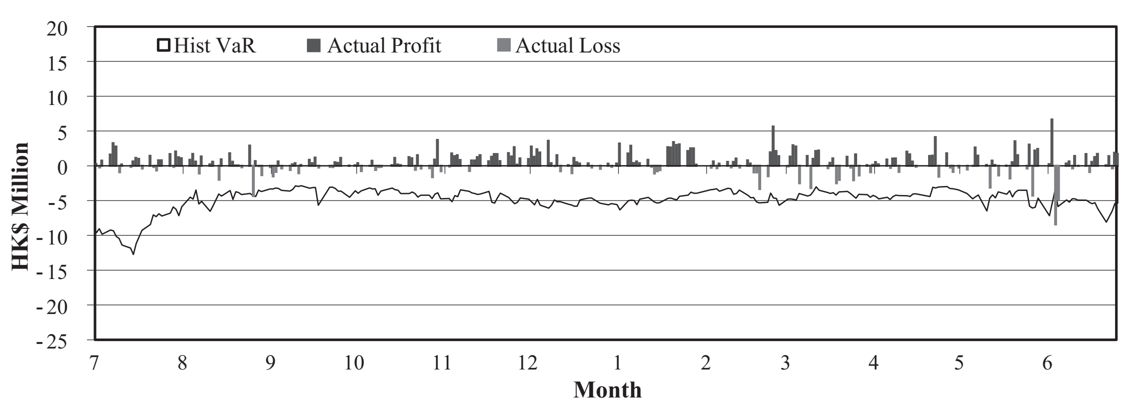
Value at risk (continued)

– The Group routinely validates the accuracy of its VaR model for its trading portfolios through back-testing by comparing the actual and hypothetical daily profit and loss results, adjusted for items including fees and commissions, against the corresponding VaR numbers. Statistically, the Group only expects to see losses in excess of VaR 1% of the time over a one-year period. The actual number of excesses over this period can therefore be used to gauge how well the model is performing. For the period from 1 July 2014 to 30 June 2015, there was no exception in the back-testing results (1 July 2013 to 30 June 2014: one exception), which corresponds to the green zone specified by the HKMA and the international Basel principles.

The Group's actual profit and loss back-testing model in July 2014 – June 2015



The Group's actual profit and loss back-testing model in July 2013 – June 2014



While VaR calculated using this approach can serve as a good guide for market risk under normal market conditions, it has its limitations. For example, the use of historical data as a proxy may not encompass all potential events and the events beyond the 99% confidence interval are not considered. In order to mitigate such limitations, the MR&LM provides the ALCO with the stress test results reflecting potential extreme events on the market risk exposures for the trading and AFS portfolios.

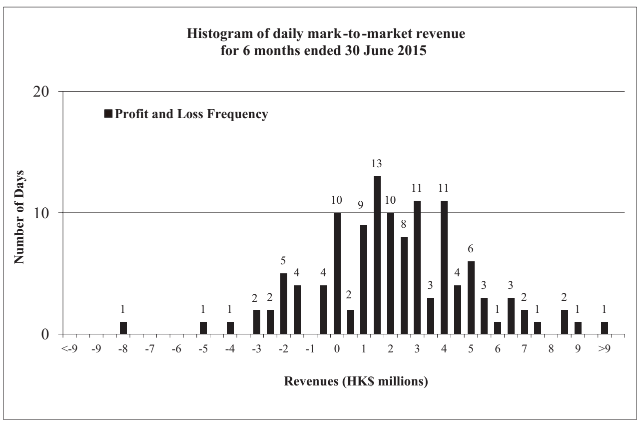
(J) Risk management (continued)

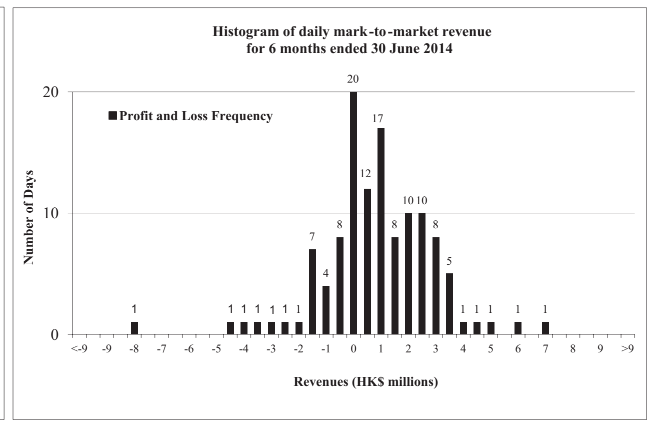
(ii) Market risk management (continued)

Methodology and characteristics of the market risk model (continued)

Value at risk (continued)

For the six months ended 30 June 2015, the average daily mark-to-market revenue from the Group's trading portfolio and fund investments was a gain of HK$1,941,000 (six months ended 30 June 2014: gain of HK$608,000). The standard deviation of the daily revenue was HK$3,136,000 (six months ended 30 June 2014: HK$1,998,000). The graphs below show the histograms of the Group's daily mark-to-market revenue for the six-months periods ended 30 June 2015 and 2014 respectively.





The tables below show the VaR statistics for the trading book and AFS portfolio.

Market Risk for the Trading Portfolio – 1-day VaR 99%

	Six months ended 30 June 2015				Six months ended 30 June 2014			
	Maximum *HK$'000*	**Minimum** *HK$'000*	**Mean** *HK$'000*	**At 30 June 2015** *HK$'000*	Maximum *HK$'000*	Minimum *HK$'000*	Mean *HK$'000*	At 30 June 2014 *HK$'000*
Foreign exchange risk	**15,307**	**2,484**	**8,574**	**7,554**	6,128	997	2,453	2,324
Interest rate risk	**5,700**	**1,635**	**3,501**	**4,230**	5,770	2,610	3,854	5,146
Total VaR	**15,834**	**3,932**	**9,858**	**7,107**	8,097	2,982	4,543	5,279

Market Risk for the AFS Portfolio

	Six months ended 30 June 2015				Six months ended 30 June 2014			
	Maximum *HK$'000*	**Minimum** *HK$'000*	**Mean** *HK$'000*	**At 30 June 2015** *HK$'000*	Maximum *HK$'000*	Minimum *HK$'000*	Mean *HK$'000*	At 30 June 2014 *HK$'000*
Interest rate risk	**666,262**	**418,994**	**529,828**	**433,525**	282,085	208,270	257,727	275,320
Credit spread risk	**438,153**	**244,392**	**347,650**	**345,558**	268,735	214,841	241,279	220,553
Total 250-day VaR	**563,371**	**340,291**	**453,080**	**364,014**	248,277	215,453	230,824	230,589

Stress testing

Stress testing is implemented to mitigate the weaknesses in the VaR model in order to capture remote but plausible events. The Group uses the following scenarios for market risk stress testing:

– sensitivity scenarios, which consider the impact of any single risk factor or a set of factors that are unlikely to be captured by the VaR model, such as breaking the HK dollar and US dollar currency peg; and

– historical scenarios, which incorporate the observation of historical market moves during previous stress periods which would not be captured by the VaR model, such as the impact on valuation under the crisis scenario.

Stress testing results are reported to the ALCO, which provides an assessment of the financial impact that such events would have on the Group's income statement and reserve. The daily losses for the trading portfolio and the yearly negative reserve impact for the AFS portfolios experienced in 2015 were below the stress loss alerts and limits.

(J) Risk management (continued)

(ii) Market risk management (continued)

Methodology and characteristics of the market risk model (continued)

Credit spread risk

In addition to interest rate risk and extreme market volatility, significant widening of credit spread such as in financial crisis situation would have a heavy negative impact on the valuation of the AFS portfolios. Also, the extreme market conditions would make the availability of market prices for some of the securities infrequent, and to a certain extent, less reliable, which would further increase the challenge and complexity for portfolio valuation of some of the securities in the AFS portfolio.

In the risk control of the AFS portfolios, the Group has a risk management framework that enables the estimation of the fair value of option adjusted spreads in order to calculate the fair value of illiquid securities. In addition, it consists of a 250-day credit spread VaR, credit spread sensitivity risk statistics, stress testing, and a limit structure and early alert indicators. The objective of choosing the 250-day credit spread VaR statistics is to measure the potential adverse impact on the Group's reserve on an annual basis.

Currency risk

The Group's foreign exchange risk stems from taking foreign exchange positions from commercial dealings, investments in foreign currency securities, and operations of the Group and its overseas branches and subsidiaries. The Group's foreign exchange positions are subject to exposure limits approved by the ALCO. Methods adopted to measure foreign currency risk exposure against corresponding limits include individual currency positions, overall foreign exchange positions and sensitivities such as Greeks (for foreign exchange options). For the six months ended 30 June 2015, the Group's average daily trading profit and loss from foreign exchange positions was a profit of HK$1,083,000 (six months ended 30 June 2014: profit of HK$721,000) with a standard deviation of HK$3,643,000 (six months ended 30 June 2014: HK$4,037,000).

Significant foreign currency exposures at the end of the reporting period were as follows:

	At 30 June 2015			
Equivalent in HK$'000	**USD**	**RMB**	**Others**	**Total**
Spot assets	**98,641,466**	**37,643,641**	**13,774,062**	**150,059,169**
Spot liabilities	**(56,546,333)**	**(42,455,766)**	**(11,565,113)**	**(110,567,212)**
Forward purchases	**113,212,360**	**90,502,697**	**23,319,475**	**227,034,532**
Forward sales	**(158,118,092)**	**(79,800,223)**	**(25,954,926)**	**(263,873,241)**
Net option position	**5,128,576**	**(5,475,808)**	**348,474**	**1,242**
Net long/(short) position	**2,317,977**	**414,541**	**(78,028)**	**2,654,490**
Net structural position	**–**	**749,880**	**48,526**	**798,406**

	At 31 December 2014			
Equivalent in HK$'000	USD	RMB	Others	Total
Spot assets	92,263,766	61,239,085	7,190,989	160,693,840
Spot liabilities	(66,363,801)	(46,790,020)	(15,063,212)	(128,217,033)
Forward purchases	162,866,061	126,678,463	25,266,889	314,811,413
Forward sales	(193,736,878)	(137,239,255)	(15,105,431)	(346,081,564)
Net option position	6,632,868	(4,035,342)	(2,482,148)	115,378
Net long/(short) position	1,662,016	(147,069)	(192,913)	1,322,034
Net structural position	–	748,417	48,522	796,939

The net option position is calculated using the Model User Approach which has been approved by the HKMA.

(J) Risk management (continued)

(ii) Market risk management (continued)

Methodology and characteristics of the market risk model (continued)

Interest rate risk

The Group's ALCO oversees all interest rate risks arising from the interest rate profile of the Group's assets and liabilities. The Group has interest rate risk exposures from both its banking and trading books. The interest rate risk in the banking book is caused by repricing risks, basis risks among different interest rate benchmarks, yield curve movements and risks from embedded options, if any. The Group's management of the interest rate risk in the banking book is governed by the Interest Rate Risk Management Policy for the Banking Book. Moreover, the Central Treasury unit of T&M manages the interest rate risk in the banking book according to the policy.

To mitigate interest rate risk, the Group has used interest rate derivatives, especially interest rate swaps, to hedge both assets and liabilities such as AFS and non-trading liabilities ("NTL"). The Group has also adopted hedge accounting principles, under which the fair value changes of the AFS/NTL and the corresponding fair value changes of the hedging derivative instruments offset each other.

The Group's management of the interest rate risk in the trading book is guided by the Market Risk Policy. The Group mainly uses the present value of a basis point movement and VaR to measure its interest rate risk exposure in the trading book. For the six months ended 30 June 2015, the Group's average daily trading profit and loss from interest rate positions was a profit of HK$857,000 (six months ended 30 June 2014: a loss of HK$113,000), with a standard deviation of HK$1,607,000 (six months ended 30 June 2014: HK$3,336,000).

(iii) Liquidity risk management

Liquidity risk is the risk that the Group may not be able to fund an increase in assets or meet obligations as they fall due without incurring unacceptable losses. Such funding liquidity risk arises from the maturity mismatch of the assets and liabilities that the Group manages. Market liquidity risk is a risk that occurs when additional costs are involved in disposing of a position in the market under abnormal or stressed market conditions. Under these conditions, the bid-ask spreads for the position are much wider than usual or there could even be an extreme lack of buyers. As a result, the Bank will incur extra costs to dispose of the position.

The liquidity risk management framework is as follows:

– The management of the Group's liquidity risk is governed by the Liquidity Management Policy, approved by the ALCO and endorsed by the CRMC.

– The CRMC is delegated by the Board of Directors to oversee the Group's liquidity risk management. Its main responsibilities are to review and approve policies, set strategies, and define risk appetite and tolerance limits.

– The ALCO is established by the Chief Executive Officer and approved by the CRMC to be the governing body responsible for formulating and implementing policies, strategies, guidelines and limit structures. It also identifies, measures and monitors the Group's liquidity profile to ensure current and future funding requirements are met. In addition, the ALCO monitors a set of GRI for liquidity risk. Regular liquidity stress testing, which includes general market-wide, institution-specific and combined (general market-wide and institution-specific) stress scenarios, is conducted by the Risk Management Group, and the stress results are regularly reviewed by the ALCO to assess the current risk tolerance level and the level of the liquidity cushion. A Contingency Funding Plan is reviewed and approved by the ALCO on a regular basis.

– Daily liquidity management is managed by the Central Treasury unit to monitor funding requirements. This unit is supported by other functional departments including the Financial Management Group and Risk Management Group, which monitor the liquidity risk and provide regular reports to the management, committees and local regulatory bodies. Limits for net cash flow per different time bucket under normal and stress scenarios have been set to ensure that adequate funding and liquid assets are available to meet liquidity needs in normal and stress scenarios. Moreover, limits, triggers or alerts are set for other liquidity risk indicators such as the liquidity maintenance ratio and loan-to-deposit ratio. Both quantitative (e.g. statistical methods) and qualitative measures (e.g. liquidity index/premium) are employed to identify and measure market liquidity risk. Limits and alert levels related to market and funding liquidity risk are monitored and reported by the Financial Management Group or Risk Management Group to the ALCO to review and approve on a regular basis. The Audit Department performs periodic reviews to ensure liquidity risk management functions are carried out effectively.

Liquidity management is conducted at the Group and the Bank levels, and at individual overseas branches and subsidiaries. Financial subsidiaries and overseas branches are responsible for implementing their own liquidity management policies under the framework established by the ALCO and local regulatory requirements, taking into account their different liquidity risk characteristics. Their liquidity situation is monitored as a whole by the ALCO. Policy and respective counterparty limits are set for overseas branches and subsidiaries in respect of the funding support extended to them. The Group expects all business units to contribute to the success of managing liquidity under normal and contingency situations by maintaining a rapport with depositors, customers, interbank counterparties, related companies and the HKMA.

(J) Risk management (continued)

(iii) Liquidity risk management (continued)

The objective of liquidity management is to meet obligations payable under normal and emergency circumstances, to fund asset growth and to comply with the statutory liquidity maintenance ratio. To achieve this, the following liquidity management processes are in place:

– Projecting cash flows in normal and various stress scenarios, using the net mismatch gap between assets and liabilities to estimate the prospective net funding requirement

– Factoring potential drawdown on irrevocable committed facilities into our normal and stress scenarios to cater for contingent liquidity risk

– Monitoring the liquidity maintenance ratio, loans-to-deposit ratios and maturity mismatch ratio against internal and/or regulatory requirements

– Ensuring a sound and diversified range of funding sources, through monitoring the structure, the stability and the core level of the deposit portfolio

– Projecting the liquidity maintenance ratio regularly for the short to medium term to permit early detection of liquidity issues and to ensure the ratio is within statutory requirements and internal triggers

– Projecting a high-level funding requirement and funding structure during the annual budget process to ensure sufficient funding and an appropriate funding mix

– Conducting liquidity risk assessment before launching a new product

– Maintaining high-quality liquid assets comprising cash and investment grade securities as a cushion against unexpected funding needs. The amount of high quality liquid assets that the Group maintains is determined with reference to the statutory requirement and the results of the liquidity stress tests

– Maintaining access to the interbank money market

– Maintaining a funding programme to tap debt funding on a regular basis

– Monitoring the Group's collateral requirement. Periodically assess and review the additional collateral required under credit downgrade events. Based on the positions at 30 June 2015, in the event of a 2-notch downgrade, the impact on the Group's additional collateral requirement is minimal

– Maintaining a contingency funding plan, which integrates with the results of the scenarios and assumptions used in the stress test, including setting early warning indicators (including internal and market indicators), and describing actions to be taken in the event of a stress crisis, so as to minimise adverse long-term implications for business.

The Group funds its operations through a diversified funding source, primarily from the core retail and corporate customer deposits. At the same time, it also participates in wholesale funding through the issuance of certificates of deposit ("CDs") so as to secure a stable source of term funding. Deposit tenor mix and debt maturities are regularly monitored to ensure there is an appropriate funding maturity mix.

The Group started monitoring the liquidity maintenance ratio as stipulated by the Banking (Liquidity) Rules from 1 January 2015, which superseded the liquidity ratio required by the old framework. An appropriate level of liquidity maintenance ratio has been maintained to ensure that the Group could handle sudden drains in market liquidity due to adverse or unexpected economic events. In the first six months of 2015, the Group's average liquidity maintenance ratio was 62.1% (for the year ended 31 December 2014: average liquidity ratio was 64.9%). The Group always maintains sufficient cash and liquid positions as well as a pool of high-quality assets as a liquidity cushion that can be liquidated in stress scenarios.

(J) Risk management (continued)

(iv) Capital management

The Group's primary objectives when managing capital are:

– to comply with the capital requirements set by the banking regulators in the markets where the entities within the Group operate

– to maintain a strong capital base to support the development of its business

– to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The HKMA sets and monitors capital requirements for the Group as a whole. An individual banking subsidiary is directly regulated by its local banking supervisor. The HKMA requires that the Group maintain three prescribed minimum risk-weighted capital ratios: Common Equity Tier 1 ("CET1") capital ratio, Tier 1 capital ratio and total capital ratio. Moreover, the HKMA would implement two newly introduced capital buffers under Basel III, namely capital conservation buffer and countercyclical capital buffer. Such would be gradually phased in from 1 January 2016 to 1 January 2019. Basel III framework also introduced a leverage ratio as a non-risk-based backstop limit, to supplement risk-based capital requirements. It provides for a parallel run period from January 2013 to January 2017 and such parallel run will be used to assess whether the proposed minimum ratio of 3% is appropriate, with a view to migrating to a Pillar 1 requirement from 1 January 2018.

The Group adopts the standardised approach of calculating market risk in its trading portfolios and risk weightings for credit risk, and the basic indicator approach for operational risk. Banking operations are categorised as either trading or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might otherwise be possible with greater gearing, and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions. In order to comply with the risk-based supervisory framework of capital adequacy stipulated by the HKMA, the Group conducts ICAAP, which assesses the capital add-on required for Pillar 2 risks and hence the minimum capital requirement. Moreover, as part of the capital management policy and to ensure capital adequacy, the Group conducts capital planning annually, which takes into account the strategic focus, future business growth and regulatory requirement. The plan covers the issuance of capital instruments if required, to ensure the Group's capital ratios are well above their respective internal triggers and regulatory minimum and trigger ratios. Regular stress testing is performed to ensure that the impact of extreme but plausible scenarios on the risk profile and capital position is considered. Stress testing also gives an insight into the potential impact of significant adverse events and how these could be mitigated.

Consistent with industry practice, the Group monitors its capital structure on the basis of the capital adequacy ratio. There have been no material changes in the Group's policy on the management of capital during the period.

The capital adequacy ratios at 30 June 2015 are computed on the consolidated basis of the Group and some subsidiaries as specified by the HKMA for its regulatory purposes, and are in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the period ended 30 June 2015 and year ended 31 December 2014, and are well above the minimum required ratios set by the HKMA.

(J) Risk management (continued)

(v) Operational risk management

Definition of operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Governance framework

The Group has established an Operational Risk Governance Framework ("ORGF") to identify, assess, manage, monitor and report operational risk. The ORGF encompasses every member within the Group and is governed by policies and guidelines which document the minimum requirements to ensure a consistent approach to manage operational risks. Operational risk management ("ORM") relevant matters are under the oversight of the Credit & Risk Management Committee, a subcommittee of the Board of Directors, and the Operational Risk Management Committee ("ORMC"), a committee led by management. Implementation of ORM plans and tools is driven by the Group's ORM department and senior management of business and support units.

Management of operational risk

Day-to-day operational risk management lies with our business and support units and the Operational Risk and Control Head ("ORCH") of each unit assists the respective heads in this regard.

The ORM department assists management in meeting their responsibility of understanding and managing operational risk and ensuring the development and consistent application of operational risk policies, processes and procedures throughout the Group. Business and support units are responsible for monitoring operational risk and tracking Key Risk Indicators in their areas. The ORM department monitors the Group's overall operational risk exposures and ensures that all material risks are promptly and appropriately escalated to the ORMC, CRMC and senior management of the Group for their attention.

The Audit department examines and evaluates the adequacy and control effectiveness of the ORGF on an ongoing basis.

A web-based learning programme on operational risks is required for all new joiners and an annual refresher of ORGF is compulsory for all staff. Training workshops led by the ORM department are offered to business and support units with the objectives of raising operational risk awareness, familiarizing with the ORM tools and enriching employees' understanding of the ORGF along with their roles, responsibilities and accountabilities. This is further reinforced by strong, visible management support which encourages staff to embrace and pursue operational excellence.

Risk assessments are conducted on all outsourcing activities and new product programs.

Tools and methodologies

The Group identifies, measures, monitors and reports on operational risk through the ORM tools and systems as set out below:

– Operational Risk Self-Assessment ("ORSA") is a tool to identify, measure and assess the level of risk and effectiveness of control. ORSA has been rolled out across the business and major support units under the guidance of the ORM department. ORSA leaders are nominated by the management of each business and support unit to conduct self-assessments bi-annually and identify key risk factors in their daily business and support functions. Each key risk factor is assessed and quantified for financial impact, in terms of the estimated loss impact of each occurrence and estimated number of occurrences. In addition to the financial impact assessment, non-financial impacts including customer, regulatory and reputation impacts are also assessed taking into considerations of both likelihood of the risk materializing and severity of the impact.

– Key Risk Indicators ("KRIs") are statistical tools that take various risk factors into consideration and serve to provide early warning signals for management's monitoring and action. Through regular monitoring of these KRIs, areas of potential operational control weaknesses can be identified at an early stage and addressed promptly. KRIs are developed at two levels, namely Group and Unit level.

– Unit level KRIs are developed by the respective units and are monitored and tracked for progress towards completion of applicable mitigation plans. Thresholds are established for each business and support units' KRI by reference to the business' willingness to accept the risk level of each risk factor.

(J) Risk management (continued)

(v) Operational risk management

Tools and methodologies (continued)

– Operational risk incidents are reported into a centralized operational loss database called the Incident Reporting System ("IRS"). Through the IRS, the ORM department ensures all material operational risk incidents are registered, properly investigated, with corrective and preventive actions promptly executed according to agreed timelines. The IRS data serves as a centralized database to produce regular reports for senior management, ORMC and CRMC review of impact of significant incidents and monitoring of the operational risk trends. An escalation protocol is in place to ensure that operational risk incidents with significant impact are reported to the regulatory authorities, if deemed necessary.

– Operational Risk Dashboard ("ORD") provides management with an overview of the key operational risk issues, the progress of the ORSA reviews and KRI evaluation results. This information is submitted to the ORMC and CEO on a monthly basis and relevant summarized information is submitted to the CRMC on a quarterly basis as part of the Group-wide Risk Status Update Report. The Group-wide Risk Status Update Report captures the implementation status of the ORM initiatives, contains analyses on the trend of operational losses, highlights incidents that have a material impact on the Group and lists incident details during the month.

With the endorsement of the long-term ORM road map and tools obtained from the ORMC, Management Committee and CRMC, the Group will continuously fine-tune and enhance its operational risk management framework in line with industry developments, and will work closely with its strategic shareholder and partner.

The Group's long-term goal is to cultivate a proactive, responsible and accountable culture on ORM, encompassing identification, assessment, mitigation and reporting, and thus achieve operational excellence through continual robust operational risk management.

(vi) Legal risk management

The Group remains abreast of all legal and regulatory requirements applicable to its governance and operations, and continuously seeks to develop its people, enhance its systems and processes, and implement changes as necessary to meet the demands and create awareness of such requirements. Regular reviews are conducted with respect to the Group's policies and procedures to ensure the same reflect the latest legal and regulatory requirements. Issuance of new or substantially revised policies and procedures are often accompanied by relevant training. There is a strong process in place to ensure legal and regulatory risks are identified, monitored and mitigated. Any significant matters that arise relating to such risks are reported as appropriate by either the Legal or Compliance function to the Group's Audit Committee, the CRMC or senior management.

The Legal Department ("Legal") and Compliance Department ("Compliance") have been key partners in the business, providing legal and compliance advice and support to all parts of the Group and working with business and support units to ensure relevant controls are in place. In the first half of 2015, Legal and Compliance were actively involved in new product launches and new business initiatives, strategically important transactions and commercial agreements, outsourcing arrangements as well as day-to-day matters arising from the Group's business. Legal and Compliance will remain heavily involved in monitoring and ensuring compliance with changing regulatory requirements in various areas impacting the Group, and will continue to advise and support the Group in meeting the legal and regulatory challenges that lay ahead.

(vii) Strategic and reputation risk management

Strategic risk management refers to the Group's efforts to develop, uphold and implement strategic decisions related to its long-term growth and development. Reputation risk management refers to the Group's efforts to protect its brand name and business franchise from any potential damages arising from negative publicity and information about its business practices, conduct or financial condition.

The CRMC of the Group meets regularly to monitor and oversee the Group's strategic and reputation risks. Senior management places high priority on ensuring that the Group's business and operational strategies are appropriately defined and are executed professionally and promptly. Such strategies are reviewed regularly to enable the Group to respond efficiently to changes in its operating and regulatory environment. Business priorities, set on a bank-wide basis, as well as for individual business and functional units, are aligned to support the Group's strategies, and measurable targets are assigned to ensure execution excellence. Great care is also taken to protect the Group's reputation and to maximise its brand equity. This includes ongoing efforts to monitor and ensure high standards of customer satisfaction, operational efficiency, legal and regulatory compliance, public communication and issues management.

REPORT OF THE CHIEF EXECUTIVE OFFICER

The market risks emerging late last year have continued to build up in 2015, posing a significant challenge to the performance of **China CITIC Bank International Limited** ("CNCBI") **and its subsidiaries** (together "the Group") in the first six months of the year, which was rather weak when set against a strong first half in 2014. Having said that, on a half-on-half basis, the results of the Group remained satisfactory.

Operating Environment

The US economy hit a bottom before rebounding, expanding by 2.9% year-on-year in the first quarter of 2015 but contracting by 0.2% quarter-on-quarter, while the year-on-year GDP growth of the eurozone at 1.0% for the first three months of the year was unexciting given a quantitative easing programme implemented by the ECB, with uncertainties abound in light of a worsening Greek debt crisis. Meanwhile, China's economic expansion has continued to decelerate, as shown by a 7.0% year-on-year GDP growth in the first six months of the year, compared with an increase of 7.4% for the full year of 2014. Such a lacklustre external environment has taken its tolls on the Hong Kong economy, which expanded by only 2.1% year-on-year in the first quarter of 2015, versus 2.5% for the whole year of 2014.

The performance of the Hong Kong banking sector has hence been affected, particularly with respect to cross-border businesses. RMB trade settlement transactions handled by banks in Hong Kong decreased to RMB1.63 trillion in the first quarter of 2015 from RMB1.72 trillion in the final quarter last year. The demand for cross-border financing and RMB-linked treasury operations has also shrunk substantially as the People's Bank of China has adopted a more accommodating monetary policy with three consecutive cuts in the benchmark interest rate, fuelling expectations of a devaluation in the RMB.

Financial Performance

The Group's operating income for the first six months of 2015 decreased by 12.6% year-on-year to HK$2.70 billion. Profit attributable to shareholders amounted to HK$1.24 billion, which represented a 19.6% drop year-on-year but was largely flat when compared with the second half of 2014.

The setback experienced in the first half this year was principally attributed to a decline in net interest income resulting from a contraction in RMB interbank loans with markedly lower yields and weaker customer loan demand. Net interest income for the first six months of 2015 was down 19.3% from the same period last year to HK$1.73 billion. Nevertheless, it was encouraging that both customer loans and customer deposits continued to grow, with improving loan yields and lower deposit costs.

Meanwhile, non-interest income showed a 2.6% year-on-year growth to HK$968 million for the first six months this year, which was mainly driven by higher insurance commission and net gains on disposal of securities.

Financial Position

In spite of a challenging operating environment, the Group's balance sheet has stayed intact. Total assets stood at HK$250.4 billion as at 30 June 2015, compared with HK$249.1 billion as at 31 December 2014, while customer loans increased by 4.9% from last year-end to HK$158.2 billion as at end-June 2015. Impaired loan ratio of 0.49% was up merely 2 basis points from end-2014, indicating that asset quality has remained decent. Meanwhile, the Group's total deposits amounted to HK$204.9 billion as at 30 June 2015, up marginally from HK$203.1 billion six months earlier, but the structure has improved with a greater retail component.

More encouragingly, as at end-June this year, the Group's total capital adequacy ratio stood at a high level of 17.1%, while its common equity tier 1 capital ratio rose by 3 basis points to 10.8%. Both ratios have stayed comfortably above regulatory requirements. Moreover, the average consolidated liquidity maintenance ratio remained at a healthy level of 62.1% for the first half of the year.

Business Review

Wholesale and Cross-border Banking Group ("WBG")

WBG has remained resilient despite an operating environment that was less favourable than in previous years. While customer loans and deposits rose by 6.0% and 0.1% from end-2014 respectively, total operating income in the first half of 2015 was 2.7% ahead of the same period last year. Strategically speaking, WBG has been reforming its business model innovatively, delivering banking solutions which include capital financing and structured financing schemes, with a potential expansion in the geographical focus of its cross-border businesses from coastal China to inland areas and free trade zones, as well as a greater fee component in its operating income.

While WBG's Hong Kong operations delivered a 4.3% year-on-year growth in operating income in the first six months of the year, its overseas offices in Singapore, the US and Macau showed strong performances, with their total operating income soaring by over 30% during the period. Meanwhile, in the face of continued keen competition, CITIC Bank International (China) Limited has teamed up with established non-bank financial institutions to capture capital financing opportunities. It has also sustained entrustment loan business which would provide considerable non-interest income.

Collaboration with parent bank China CITIC Bank ("CNCB") and CITIC group has remained WBG's core strategy, with revenue generated by business referrals from them accounting for 19.3% of total WBG income in the first six months of 2015. Also, by capitalizing on CNCB's extensive branch network, together with collaboration with parent bank and parent company, the volume of cross-border RMB trade settlement handled was up 22.8% year-on-year during the period. Benefitting from increased cross-border business, the Singapore office recorded a surge of more than 40% in non-interest income.

Moreover, WBG's structured finance and syndication business continued to grow, albeit at a slower pace. Compared with end-2014, there was an 11.0% increase in syndicated loan balance as at June this year, while net interest margin during the period improved noticeably compared with the first half as well as the full year of 2014.

Personal & Business Banking Group ("PBG")

PBG continued to perform well in the first half of 2015. Operating income posted a 12.4% increase to HK$975 million compared with the same period last year, which was attributed to healthy growth in both net interest income and non-interest income. Profit before taxation amounted to HK$441 million, representing a 10.9% year-on-year increase.

As at end-June 2015, customer deposits reached a record high of HK$94.3 billion, up 7.1% from end-2014, while retail lending rose by 1.9% during the same period to HK$39.8 billion. For the first six months of the year, net interest income grew by 12.2% year-on-year to HK$635 million. Non-interest income also increased by 12.9% to HK$339 million, thanks to contribution from higher wealth management fee income.

During the first half of the year, PBG continued its investment in enhancing e-banking capabilities and strengthening sales and services channels, preparing the ground for long-term sustainable growth.

PBG has also kept expanding its product range with innovative ideas. In February this year, a new savings account called "My Dear Account" was created for children, offering a host of special services and benefits for clients to gain more parent-child wealth management experiences. In June, a new unsecured loan facility, "Easy Loan", was launched, helping borrowers with variable income streams. Additionally, new structured products, fixed income products and unit trusts have also been rolled out.

With respect to collaboration with CNCB, the "Diamond Wealth Management Service" was introduced in March, satisfying the demand of high net worth customers on both sides of the Chinese border for cross-border financial products and services. CNCBI also successfully held the Greater China Investor Forum 2015 in May, boosting the Group's leading position in RMB and cross-border businesses.

In recognition of its comprehensive array of wealth management products and services, as well as its success in developing RMB businesses, PBG was presented with the "Outstanding Private Banking – Diversified Business Award" in the 2015 RMB Business Outstanding Awards, which was co-organized by Metro Finance, Metro Finance Digital and Wen Wei Po. PBG also received a Mastercard Award for its support of and contribution to the development of contactless payment, as it was among the first in Hong Kong to roll out such a payment method with the launch of the CNCBI Motion Credit Card.

Treasury and Markets Group ("TMG")

A reduction in RMB deposit balance, coupled with a narrowing gap in onshore and offshore RMB exchange rates, impacted Central Treasury Management's ("CTU") interest income in the first six months this year. However, CTU has channeled more funds into liquid investment-grade fixed-income instruments. This resulted in a substantial growth in the size of its bond portfolios to a total of HK$43.5 billion as at 30 June 2015, while related revenue recorded a marked 58.4% rise year-on-year.

Despite volatile market conditions, total operating income of TMG's Global Markets division, at HK$288 million for the first six months this year, was down only mildly by 3.1% from the same period a year ago. The trading team staged strong performances in interest-rate and derivatives trading operations. Total trading revenue surged by 117.1% year-on-year in the first half of 2015 to HK$152 million. In addition, in the first quarter this year, approval was obtained for fixed income trading business, enabling TMG to engage in proprietary trading ahead and to support the bond businesses for CNCBI's retail and private banking clients.

While marketing fee income was affected as structured products related to RMB appreciation were no longer in vogue, TMG's marketing teams have focused on growing FX flow business and investment products catering for corporate wealth management. They have also been involved in discussions with city commercial banks in Mainland with a view to increasing cross-border FX flow business.

Moreover, CNCBI has been active in the dim sum bond market, acting as joint bookrunner and lead manager for a CNY one-billion issuance by the Government of Mongolia in June, which was the first of its kind undertaken by a non-Chinese Asian sovereign.

Risk Management and Internal Control

During the first half of 2015, Risk Management Group ("RMG") continued to enhance the risk management framework. This included enhancing the credit approval and review process, proactively managing loan portfolios, formulating investment strategies and strengthening capital and liquidity management as befits the Group's risk appetite. Moreover, Internal Control Group ("ICG") continued to boost the Group's operational risk culture and the internal control practices.

Further efforts have been devoted to reinforcing and improving the risk management infrastructure, tools and practices, which included (i) the Group's Risk Appetite Framework, (ii) the Global Risk Indicator ("GRI"), (iii) the Internal Capital Adequacy Assessment Process ("ICCAP") and (iv) Bankwide stress testing model. The Global Risk Indicator ("GRI") was further enhanced and recalibrated to articulate and measure the Group's overall inherent risk profile, comprising credit, market, operational, liquidity, interest rate, strategic and reputations risks. Furthermore, comprehensive Bank-wide stress testing programs and capital management plans were enhanced and recovery plans were developed.

Outlook

Looking into the second half of the year, the global economic recovery should continue to proceed with a stagger, while an interest-rate hike in the US looms large, which will certainly cause volatility in currency values and international fund flows. Besides, persistent pressure on China's consumer and producer price indices suggests that the ongoing structural reforms of the economy may continue to stunt its near-term growth. As such, the cyclical slowdown experienced by Hong Kong's economy in general and its banking sector in particular is likely to linger.

Nevertheless, given a firm foundation of the Group's businesses, we are fully confident that it can surmount the various obstacles ahead. For one thing, there is still ample room for the Chinese government to deploy fiscal and monetary stimulus to limit the downside risk to economic growth. More importantly, a broad range of policy initiatives implemented to improve the structure of China's economy should gradually come to fruition. The Group continues to eye the tremendous business opportunities arising from "One Belt One Road", internationalization of the RMB, and increasing propensity of Mainland enterprises and individuals to invest overseas and make global asset allocation. We will remain responsive to different customer needs, tailoring diversified and innovative financial products and services specifically for our clients.

Moreover, the Group will continue to collaborate closely with parent bank CNCB on various fronts, including wholesale, retail and treasury businesses, as well as building up connectivity between the IT platforms of the two entities. The scope of cooperation in exploring and developing cross-border businesses remains enormous. In view of more stringent capital requirements imposed by the Basel III accord, aside from aiding the Group in its business development, CNCB will also be fully supportive in the Group's capital management efforts, helping it to maintain healthy capital adequacy ratios.

Given an uncertain external environment, the Group is also committed to strengthening risk management, safeguarding against potential risks triggered by volatility in interest rates, foreign exchange rates, liquidity flows and financial markets. To ensure that good asset quality is maintained, we have been proactively reviewing and adjusting loan portfolios, enforcing a rigorous credit approval and management process, and streamlining collection procedures. Going forward, the Group remains dedicated to fulfilling the objective to strike a fine balance between improving the returns from its businesses, the quality of its growth and the scale of its operations.

Zhang Xiaowei
President & Chief Executive Officer

Hong Kong, 17 August 2015