中信银行(国际)
CHINA CITIC BANK INTERNATIONAL

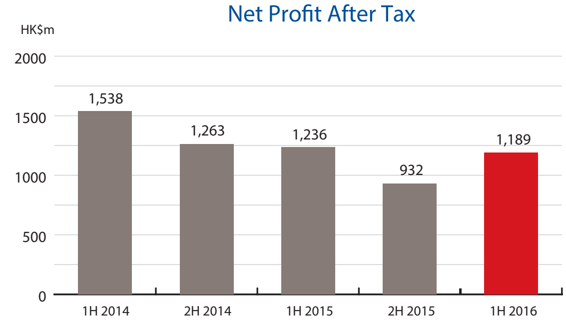
你首选的中资银行
The China Bank of Choice

2016 Interim Results Highlights

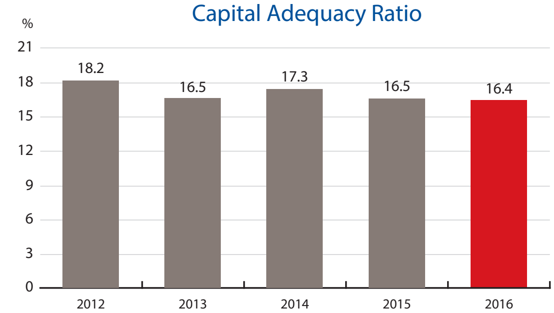
Financial Performance

- **Net profit after tax** at HK$1,189 million, down 3.8% year-on-year, yet 27.6% higher than the second half of 2015.
- **Operating income** at HK$2,856 million, up 6.0% year-on-year. **Net interest income** rose 9.1% to HK$1,886 million, driven by loan growth and reduced deposit cost. **Non-interest income** up 0.3% to HK$971 million, mainly due to loan and insurance fees besides disposal of available-for-sale securities, partially offset by treasury related income.
- **ROA** decreased 12 basis points year-on-year to 0.85%.
- **ROE** reduced 2.1 percentage points year-on-year to 9.88%.
- **Total assets** grew 4.7% from end-2015 to HK$295.69 billion.
- **Customer deposits** amounted to HK$240.13 billion, up 3.9% from end-2015, as retail deposits increased and deposit structure improved.
- **Customer loans** amounted to HK$176.16 billion, up 3.7% from end-2015. Impaired loan ratio was 0.86%, up 37 basis points year-on-year, but was 3 basis points lower than end-2015, reflecting impaired loans were under control while asset quality remained at a sound level.
- **Capital adequacy ratio** at 16.4% and **CET1 ratio** at 11.1%, well above regulatory requirements.

Net Profit After Tax



Capital Adequacy Ratio



Core Businesses

- **Wholesale and Cross-border Banking Group (WBG)** optimised business opportunities associated with the Chinese government's key strategic policy initiatives such as "One Belt, One Road," "Going Out" and further strengthened cross-border collaboration with parent bank China CITIC Bank (CNCB) and CITIC Group. Revenue generated from CNCB or CITIC Group business referrals surged 40.6% year-on-year. Structured finance and syndication business showed remarkable growth, with a landmark US$12.7 billion syndicated loan first-tier financing facility to support a Chinese enterprise in the biggest ever overseas acquisition. Wholesale customer loans rose 4.1% from end-2015 to HK$134.13 billion, while operating income increased 14.4% year-on-year to HK$1.81 billion.

- **Personal and Business Banking Group (PBG)** continued to enhance e-banking capabilities and strengthen channels for customer experience. The Bank was one of just three banks in Hong Kong to offer JETCO Pay P2P service with the rollout of CITIC*pay*, following being the first in Hong Kong to team up with Tencent on WeChat Pay for travel insurance, and the first to introduce balance enquiry via fingerprint authentication on mobile phone. Driven by short term endowment insurance products, insurance fee surged $48 million year-on-year. Retail customer deposits continue to grow to record high HK$108.0 billion, up 5.3% from end-2015, while operating income increased 13.1% year-on-year to HK$1.10 billion.

- **Treasury and Markets Group (TMG)** Central Treasury Unit's interest income declined mainly due to lower RMB interbank placements with narrowed interest spread. Amid volatile market conditions, Global Markets operating income fell 17.0% year-on-year to HK$239 million. To diversify income streams and build new revenue engines, TMG has established debt capital markets business and completed its first US$1.25 billion issuance as Joint Lead Manager for CITIC Limited. As part of the business development plan, TMG has gradually rolled out treasury business in New York Branch and commenced FX spot trades directed from the Hong Kong head office.

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 2016 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 2016. 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").

CONDENSED CONSOLIDATED INCOME STATEMENT
For the six months ended 30 June 2016 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
	Note	**2016** *HK$'000*	2015 *HK$'000*
Interest income	*4(a)*	**3,422,069**	3,365,382
Interest expense	*4(b)*	**(1,536,374)**	(1,637,441)
Net interest income		**1,885,695**	1,727,941
Fee and commission income		**579,352**	512,243
Fee and commission expense		**(28,291)**	(17,521)
Net fee and commission income	*5*	**551,061**	494,722
Net trading income	*6*	**326,673**	407,995
Net hedging (loss)/gain	*7*	**(715)**	815
Net gain on disposal of available-for-sale securities	*8*	**74,774**	43,208
Other operating income	*9*	**18,999**	21,334
Operating income		**2,856,487**	2,696,015
Operating expenses	*10*	**(1,281,214)**	(1,276,771)
Operating profit before impairment		**1,575,273**	1,419,244
Impairment losses (charged)/written-back on loans and advances and other accounts	*11*	**(155,454)**	54,459
Operating profit		**1,419,819**	1,473,703
Net loss on disposal of property and equipment		**(24)**	(376)
Revaluation (loss)/gain on investment properties		**(237)**	3,846
Profit before taxation		**1,419,558**	1,477,173
Income tax	*12*	**(230,303)**	(240,884)
Profit for the period		**1,189,255**	1,236,289
Attributable to equity shareholders of the Bank		**1,189,255**	1,236,289

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2016 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Profit for the period	**1,189,255**	1,236,289
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	**(21,775)**	3,679
Available-for-sale securities		
– change in fair value	**256,883**	64,296
– transfer to income statement on disposal	**(73,885)**	(41,170)
– transfer from deferred tax	**(27,963)**	(3,733)
Other comprehensive income for the period	**133,260**	23,072
Total comprehensive income for the period	**1,322,515**	1,259,361
Attributable to equity shareholders of the Bank	**1,322,515**	1,259,361

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016 – unaudited

(Expressed in Hong Kong dollars)

	Note	**At 30 June 2016** ***HK$'000***	At 31 December 2015 *HK$'000*
Assets			
Cash and balances with banks, central banks and other financial institutions	*13*	**26,418,115**	20,322,734
Placements with and advances to banks, central banks and other financial institutions	*14*	**26,452,166**	30,390,640
Trading assets	*15*	**3,899,833**	4,277,539
Loans and advances to customers and other accounts	*16*	**182,973,363**	173,479,925
Available-for-sale securities	*17*	**55,089,741**	53,151,487
Property and equipment	*18*		
– Investment property		**185,707**	185,944
– Other property and equipment		**660,185**	657,273
Tax recoverable	*23(a)*	**–**	33,114
Deferred tax assets	*23(b)*	**8,378**	36,312
Total Assets		**295,687,488**	282,534,968
Equity and liabilities			
Deposits and balances of banks and other financial institutions	*19*	**6,798,283**	2,658,301
Deposits from customers	*20*	**227,193,053**	220,683,709
Trading liabilities	*21*	**3,223,155**	3,555,614
Certificates of deposit issued	*22*	**12,931,923**	10,388,272
Current taxation	*23(a)*	**98,908**	61,910
Deferred tax liabilities	*23(b)*	**17,614**	1,717
Other liabilities	*24*	**9,410,147**	12,365,023
Loan capital	*25*	**8,922,044**	8,766,217
Total Liabilities		**268,595,127**	258,480,763
Equity			
Share capital	*26(a)*	**9,366,271**	7,566,271
Reserves	*26(b)*	**15,415,922**	14,177,766
Total equity attributable to equity shareholders of the Bank		**24,782,193**	21,744,037
Additional equity instruments	*27*	**2,310,168**	2,310,168
Total Equity		**27,092,361**	24,054,205
Total Equity and Liabilities		**295,687,488**	282,534,968

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016 – unaudited

(Expressed in Hong Kong dollars)

	Share capital *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$'000*	Total reserves (note 26(b)) *HK$'000*	Additional equity instruments *HK$'000*	Total equity *HK$'000*
At 1 January 2016	**7,566,271**	**6,589**	**100,000**	**(622)**	**55**	**(11,718)**	**58,943**	**149,500**	**13,875,019**	**14,177,766**	**2,310,168**	**24,054,205**
Changes in equity for the six months ended 30 June 2016:												
Profit for the period	–	–	–	–	–	–	–	–	1,189,255	1,189,255	–	1,189,255
Other comprehensive income for the period	–	–	–	(21,775)	–	155,035	–	–	–	133,260	–	133,260
Total comprehensive income for the period	–	–	–	(21,775)	–	155,035	–	–	1,189,255	1,322,515	–	1,322,515
Issue and allotment of shares	1,800,000	–	–	–	–	–	–	–	–	–	–	1,800,000
Transfer from retained profits	–	–	–	–	–	–	–	–	(84,359)	(84,359)	84,359	–
Distribution payment for AT1 Capital Securities	–	–	–	–	–	–	–	–	–	–	(84,359)	(84,359)
At 30 June 2016	**9,366,271**	**6,589**	**100,000**	**(22,397)**	**55**	**143,317**	**58,943**	**149,500**	**14,979,915**	**15,415,922**	**2,310,168**	**27,092,361**
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 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 July 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
Changes in equity for the six months ended 31 December 2015:												
Profit for the period	–	–	–	–	–	–	–	–	931,918	931,918	–	931,918
Other comprehensive income for the period	–	–	–	(101,855)	–	(118,001)	–	–	–	(219,856)	–	(219,856)
Total comprehensive income for the period	–	–	–	(101,855)	–	(118,001)	–	–	931,918	712,062	–	712,062
Transfer from retained profits	–	–	–	–	–	–	3,104	–	(87,388)	(84,284)	84,284	–
Distribution payment for Additional Tier 1 Capital Securities ("AT1 Capital Securities")	–	–	–	–	–	–	–	–	–	–	(84,284)	(84,284)
At 31 December 2015	7,566,271	6,589	100,000	(622)	55	(11,718)	58,943	149,500	13,875,019	14,177,766	2,310,168	24,054,205

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2016 – unaudited

(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2016	2015
	Note	***HK$'000***	*HK$'000*
Net cash flow generated from/(used in) operating activities	*28(a)*	**3,676,111**	(21,237,552)
Cash flow used in investing activities			
Dividends received from equity investment securities		**2,791**	4,327
Purchase of property and equipment		**(74,515)**	(60,593)
Proceeds from disposal of property and equipment		**–**	5
Net cash used in investing activities		**(71,724)**	(56,261)
Cash flow from/(used in) financing activities			
Proceeds from shares issued		**1,800,000**	–
Distribution paid on Additional Tier 1 Capital Securities		**(84,359)**	(84,283)
Interest paid on loan capital		**(248,287)**	(248,081)
Net cash from/(used in) financing activities		**1,467,354**	(332,364)
Net increase/(decrease) in cash and cash equivalents		**5,071,741**	(21,626,177)
Cash and cash equivalents at 1 January		**51,695,416**	62,537,493
Cash and cash equivalents at 30 June	*28(b)*	**56,767,157**	40,911,316

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 interim financial report should be read in conjunction with annual financial statements for year ended 31 December 2015 which have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs").

The preparation of the 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 2015.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

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

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

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

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

(2) Changes in accounting policies

This interim financial report has been prepared on a basis consistent with the accounting policies adopted in the 2015 accounts.

Amendments to HKFRSs effective for the financial year ending 31 December 2016 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.

(3) Segment reporting (continued)

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.

(a) Reportable segments

	Six months ended 30 June 2016				
	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/(expense)	**1,498,483**	**777,892**	**(425,510)**	**34,830**	**1,885,695**
Other operating income/(expense)	**292,517**	**323,900**	**324,961**	**(45,360)**	**896,018**
Net gain on disposal of available-for-sale securities	**16,629**	**–**	**58,145**	**–**	**74,774**
Operating income/(expense)	**1,807,629**	**1,101,792**	**(42,404)**	**(10,530)**	**2,856,487**
Operating expenses	**(247,995)**	**(328,537)**	**(43,993)**	**(660,689)**	**(1,281,214)**
Inter-segment (expenses)/income	**(149,036)**	**(242,960)**	**(55,139)**	**447,135**	**–**
Operating profit/(loss) before impairment	**1,410,598**	**530,295**	**(141,536)**	**(224,084)**	**1,575,273**
Impairment losses written-back/(charged) on loans and advances and other accounts	**15,797**	**(17,574)**	**(154,124)**	**447**	**(155,454)**
Operating profit/(loss)	**1,426,395**	**512,721**	**(295,660)**	**(223,637)**	**1,419,819**
Net loss on disposal of property and equipment	**(21)**	**(3)**	**–**	**–**	**(24)**
Revaluation loss on investment properties	**–**	**–**	**–**	**(237)**	**(237)**
Profit/(loss) before taxation	**1,426,374**	**512,718**	**(295,660)**	**(223,874)**	**1,419,558**
Income tax	**–**	**–**	**–**	**(230,303)**	**(230,303)**
Profit/(loss) for the period	**1,426,374**	**512,718**	**(295,660)**	**(454,177)**	**1,189,255**
Other segment items:					
Depreciation	**5,865**	**9,466**	**187**	**56,277**	**71,795**
	At 30 June 2016				
Other segment items:					
Segment assets	**155,865,162**	**42,285,608**	**124,354,651**	**(26,817,933)**	**295,687,488**
Segment liabilities	**154,868,926**	**113,946,613**	**27,855,344**	**(28,075,756)**	**268,595,127**
Capital expenditure incurred during the period	**6,400**	**6,051**	**2,736**	**59,328**	**74,515**

(3) Segment reporting (continued)

(a) Reportable segments (continued)

	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 (expenses)/income	(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 31 December 2015				
Other segment items:					
Segment assets	142,886,647	41,393,989	114,204,905	(15,950,573)	282,534,968
Segment liabilities	144,383,771	108,699,516	22,794,559	(17,397,083)	258,480,763
Capital expenditure incurred during the year	6,884	28,637	1,304	81,661	118,486

(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			
	2016	2015	**2016**	2015
	Profit before taxation	Profit before taxation	**Operating income**	Operating income
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**1,212,473**	1,154,892	**2,542,263**	2,294,400
Mainland China	**24,215**	81,387	**117,179**	141,049
United States	**94,336**	93,874	**101,594**	72,315
Singapore	**67,322**	124,755	**64,433**	160,275
Others	**21,195**	22,261	**31,001**	27,972
Inter-segment items	**17**	4	**17**	4
	1,419,558	1,477,173	**2,856,487**	2,696,015

	At 30 June 2016	At 31 December 2015	**At 30 June 2016**	At 31 December 2015
	Total assets	Total assets	**Total liabilities**	Total liabilities
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**273,962,476**	253,413,493	**247,777,963**	230,208,316
Mainland China	**11,994,772**	12,502,237	**10,238,280**	10,705,457
United States	**8,068,173**	5,877,070	**7,956,674**	5,774,995
Singapore	**25,262,682**	23,224,884	**25,174,367**	22,948,195
Others	**2,309,046**	1,939,101	**2,280,598**	1,895,252
Inter-segment items	**(25,909,661)**	(14,421,817)	**(24,832,755)**	(13,051,452)
	295,687,488	282,534,968	**268,595,127**	258,480,763

(4) Interest income and interest expense

(a) Interest income

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Listed securities	**150,166**	84,735
Unlisted securities	**296,742**	239,331
Balances and placements with banks and other financial institutions	**167,536**	542,280
Advances and other accounts *(Note)*	**2,807,625**	2,499,036
Interest income on financial assets that are not at fair value through profit or loss	**3,422,069**	3,365,382

(4) Interest income and interest expense (continued)

(b) Interest expense

	Six months ended 30 June 2016 HK$'000	2015 HK$'000
Deposits from customers, banks and other financial institutions and others	**1,199,760**	1,292,681
Certificates of deposit issued	**84,449**	93,128
Loan capital issued	**252,165**	251,632
Interest expense on financial liabilities that are not at fair value through profit or loss	**1,536,374**	1,637,441

Note:

Included in the above is interest income accrued on impaired financial assets of HK$27,828,000 (six months ended 30 June 2015: HK$3,721,000), which includes interest income on unwinding of discount on the loan impairment losses of HK$15,958,000 for the six months ended 30 June 2016 (six months ended 30 June 2015: HK$3,410,000).

(5) Net fee and commission income

	Six months ended 30 June 2016 HK$'000	2015 HK$'000
Fee and commission income		
Bills commission	**57,220**	59,469
Card-related income	**14,622**	14,336
General banking services	**58,114**	59,027
Insurance	**195,997**	147,617
Investment and structured investment products	**37,299**	95,774
Loans, overdrafts and facilities fees	**215,696**	135,666
Others	**404**	354
	579,352	512,243
Fee and commission expense	**(28,291)**	(17,521)
	551,061	494,722
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	**287,538**	209,471
– Fee and commission expense	**(11,163)**	(7,838)
	276,375	201,633

(6) Net trading income

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Gains less losses from dealing in foreign currencies	**201,717**	274,318
Gains less losses from trading securities	**12,288**	2,291
Gains less losses from other dealing activities	**21,728**	29,112
Net interest income on trading activities		
– Listed	**5,211**	435
– Unlisted	**85,729**	101,839
	326,673	407,995

All foreign exchange related gains or losses have been reclassified into "Gains less losses from dealing in foreign currencies" to indicate the result arising from foreign exchange dealing activities in the previous year. Certain comparative information was reclassified to conform with the current period's presentation.

(7) Net hedging (loss)/gain

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Net (loss)/gain on fair value hedge	**(715)**	815

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

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Net revaluation gain transferred from reserves	**73,885**	41,170
Net gain arisen in current period	**889**	2,038
	74,774	43,208

(9) Other operating income

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Dividend income from available-for-sale equity securities		
– Listed	**91**	227
– Unlisted	**2,700**	4,100
Rental income from investment properties less direct outgoings of HK$158,000 (six months ended 30 June 2015: HK$143,000)	**3,598**	3,742
Others	**12,610**	13,265
	18,999	21,334

(10) Operating expenses

		Six months ended 30 June	
		2016	2015
		HK$'000	*HK$'000*
(a)	**Staff costs**		
	Salaries and other staff costs	**749,438**	720,646
	Retirement costs	**44,483**	41,022
		793,921	761,668
(b)	**Depreciation**		
	Depreciation of property and equipment		
	– Assets held for use under operating leases	**9,650**	10,227
	– Other assets	**62,145**	56,465
		71,795	66,692
(c)	**Other operating expenses**		
	Property and equipment expenses (excluding depreciation) *(Note)*		
	– Rental of property	**134,863**	129,206
	– Others	**95,298**	78,918
	Auditors' remuneration	**3,860**	5,227
	Advertising	**15,924**	23,509
	Communication, printing and stationery	**45,271**	45,308
	Legal and professional fees	**24,163**	10,383
	Others	**96,119**	155,860
		415,498	448,411
	Total operating expenses	**1,281,214**	1,276,771

Note:

Included in other operating expenses are the minimum lease payment under operating leases of HK$2,645,000 (six months ended 30 June 2015: HK$704,000) for renting equipment, and HK$128,389,000 (six months ended 30 June 2015: HK$123,280,000) for renting property and other assets for the six months ended 30 June 2016.

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

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Impairment losses (charged)/written-back		
– Loans and advances	**(1,330)**	71,329
– Other accounts	**(154,124)**	(16,870)
	(155,454)	54,459
Impairment losses(charged)/written-back on loans and advances and other accounts		
– Individual assessment	**(187,661)**	(56,043)
– Collective assessment	**32,207**	110,502
	(155,454)	54,459
of which:		
– Additions	**(275,483)**	(162,884)
– Releases	**86,167**	200,056
– Recoveries	**33,862**	17,287
	(155,454)	54,459

Additions and releases of collective assessment have been reclassified to reflect the overall movement in the previous year. Certain comparative information was reclassified to conform with the current period's presentation.

(12) Income tax in the consolidated income statement

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
Provision for the period	**198,041**	179,131
Current tax – Overseas		
Provision for the period	**14,084**	25,915
Under-provision in respect of prior periods	**1,962**	6,701
	16,046	32,616
Deferred tax		
Origination of temporary differences *(note 23(b))*	**16,216**	29,137
	230,303	240,884

The provision for Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 June 2015: 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.

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

	At 30 June 2016 HK$'000	At 31 December 2015 HK$'000
Cash in hand	**245,727**	228,554
Balances with central banks	**1,958,784**	1,263,157
Balances with banks	**12,824,431**	7,881,427
Balances with other financial institutions	**11,389,173**	10,949,596
	26,418,115	20,322,734

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

	At 30 June 2016 HK$'000	At 31 December 2015 HK$'000
Placements with banks	**26,056,371**	27,348,928
Advances to banks	**395,795**	3,041,712
	26,452,166	30,390,640
Maturing:		
– Within 1 month	**17,451,241**	13,676,427
– Between 1 month and 1 year	**8,962,117**	16,694,838
– After 1 year	**38,808**	19,375
	26,452,166	30,390,640

There were no impaired advances to banks and other financial institutions at 30 June 2016 and 31 December 2015, nor were there any individually assessed impairment allowances made for them on these two dates.

(15) Trading assets

	At 30 June 2016 HK$'000	At 31 December 2015 HK$'000
Trading securities		
– Debt securities	**436,337**	212,827
– Investment funds	**1,146**	1,489
Positive fair values of derivatives *(notes 32 and 33(b))*	**3,462,350**	4,063,223
	3,899,833	4,277,539
Issued by:		
Sovereigns	**2,730**	–
Banks and other financial institutions	**276,391**	131,638
Corporate entities	**158,362**	82,678
	437,483	214,316
Analysed by place of listing:		
Listed in Hong Kong	**201,759**	57,788
Listed outside Hong Kong	**48,451**	32,896
Unlisted	**187,273**	123,632
	437,483	214,316

(16) Loans and advances to customers and other accounts

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

	At 30 June 2016 *HK$'000*	At 31 December 2015 *HK$'000*
Gross loans and advances to customers	**176,161,012**	169,869,738
Impairment allowances		
– Individually assessed	**(279,246)**	(296,732)
– Collectively assessed	**(353,396)**	(399,376)
	175,528,370	169,173,630
Accrued interest and other accounts	**7,548,947**	4,506,138
Impairment allowances		
– Individually assessed	**(103,954)**	(199,843)
	7,444,993	4,306,295
	182,973,363	173,479,925
Included in loans and advances to customers:		
Trade bills	**4,451,796**	5,205,237
Impairment allowances		
– Individually assessed	**–**	(139)
– Collectively assessed	**(893)**	(690)
	4,450,903	5,204,408

Note:

At 30 June 2016, an impairment provision of HK$103,954,000 (2015: HK$199,075,000) was being included in the individual impairment provisions of the other accounts, this was provided for the failure in settlement of expired or unwinding transactions of certain derivative products.

(16) 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 2016		At 31 December 2015	
	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	**12,875,191**	**52**	13,160,361	66
– Property investment	**25,152,630**	**68**	19,535,863	69
– Financial concerns	**9,125,608**	**30**	6,742,829	40
– Stockbrokers	**3,266,531**	**68**	3,511,763	45
– Wholesale and retail trade	**17,331,817**	**73**	17,915,876	79
– Manufacturing	**8,831,898**	**32**	7,493,445	35
– Transport and transport equipment	**3,446,595**	**22**	3,492,239	22
– Recreational activities	**872,446**	**100**	954,102	95
– Information technology	**92,532**	**16**	14,755	100
– Others	**10,894,890**	**43**	7,987,067	50
Individuals				
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**8,156**	**100**	8,760	100
– Loans for the purchase of other residential properties	**12,709,225**	**100**	12,404,811	100
– Credit card advances	**416,123**	**–**	426,795	–
– Others	**7,926,075**	**85**	7,850,685	85
Gross loans and advances for use in Hong Kong	**112,949,717**	**62**	101,499,351	67
Trade finance	**11,010,357**	**24**	11,061,512	24
Gross loans and advances for use outside Hong Kong	**52,200,938**	**36**	57,308,875	43
Gross loans and advances to customers	**176,161,012**	**52**	169,869,738	56

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

(c) Impaired loans and advances to customers

	At 30 June 2016 *HK$'000*	At 31 December 2015 *HK$'000*
Gross impaired loans and advances to customers	**1,507,749**	1,506,685
Impairment allowances – Individually assessed	**(279,246)**	(296,732)
	1,228,503	1,209,953
Gross impaired loans and advances as a % of total loans and advances to customers	**0.86%**	0.89%

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$396,573,000 (31 December 2015: HK$433,215,000) for the Group. This collateral mainly comprises mortgage interest on residential or commercial properties and cash placed with the Group.

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 2016	
	Individual impairment allowances *HK$'000*	**Collective impairment allowances** *HK$'000*	**Impaired loans and advances to customers** *HK$'000*
Property investment	**518**	**2,648**	**10,690**
Gross loans and advances for use outside Hong Kong	**53,440**	**106,945**	**434,496**
	53,958	**109,593**	**445,186**

		At 31 December 2015	
	Individual impairment allowances *HK$'000*	Collective impairment allowances *HK$'000*	Impaired loans and advances to customers *HK$'000*
Property investment	–	2,755	30,297
Wholesale and retail trade	47,931	89,632	162,104
Gross loans and advances for use outside Hong Kong	65,451	162,470	425,472
	113,382	254,857	617,873

(17) Available-for-sale securities

	At 30 June 2016 *HK$'000*	At 31 December 2015 *HK$'000*
Certificates of deposit held	**15,647,936**	12,375,180
Debt securities	**29,431,951**	22,261,330
Treasury bills (including Exchange Fund Bills)	**9,918,193**	18,420,015
Equity securities	**91,661**	94,962
	55,089,741	53,151,487
Issued by:		
Sovereigns	**11,553,167**	19,381,998
Banks and other financial institutions	**33,491,219**	26,391,962
Corporate entities	**7,723,295**	7,377,527
Public entities	**2,322,060**	–
	55,089,741	53,151,487
Analysed by place of listing:		
Listed in Hong Kong	**6,170,580**	5,209,473
Listed outside Hong Kong	**6,110,039**	5,215,093
Unlisted	**42,809,122**	42,726,921
	55,089,741	53,151,487
Fair value of individually impaired debt securities	**92,270**	91,364

(18) 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 2016	**185,944**	**632,009**	**1,313,506**	**2,131,459**
Additions	**–**	**–**	**74,515**	**74,515**
Disposals	**–**	**–**	**(6,069)**	**(6,069)**
Loss on revaluation	**(237)**	**–**	**–**	**(237)**
Exchange adjustments	**–**	**–**	**1,417**	**1,417**
At 30 June 2016	**185,707**	**632,009**	**1,383,369**	**2,201,085**
The analysis of cost or valuation of the above assets is as follows:				
Cost	**–**	**614,412**	**1,383,369**	**1,997,781**
Valuation				
– 1985	**–**	**17,597**	**–**	**17,597**
– 2016	**185,707**	**–**	**–**	**185,707**
	185,707	**632,009**	**1,383,369**	**2,201,085**
At 1 January 2015	182,898	632,009	1,224,783	2,039,690
Additions	–	–	118,486	118,486
Disposals	–	–	(22,790)	(22,790)
Gain on revaluation	3,046	–	–	3,046
Exchange adjustments	–	–	(6,973)	(6,973)
At 31 December 2015	185,944	632,009	1,313,506	2,131,459
The analysis of cost or valuation of the above assets is as follows:				
Cost	–	614,412	1,313,506	1,927,918
Valuation				
– 1985	–	17,597	–	17,597
– 2015	185,944	–	–	185,944
	185,944	632,009	1,313,506	2,131,459
Accumulated depreciation:				
At 1 January 2016	**–**	**305,709**	**982,533**	**1,288,242**
Charge for the period	**–**	**6,810**	**64,985**	**71,795**
Written back on disposals	**–**	**–**	**(6,044)**	**(6,044)**
Exchange adjustments	**–**	**–**	**1,200**	**1,200**
At 30 June 2016	**–**	**312,519**	**1,042,674**	**1,355,193**
At 1 January 2015	–	292,090	888,667	1,180,757
Charge for the year	–	13,619	121,516	135,135
Written back on disposals	–	–	(21,997)	(21,997)
Exchange adjustments	–	–	(5,653)	(5,653)
At 31 December 2015	–	305,709	982,533	1,288,242
Net book value:				
At 30 June 2016	**185,707**	**319,490**	**340,695**	**845,892**
At 31 December 2015	185,944	326,300	330,973	843,217

(18) 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 2016 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 loss of HK$236,700 (31 December 2015: a revaluation gain of HK$3,046,000) was recognised and charged to the income statement for the period ended 30 June 2016.

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

	At 30 June 2016 *HK$'000*	At 31 December 2015 *HK$'000*
Deposits and balances from banks	**6,798,283**	2,658,301

(20) Deposits from customers

	At 30 June 2016 *HK$'000*	At 31 December 2015 *HK$'000*
Demand deposits and current deposits	**22,189,821**	20,094,257
Savings deposits	**41,758,390**	36,751,099
Time, call and notice deposits	**163,244,842**	163,838,353
	227,193,053	220,683,709

(21) Trading liabilities

	At 30 June 2016 *HK$'000*	At 31 December 2015 *HK$'000*
Negative fair value of derivatives *(notes 32 and 33(b))*	**3,223,155**	3,555,614

(22) Certificates of deposit issued

	At 30 June 2016 *HK$'000*	At 31 December 2015 *HK$'000*
Non-trading	**12,931,923**	10,388,272

(23) Income tax in the consolidated statement of financial position

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

	At 30 June 2016 *HK$'000*	At 31 December 2015 *HK$'000*
Provision for Hong Kong Profits Tax for the period/year	**198,041**	344,233
Provisional Profits Tax paid	**(472,666)**	(375,622)
	(274,625)	(31,389)
Balance of Profits Tax provision relating to prior years	**323,110**	–
	48,485	(31,389)
Provision for overseas taxation	**50,423**	60,185
	98,908	28,796
Of which:		
Tax recoverable	**–**	(33,114)
Current taxation	**98,908**	61,910
	98,908	28,796

(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 2016	**34,501**	**(61,915)**	**1,614**	**(35)**	**(8,760)**	**(34,595)**
Charged/(credited) to consolidated income statement *(note 12)*	**3,023**	**6,420**	**–**	**–**	**6,773**	**16,216**
Charged to reserves	**–**	**–**	**–**	**27,963**	**–**	**27,963**
Exchange and other adjustments	**64**	**(571)**	**–**	**–**	**159**	**(348)**
At 30 June 2016	**37,588**	**(56,066)**	**1,614**	**27,928**	**(1,828)**	**9,236**
At 1 January 2015	34,263	(63,045)	1,621	18,271	(18,898)	(27,788)
Charged/(credited) to consolidated income statement	260	1,118	(7)	–	9,809	11,180
Credited to reserves	–	–	–	(18,306)	–	(18,306)
Exchange and other adjustments	(22)	12	–	–	329	319
At 31 December 2015	34,501	(61,915)	1,614	(35)	(8,760)	(34,595)

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

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

	At 30 June 2016 *HK$'000*	At 31 December 2015 *HK$'000*
Net deferred tax assets recognised on the consolidated statement of financial position	**(8,378)**	(36,312)
Net deferred tax liabilities recognised on the consolidated statement of financial position	**17,614**	1,717
	9,236	(34,595)

(c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$2,649,000 at 30 June 2016 (31 December 2015: HK$2,624,000), 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.

(24) Other liabilities

	At 30 June 2016 *HK$'000*	At 31 December 2015 *HK$'000*
Amount payable for purchase of debt securities	**156,610**	2,770,458
Accruals and other payables	**9,253,537**	9,594,565
	9,410,147	12,365,023

(25) Loan capital

	At 30 June 2016 *HK$'000*	At 31 December 2015 *HK$'000*
Subordinated notes with US$500 million at 6.875% *	**4,223,441**	4,132,209
Subordinated notes with US$300 million at 3.875% **	**2,322,279**	2,306,392
Subordinated notes with US$300 million at 6.000% ***	**2,376,324**	2,327,616
	8,922,044	8,766,217

* 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.

(26) Capital and reserves

(a) Share capital

(i) Ordinary shares

	At 30 June 2016		At 31 December 2015	
	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	7,566,271
Issuance and allotment of shares 1,800,000,000 ordinary shares of HK$1 each	**1,800,000,000**	**1,800,000**	–	–
At 30 June/31 December	**9,083,341,176**	**9,366,271**	7,283,341,176	7,566,271

(ii) Shares issued during the period

The Bank issued and allotted 1,800,000,000 ordinary shares at the consideration of HK$1.00 each to its immediate parent company, CITIC International Financial Holdings Limited, on 26 January 2016.

(iii) Dividend

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.

(b) Nature and purpose of components of reserves

(i) Capital reserve

The capital reserve is not available for distribution to shareholders.

(ii) General reserve

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

(iii) Exchange differences reserve

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

(iv) 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 Part 6 of the new Hong Kong Companies Ordinance (Cap. 622).

(v) 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.

(vi) 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.

(26) Capital and reserves (continued)

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

(vii) 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.

(viii) 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 2016, HK$2,606,402,000 (31 December 2015: HK$2,571,972,000) was included in the retained profits in this respect, which was distributable to equity holders of the Bank subject to consultation with the HKMA.

(27) Additional equity instruments

	At 30 June 2016 *HK$'000*	At 31 December 2015 *HK$'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 payment of US$10,875,000 (equivalent to HK$84,359,000) was paid during the period ended 30 June 2016 (31 December 2015: US$21,750,000, equivalent to HK$168,567,000).

(28) **Notes to consolidated cash flow statement**

	At 30 June 2016 HK$'000	At 30 June 2015 HK$'000
(a) Reconciliation of operating profit to net cash flow from/(used in) operating activities		
Operating activities		
Profit before taxation	**1,419,558**	1,477,173
Adjustments for non-cash items:		
Impairment losses/(written-back) on loans and advances and other accounts	**155,454**	(54,459)
Net gain on disposal of available-for-sale securities	**(74,774)**	(43,208)
Net loss on disposal of property and equipment	**24**	376
Revaluation loss/(gain) on investment properties	**237**	(3,846)
Amortisation of deferred expenses	**23,822**	63,445
Depreciation on property and equipment	**71,795**	66,692
Dividend income from equity securities	**(2,791)**	(4,327)
Interest expense on loan capital	**252,165**	251,632
Foreign exchange differences	**(3,798)**	(358,856)
Operating profit before changes in working Capital	**1,841,692**	1,394,622
(Increase)/decrease in operating assets		
Placements with and advances to banks, central banks and other financial institutions with original maturity beyond 3 months	**3,828,475**	(2,793,947)
Treasury bills with original maturity beyond 3 months	**7,747,528**	(2,140,948)
Certificates of deposit held with original maturity beyond 3 months	**(3,432,104)**	(6,296,499)
Trading assets	**377,706**	988,789
Loans and advances to customers and other accounts	**(9,656,094)**	(7,639,524)
Available-for-sale securities	**(6,909,547)**	(4,913,765)
	(8,044,036)	(22,795,894)
Increase/(decrease) in operating liabilities		
Deposits and balances of banks and other financial institutions	**4,139,982**	(532,257)
Deposits from customers	**6,501,847**	8,415,424
Trading liabilities	**(332,459)**	(1,206,364)
Certificates of deposit issued	**2,533,034**	(6,357,437)
Other liabilities	**(2,819,045)**	(123,450)
	10,023,359	195,916
Cash generated from/(used in) operating activities	**3,821,015**	(21,205,356)
Income tax paid		
Hong Kong Profits Tax paid	**(118,167)**	–
Overseas tax paid	**(26,737)**	(32,196)
Net cash flow generated from/(used in) operating activities	**3,676,111**	(21,237,552)
Cash flows from operating activities include:		
Interest received	**3,380,609**	3,479,518
Interest paid	**(1,528,840)**	(1,599,524)
(b) Analysis of the balances of cash and cash equivalents		
Cash and balances with banks, central banks and other financial institutions	**25,530,700**	9,439,412
Placements with and advances to banks, central banks and other financial institutions with original maturity within 3 months	**22,405,237**	20,811,492
Treasury bills and certificates of deposit held with original maturity within 3 months:		
– Available-for-sale securities	**8,831,220**	10,660,412
	56,767,157	40,911,316

(29) 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 2016							
	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	**26,418,115**	**25,530,698**	**–**	**–**	**–**	**–**	**–**	**887,417**
Placements with and advances to banks, central banks and other financial institutions	**26,452,166**	**–**	**17,451,241**	**7,349,229**	**1,612,888**	**38,808**	**–**	**–**
Trading assets	**3,899,833**	**3,462,350**	**60,975**	**10,221**	**119,160**	**245,981**	**–**	**1,146**
Loans and advances to customers and other accounts	**182,973,363**	**8,233,148**	**12,781,090**	**24,227,664**	**56,146,881**	**52,919,463**	**19,795,354**	**8,869,763**
Available-for-sale securities	**55,089,741**	**–**	**3,901,576**	**7,927,003**	**21,371,516**	**19,060,217**	**2,737,768**	**91,661**
Tax recoverable	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Undated assets	**854,270**	**–**	**–**	**–**	**–**	**–**	**–**	**854,270**
Total assets	**295,687,488**	**37,226,196**	**34,194,882**	**39,514,117**	**79,250,445**	**72,264,469**	**22,533,122**	**10,704,257**
Liabilities								
Deposits and balances of banks and other financial institutions	**6,798,283**	**1,361,612**	**4,859,109**	**553,297**	**24,265**	**–**	**–**	**–**
Deposits from customers	**227,193,053**	**63,948,211**	**71,728,956**	**66,869,740**	**24,502,129**	**144,017**	**–**	**–**
Trading liabilities	**3,223,155**	**3,223,155**	**–**	**–**	**–**	**–**	**–**	**–**
Certificates of deposit issued	**12,931,923**	**–**	**1,018,613**	**2,647,133**	**7,930,231**	**1,335,946**	**–**	**–**
Current taxation	**98,908**	**–**	**–**	**–**	**98,908**	**–**	**–**	**–**
Other liabilities	**9,410,147**	**–**	**–**	**–**	**–**	**–**	**–**	**9,410,147**
Loan capital	**8,922,044**	**–**	**–**	**–**	**–**	**8,922,044**	**–**	**–**
Undated liabilities	**17,614**	**–**	**–**	**–**	**–**	**–**	**–**	**17,614**
Total liabilities	**268,595,127**	**68,532,978**	**77,606,678**	**70,070,170**	**32,555,533**	**10,402,007**	**–**	**9,427,761**
Asset-liability gap		**(31,306,782)**	**(43,411,796)**	**(30,556,053)**	**46,694,912**	**61,862,462**	**22,533,122**	

(29) Maturity profile (continued)

	At 31 December 2015							
	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	20,322,734	19,497,228	–	–	–	–	–	825,506
Placements with and advances to banks, central banks and other financial institutions	30,390,640	–	13,676,427	12,983,888	3,710,950	19,375	–	–
Trading assets	4,277,539	4,063,223	–	–	104,972	107,855	–	1,489
Loans and advances to customers and other accounts	173,479,925	7,436,056	16,628,249	21,172,559	55,805,399	47,306,695	20,032,579	5,098,388
Available-for-sale securities	53,151,487	–	6,061,956	19,828,798	7,877,265	16,387,328	2,901,178	94,962
Tax recoverable	33,114	–	–	–	33,114	–	–	–
Undated assets	879,529	–	–	–	–	–	–	879,529
Total assets	282,534,968	30,996,507	36,366,632	53,985,245	67,531,700	63,821,253	22,933,757	6,899,874
Liabilities								
Deposits and balances of banks and other financial institutions	2,658,301	1,224,132	1,075,188	358,981	–	–	–	–
Deposits from customers	220,683,709	56,845,356	67,657,425	67,288,712	28,455,557	436,659	–	–
Trading liabilities	3,555,614	3,555,614	–	–	–	–	–	–
Certificates of deposit issued	10,388,272	–	512,625	–	7,784,632	2,091,015	–	–
Current taxation	61,910	–	–	–	61,910	–	–	–
Other liabilities	12,365,023	–	–	–	–	–	–	12,365,023
Loan capital	8,766,217	–	–	–	–	8,766,217	–	–
Undated liabilities	1,717	–	–	–	–	–	–	1,717
Total liabilities	258,480,763	61,625,102	69,245,238	67,647,693	36,302,099	11,293,891	–	12,366,740
Asset-liability gap		(30,628,595)	(32,878,606)	(13,662,448)	31,229,601	52,527,362	22,933,757	

(30) 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:

	Ultimate holding and intermediate parents		**Immediate parent**		**Fellow subsidiaries** *(note (i))*		**Associates** *(note (ii))*		**Related companies** *(note (iii))*	
	Six months ended 30 June									
	2016 ***HK$'000***	2015 *HK$'000*	**2016** ***HK$'000***	2015 *HK$'000*	**2016** ***HK$'000***	2015 *HK$'000* (Restated)	**2016** ***HK$'000***	2015 *HK$'000*	**2016** ***HK$'000***	2015 *HK$'000*
Interest income	**22,209**	208,872	**–**	–	**21,235**	3,826	**7,170**	13,975	**4,460**	46,937
Interest expense	**(67,805)**	(19,229)	**(2,169)**	(4,033)	**(26,459)**	(34,180)	**(6,514)**	(7,933)	**(3)**	(12,004)
Other operating income	**–**	–	**–**	–	**–**	–	**12,337**	29,448	**–**	–
Operating expenses	**–**	(551)	**(2,500)**	(4,444)	**(2,806)**	(2,222)	**–**	–	**–**	(1)
Net trading gain/(loss)	**254,730**	(106,656)	**–**	–	**7,089**	(1,139)	**(2,619)**	7,070	**(19)**	(134,511)
	At 30 June 2016/31 December 2015					(Restated)				
Assets										
Available-for-sale securities	**206,919**	206,528	**–**	–	**–**	–	**176,259**	168,577	**–**	–
Derivative financial instruments	**72,297**	146,784	**–**	–	**5,799**	–	**–**	–	**–**	–
Other receivables	**5,473**	5,601	**–**	–	**3,419**	3,438	**1,532**	2,153	**959**	–
Liabilities										
Derivative financial instruments	**58,802**	14,537	**–**	–	**75**	–	**–**	–	**–**	–
Other payables	**6,392**	8,635	**8,391**	6,138	**21,214**	25,720	**973**	988	**–**	1,081
Lending activities:										
At 30 June/31 December	**1,517,825**	1,743,360	**–**	–	**1,862,614**	1,760,666	**530,000**	664,690	**624,836**	–
Average for the period/year	**1,775,402**	5,070,805	**–**	–	**1,743,011**	1,283,611	**570,000**	970,990	**428,733**	851,146
Acceptance of deposits:										
At 30 June/31 December	**6,159,303**	6,246,501	**406,733**	2,215,978	**3,065,243**	6,391,250	**4,811,624**	4,819,768	**878**	1,242,138
Average for the period/year	**6,413,762**	9,324,578	**411,964**	2,218,787	**3,707,157**	5,721,146	**4,970,953**	5,764,077	**439**	1,297,099
	At 30 June 2016/31 December 2015									
Off-statement of financial position items										
Acceptances, guarantees and letters of credit – contract amounts in payable	**–**	–	**–**	–	**(72,850)**	(12,565)	**–**	–	**–**	–
Lease commitments	**–**	–	**–**	–	**2,833**	3,997	**–**	–	**–**	–
Other commitments	**–**	–	**–**	–	**702,082**	478,861	**615,230**	862,817	**15,523**	–
Derivative financial instruments – notional amounts	**6,186,620**	6,535,013	**–**	–	**1,161,923**	–	**–**	–	**–**	–

(30) 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) The Group has revisited its transactions with related parties during the period and certain comparative figures relating to these transactions have been restated as a result of such revision.

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

(iii) Related companies refers to companies with common directors of the intermediate parents.

(b) Transactions with key management personnel

The aggregate amount of remuneration of key management personnel of the Group and the Bank, including the amount paid to the Bank's Directors and certain employees with the highest emoluments are as follows:

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Short-term employee benefits	**43,175**	45,930
Post-employment benefits	**1,469**	1,683
	44,644	47,613

Total remuneration is included in "staff costs" (note 10(a)).

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

	2016	2015
	HK$'000	*HK$'000*
At 1 January	**21,058**	21,477
At 30 June 2016/31 December 2015	**18,331**	21,058
Maximum amount during the period/year	**21,889**	24,201

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.

(31) 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 2016 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	**436,337**	**436,337**	**–**	**–**
– Investment funds	**1,146**	**–**	**–**	**1,146**
– Positive fair values of derivatives	**3,462,350**	**28,890**	**3,433,460**	**–**
	3,899,833	**465,227**	**3,433,460**	**1,146**
Available-for-sale securities				
– Certificates of deposit held	**15,647,936**	**63,473**	**15,584,463**	**–**
– Treasury bills (including Exchange Fund Bills)	**9,918,193**	**9,918,193**	**–**	**–**
– Debt securities	**29,431,951**	**25,471,672**	**3,956,279**	**4,000**
– Equity securities	**91,661**	**68,136**	**–**	**23,525**
	55,089,741	**35,521,474**	**19,540,742**	**27,525**
	58,989,574	**35,986,701**	**22,974,202**	**28,671**
Liabilities				
Trading liabilities				
– Negative fair value of derivatives	**3,223,155**	**4,875**	**3,218,280**	**–**

		Fair value measurements as at 31 December 2015 using		
	Fair value at 31 December (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	212,827	212,827	–	–
– Investment funds	1,489	–	–	1,489
– Positive fair values of derivatives	4,063,223	20,311	4,042,912	–
	4,277,539	233,138	4,042,912	1,489
Available-for-sale securities				
– Certificates of deposit held	12,375,180	398,108	11,977,072	–
– Treasury bills (including Exchange Fund Bills)	18,420,015	18,420,015	–	–
– Debt securities	22,261,330	21,350,010	907,320	4,000
– Equity securities	94,962	71,447	–	23,515
	53,151,487	40,239,580	12,884,392	27,515
	57,429,026	40,472,718	16,927,304	29,004
Liabilities				
Trading liabilities				
– Negative fair value of derivatives	3,555,614	607	3,555,007	–

During the period ended 30 June 2016 and year ended 31 December 2015, there were no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy.

(31) 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.

(31) 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 2016			
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 2016	**1,489**	**4,000**	**23,515**	**29,004**
Purchases	**–**	**–**	**–**	**–**
Sales	**(204)**	**–**	**–**	**(204)**
Gain or losses recognised in the income statement				
– Gains less losses from dealing in foreign currencies	**–**	**–**	**10**	**10**
– Gains less losses from trading securities	**(139)**	**–**	**–**	**(139)**
At 30 June 2016	**1,146**	**4,000**	**23,525**	**28,671**
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	**–**	**–**	**10**	**10**
– Gains less losses from trading securities	**(139)**	**–**	**–**	**(139)**

	At 31 December 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
Purchases	–	–	–	–
Sales	(463)	–	–	(463)
Gain or losses recognised in the income statement	(252)	–	(57)	(309)
At 31 December 2015	1,489	4,000	23,515	29,004
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	–	–	(57)	(57)
– Gains less losses from trading securities	(252)	–	–	(252)

(31) 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 2016			
	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	**115**	**(115)**	**–**	**–**
Available-for-sale securities				
– Debt securities	**–**	**–**	**400**	**(400)**
– Equity securities	**–**	**–**	**2,352**	**(2,352)**

	At 31 December 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	149	(149)	–	–
Available-for-sale securities				
– Debt securities	–	–	400	(400)
– Equity securities	–	–	2,351	(2,351)

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 2016 and 31 December 2015 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.

(31) 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 2016 and 31 December 2015, except the following:

	At 30 June 2016				
	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	**12,931,923**	**12,949,122**	**–**	**12,949,122**	**–**
Loan capital	**8,922,044**	**9,243,773**	**9,243,773**	**–**	**–**
	21,853,967	**22,192,895**	**9,243,773**	**12,949,122**	**–**

	At 31 December 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	10,388,272	10,390,538	–	10,390,538	–
Loan capital	8,766,217	9,088,390	9,088,390	–	–
	19,154,489	19,478,928	9,088,390	10,390,538	–

(32) 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 2016			
		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 15)*	**3,462,350**	**(1,406,387)**	**(441,805)**	**1,614,158**
Financial liabilities				
– Derivative financial instruments *(note 21)*	**3,223,155**	**(1,406,387)**	**–**	**1,816,768**

(32) Offsetting Financial Instruments (continued)

Master netting arrangement (continued)

	At 31 December 2015			
	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 15)*	4,063,223	(1,576,071)	(647,330)	1,839,822
Financial liabilities				
– Derivative financial instruments *(note 21)*	3,555,614	(1,576,071)	–	1,979,543

(33) 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 2016			At 31 December 2015		
	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	**–**	**97,559,511**	**97,559,511**	–	103,314,066	103,314,066
Swaps	**–**	**302,123,774**	**302,123,774**	–	303,121,333	303,121,333
Options purchased	**–**	**17,070,495**	**17,070,495**	–	18,142,414	18,142,414
Options written	**–**	**11,207,702**	**11,207,702**	–	12,281,406	12,281,406
Interest rate derivatives						
Swaps	**13,198,911**	**18,205,391**	**31,404,302**	13,300,077	21,113,130	34,413,207
Options written	**–**	**309,934**	**309,934**	–	77,501	77,501
	13,198,911	**446,476,807**	**459,675,718**	13,300,077	458,049,850	471,349,927

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.

(33) Derivatives (continued)

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

	At 30 June 2016			At 31 December 2015		
	Fair value assets *(note 15)*	**Fair value liabilities** *(note 21)*	**Credit risk-weighted amount**	Fair value assets *(note 15)*	Fair value liabilities *(note 21)*	Credit risk-weighted amount
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Currency derivatives	**3,027,510**	**3,029,936**	**3,902,262**	3,766,036	3,506,922	4,695,947
Interest rate derivatives	**434,840**	**193,219**	**264,962**	297,187	48,692	184,471
	3,462,350	**3,223,155**	**4,167,224**	4,063,223	3,555,614	4,880,418

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 2015: 0% to 150%) for contingent liabilities and commitments, and from 0% to 150% (31 December 2015: 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 2016		At 31 December 2015	
	Fair value assets	**Fair value liabilities**	Fair value assets	Fair value liabilities
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Interest rate contracts	**405,324**	**176,509**	283,213	45,501

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.

(33) Derivatives (continued)

(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 2016 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*
Currency derivatives	**427,961,482**	**419,873,857**	**7,697,769**	**389,856**
Interest rate derivatives	**31,714,236**	**13,871,969**	**16,565,379**	**1,276,888**
	459,675,718	**433,745,826**	**24,263,148**	**1,666,744**

	At 31 December 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*
Currency derivatives	436,859,219	421,542,081	15,317,138	–
Interest rate derivatives	34,490,708	18,206,145	15,014,457	1,270,106
	471,349,927	439,748,226	30,331,595	1,270,106

(34) Assets pledged as security and collateral accepted as security for assets

	At 30 June 2016 *HK$'000*	At 31 December 2015 *HK$'000*
Assets pledged as security		
Available-for-sale securities pledged as statutory deposit *(Note (i))*	**85,377**	85,541
Available-for-sale securities pledged for own liabilities *(Note (ii))*	**–**	77,800
	85,377	163,341
Collateral accepted as security for assets		
Fair value of the collateral permitted to sell or repledge in the absence of default *(Note (iii))*	**–**	1,592,835

Note:

(i) The assets pledged represented debt securities pledged as statutory deposits by the overseas branches of the Bank to the Office of the Comptroller of the Currency in the United States.

(ii) At 31 December 2015, the assets pledged regarded as 'collateral' under the sale and repurchase transactions for the secured liabilities of HK$69,307,000 included in deposits and balances of banks and other financial institutions.

(iii) At 31 December 2015, the Group also received securities as collateral under the reverse repurchase transactions for bank balances of HK$1,612,028,000 as included in placements with banks and financial institutions. The reverse repurchase agreements are conducted under standard terms for securities borrowing and reverse repurchase transactions. The Group has an obligation to return the securities to its counterparties.

(35) 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 2016	At 31 December 2015
	HK$'000	*HK$'000*
Direct credit substitutes	**2,866,977**	2,711,185
Transaction-related contingencies	**590,956**	606,593
Trade-related contingencies	**1,752,305**	1,770,553
Forward forward deposits placed	**501,125**	387,507
Other commitments:		
– which are unconditionally cancellable or automatically cancellable due to deterioration in the creditworthiness of the borrower	**103,120,485**	91,804,970
– with an original maturity of not more than 1 year	**5,003,046**	1,317,952
– with an original maturity of more than 1 year	**2,793,689**	2,217,391
	116,628,583	100,816,151
Credit risk-weighted amounts	**4,121,565**	2,889,596

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 2015: 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 2016	At 31 December 2015
	HK$'000	*HK$'000*
Authorised and contracted for	**184,440**	168,035

(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 2016.

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(Expressed in Hong Kong dollars unless otherwise indicated)

(A) Summary of financial position

	At 30 June 2016 *HK$'000*	At 31 December 2015 *HK$'000*
Loans and advances to customers	**176,161,012**	169,869,738
Impairment allowances on loans and advances to customers	**632,642**	696,108
Total assets	**295,687,488**	282,534,968
Total customers deposits	**240,124,976**	231,071,981
Total equity attributable to equity shareholders of the Bank	**24,782,193**	21,744,037

Financial ratios	**At 30 June 2016**	At 31 December 2015
Common Equity Tier 1 ("CET1") capital ratio	**11.1%**	10.5%
Tier 1 capital ratio	**12.3%**	11.7%
Total capital ratio	**16.4%**	16.5%
Average liquidity maintenance ratio for the period/year ended*	**65.5%**	61.8%
Loans to deposits	**73.4%**	73.5%
Loans to total assets	**59.6%**	60.1%
Cost to income (six months ended 30 June 2015: 47.4%)	**44.9%**	44.0%
Return on assets (six months ended 30 June 2015: 0.97%)	**0.85%**	0.83%
Return on average total equity attributable to equity shareholders of the Bank (six months ended 30 June 2015: 12.02%)	**9.88%**	10.24%

* The average value of liquidity maintenance ratio ("LMR") is being calculated based on the arithmetic mean of the average value of 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").

(B) Capital information available on the Bank's website

For the purposes of compliance with Banking (Disclosure) Rules, information relating to the Group's regulatory capital and other disclosures are published by using standard disclosure templates as specified by the HKMA and they can be viewed in the Regulatory Disclosures section of our Bank's corporate website at www.cncbinternational.com.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(C) 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 2016 *HK$'000*	At 31 December 2015 *HK$'000*
Common Equity Tier 1 ("CET1") capital instruments and reserves		
Directly issued qualifying CET1 capital instruments plus any related share premium	**9,366,271**	7,566,271
Retained earnings	**14,979,661**	13,878,124
Disclosed reserves	**436,007**	299,644
CET1 capital before regulatory deductions	**24,781,939**	21,744,039
CET1 capital: regulatory deductions		
Deferred tax assets net of deferred tax liabilities	**8,378**	36,312
Gains and losses due to changes in own credit risk on fair valued liabilities	**(404,730)**	(264,986)
Cumulative fair value gains arising from the revaluation of land and buildings (covering both own-use and investment properties)	**111,091**	111,327
Regulatory reserve for general banking risks	**2,606,402**	2,571,972
Valuation adjustments	**3,233**	–
Debt valuation adjustments in respect of derivative contracts	**5,607**	3,127
Total regulatory deductions to CET1 capital	**2,329,981**	2,457,752
CET1 capital	**22,451,958**	19,286,287
Additional Tier 1 ("AT1") capital		
Total Additional Tier 1 capital	**2,313,467**	2,313,467
Tier 1 capital	**24,765,425**	21,599,754
Tier 2 capital instruments and provisions		
Qualifying Tier 2 capital instruments plus any related share premium	**6,048,834**	6,657,912
Reserve attributable to fair value gains on revaluation of holdings of land and buildings	**49,991**	50,097
Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	**2,350,552**	2,110,287
Tier 2 capital base before deductions	**8,449,377**	8,818,296
Tier 2 capital: regulatory deductions		
Total regulatory deductions to Tier 2 capital	**–**	–
Tier 2 capital	**8,449,377**	8,818,296
Total capital	**33,214,802**	30,418,050

(C) Capital adequacy (continued)

(ii) Risk-weighted amount

	At 30 June 2016 *HK$'000*	At 31 December 2015 *HK$'000*
– Credit risk	**188,645,129**	169,230,743
– Market risk	**2,522,188**	4,659,900
– Operational risk	**10,748,213**	10,364,613
	201,915,530	184,255,256

(iii) Capital adequacy ratios

	At 30 June 2016	At 31 December 2015
– CET1 capital ratio	**11.1%**	10.5%
– Tier 1 capital ratio	**12.3%**	11.7%
– Total capital ratio	**16.4%**	16.5%

(iv) Capital conservation buffer ratio and countercyclical capital buffer ratio

With effect from 1 January 2016, the capital conservation buffer ratio is 0.625% and the countercyclical capital buffer ("CCyB") ratio is as follows:

	At 30 June 2016
Countercyclical capital buffer ratio	**0.37%**

Before 1 January 2016, the CCyB ratio and the applicable JCCyB ratios (meaning the capital buffer levels as announced by regulatory authorities of relevant jurisdictions for the purpose of implementing the CCyB under Basel III) for Hong Kong and non-Hong Kong jurisdictions respectively are 0%.

The detail relevant disclosure of the CCyB ratio for each jurisdiction and the geographical breakdown of risk-weighted assets in relation to private sector credit exposures using the standard templates as specified by the HKMA can be viewed in the Regulatory Disclosure section of our Bank's website.

(C) Capital adequacy (continued)

(v) Capital instruments

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

	At 30 June 2016 *HK$'000*	At 31 December 2015 *HK$'000*
CET1 capital instruments issued by the Bank		
Ordinary shares:		
9,083,341,176 issued and fully paid ordinary shares	**9,366,271**	7,566,271

	At 30 June 2016 *HK$'000*	At 31 December 2015 *HK$'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 2016 *HK$'000*	At 31 December 2015 *HK$'000*
Tier 2 capital instruments		
Issued by the Bank		
– Subordinated note due 2020 (nominal value: US$500 million)	**4,223,441**	4,132,209
– Subordinated note due 2022 (nominal value: US$300 million)	**2,322,279**	2,306,392
– Subordinated note due 2024 (nominal value: US$300 million)	**2,376,324**	2,327,616
	8,922,044	8,766,217

(vi) Leverage ratio

The Bank is required to disclose its leverage ratio calculated on a consolidated basis covering the Bank and some of its subsidiaries.

	At 30 June 2016 *HK$'000*	At 31 December 2015 *HK$'000*
Leverage ratio	**8.0%**	7.3%

The detail relevant disclosure of the leverage exposure using the standard templates as specified by the HKMA can be viewed in the Regulatory Disclosure section of our Bank's website.

(C) Capital adequacy (continued)

(vii) 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 2016	
		Total assets	**Total equity**
Names of subsidiary	**Principal activities**	***HK$'000***	***HK$'000***
Viewcon Hong Kong Limited	Mortgage financing	**1,413**	**1,355**

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 2016	
		Total assets	**Total equity**
Names of subsidiaries	**Principal activities**	***HK$'000***	***HK$'000***
Carford International Limited	Property holding	**34,574**	**11,884**
CITIC Bank International (China) Limited	Banking	**11,269,693**	**1,691,019**
CITIC Insurance Brokers Limited	Insurance broker	**185,530**	**136,250**
CKWB-SN Limited	Issue of structured notes and investments	**–**	**–**
CKWH-UT2 Limited	Issue of subordinated notes	**–**	**–**
HKCB Finance Limited	Consumer financing	**6,279,964**	**674,756**
Ka Wah International Merchant Finance Limited	Inactive	**3,942**	**3,862**
The Ka Wah Bank (Trustee) Limited	Trustee services	**4,741**	**3,456**
Viewcon Hong Kong Limited	Mortgage financing	**1,413**	**1,355**

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 2016	
		Total assets	**Total equity**
Names of subsidiaries	**Principal activities**	***HK$'000***	***HK$'000***
The Hongkong Chinese Bank (Nominees) Limited	Nominee services	**4**	**4**
The Ka Wah Bank (Nominees) Limited	Nominee services	**2,873**	**256**
Security Nominees Limited	Nominee services	**–**	**–**
Sino-Allied Development Limited	Inactive	**10**	**10**

As at 30 June 2016, 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.

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

	At 30 June 2016				
	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	**100,622,151**	**1,313,354**	**1,270,713**	**256,388**	**188,206**
Mainland China	**52,547,621**	**386,820**	**116,172**	**22,858**	**105,901**
United States	**3,940,936**	**–**	**13**	**–**	**2,317**
Singapore	**7,163,668**	**–**	**–**	**–**	**27,118**
Others	**11,886,636**	**310**	**120,851**	**–**	**29,854**
	176,161,012	**1,700,484**	**1,507,749**	**279,246**	**353,396**

	At 31 December 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	86,650,263	237,088	1,068,869	214,739	169,661
Mainland China	54,285,267	445,244	229,450	55,424	132,566
United States	2,506,895	67,850	68,722	24,011	2,123
Singapore	12,325,345	–	–	–	69,809
Others	14,101,968	29,238	139,644	2,558	25,217
	169,869,738	779,420	1,506,685	296,732	399,376

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

	At 30 June 2016		At 31 December 2015	
	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	**158,166**	**0.09**	300,763	0.18
– 1 year or less but over 6 months	**1,341,304**	**0.76**	155,289	0.09
– over 1 year	**201,014**	**0.11**	323,368	0.19
	1,700,484	**0.96**	779,420	0.46
Secured overdue loans and advances	**1,122,189**		503,026	
Unsecured overdue loans and advances	**578,295**		276,394	
	1,700,484		779,420	
Market value of collateral held against the secured overdue loans and advances	**1,600,057**		895,993	
Individual impairment allowance made	**153,965**		120,281	

(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 2016 and 31 December 2015 respectively.

(F) Rescheduled loans

	At 30 June 2016		At 31 December 2015	
	HK$'000	**% of total loans and advances to customers**	*HK$'000*	% of total loans and advances to customers
Rescheduled loans	**3,659**	**–**	12,390	0.01

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 2016 and 31 December 2015 respectively.

(G) Repossessed assets

	At 30 June 2016	At 31 December 2015
	HK$'000	*HK$'000*
Included in loans and advances to customers and other accounts	**129,840**	136,267

The amount represents the estimated market value of the repossessed assets at 30 June 2016 and 31 December 2015 respectively.

(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 2016				
			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	**6,653,939**	**33,390**	**376,647**	**3,296,492**	**10,360,468**
Offshore centres	**11,018,472**	**983**	**11,005,506**	**43,922,380**	**65,947,341**
of which Hong Kong	**10,659,760**	**25**	**10,281,093**	**27,732,718**	**48,673,596**
Developing Asia-Pacific	**55,793,504**	**255,490**	**6,177,159**	**34,993,027**	**97,219,180**
of which mainland China	**51,235,518**	**101,308**	**6,177,159**	**33,058,282**	**90,572,267**

	At 31 December 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	9,182,883	7,470,058	481,653	3,171,510	20,306,104
Offshore centres	9,036,668	723	5,669,452	50,694,275	65,401,118
of which Hong Kong	6,603,086	156	5,189,936	26,955,846	38,749,024
Developing Asia-Pacific	54,758,834	243,011	7,810,185	30,989,466	93,801,496
of which mainland China	49,280,348	90,394	7,810,185	29,342,270	86,523,197

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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.

		At 30 June 2016	
	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)	**15,609,883**	**2,741,624**	**18,351,507**
(2) Local governments, local government-owned entities and their subsidiaries and JVs	**12,868,848**	**1,220,092**	**14,088,940**
(3) PRC national residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	**51,356,571**	**8,631,733**	**59,988,304**
(4) Other entities of central government not reported in item 1 above	**6,772,759**	**175,000**	**6,947,759**
(5) Other entities of local governments not reported in item 2 above	**406,465**	**17,154**	**423,619**
(6) PRC national residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	**12,638,159**	**2,462,241**	**15,100,400**
(7) Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	**21,345,049**	**3,316,797**	**24,661,846**
Total	**120,997,734**	**18,564,641**	**139,562,375**
Total assets after provision	**295,687,488**		
On-balance sheet exposures as percentage of total assets	**40.9%**		

		At 31 December 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)	14,129,810	316,538	14,446,348
(2) Local governments, local government-owned entities and their subsidiaries and JVs	12,481,333	448,074	12,929,407
(3) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	52,634,229	6,568,815	59,203,044
(4) Other entities of central government not reported in item 1 above	2,429,786	191,868	2,621,654
(5) Other entities of local governments not reported in item 2 above	444,713	–	444,713
(6) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	13,213,268	2,343,688	15,556,956
(7) Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	26,567,839	2,165,634	28,733,473
Total	121,900,978	12,034,617	133,935,595
Total assets after provision	282,534,968		
On-balance sheet exposures as percentage of total assets	43.1%		

(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 continues to reinforce 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 further strengthened its risk management infrastructure, tools and capabilities through continued deployment of resources and investment in a number of risk initiatives encompassing enhanced Risk Appetite Framework ("RAF"), market and liquidity modeling, stress testing, credit scorecard, connected lending process and system enhancements. The Group's Risk Appetite Statement ("RAS") and RAF, expressed in both qualitative and quantitative terms enables the measurement and monitoring of the Group's risk profile under various risk dimensions, comprising credit, market, interest rate, liquidity, operational (including legal), reputation, strategic, earnings and capital risks.

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 indicators under risk appetite statement ("RAS"), 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 Market Risk Committee ("MRC") 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 Group ("TMG") 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 MRC 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 and sensitivity	Not applicable
Interest rate	VaR and sensitivity	VaR and sensitivity
Commodity	VaR	Not applicable
Equity	VaR	Sensitivity
Credit spread	VaR and sensitivity	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 "New Product Evaluation and 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/Deputy CEO ("DCEO")/Alternate Chief Executive Officer ("ACEO")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

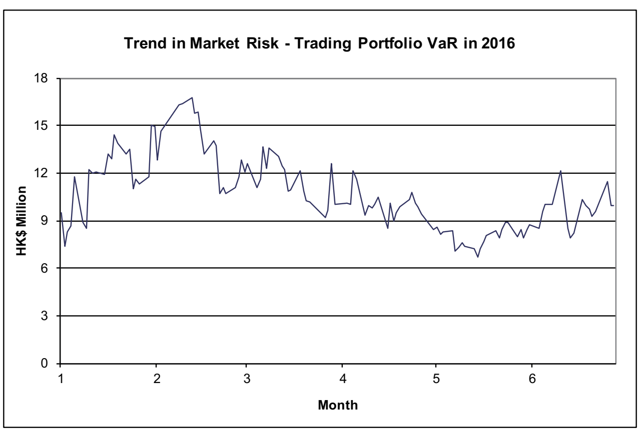
VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The model is designed to capture the different risk types including interest rate risk, foreign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

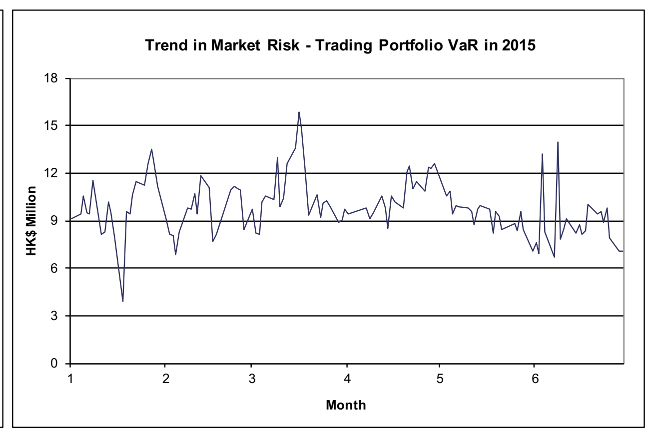
The VaR models used by the Group are predominantly based on historical simulations, and Monte Carlo simulations are also used as a reference. These models derive plausible future scenarios from historical market rates and prices, taking into account the correlation of different markets and rates such 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:

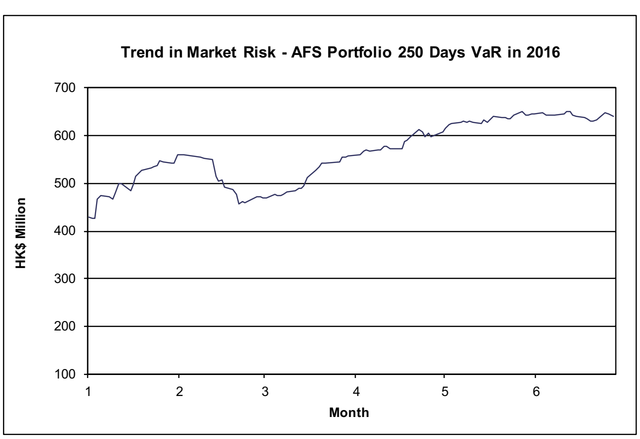
– Potential market movements are calculated with reference to data from the previous two years for the trading portfolios and the AFS portfolios, including the historical market rates, prices and associated volatilities.

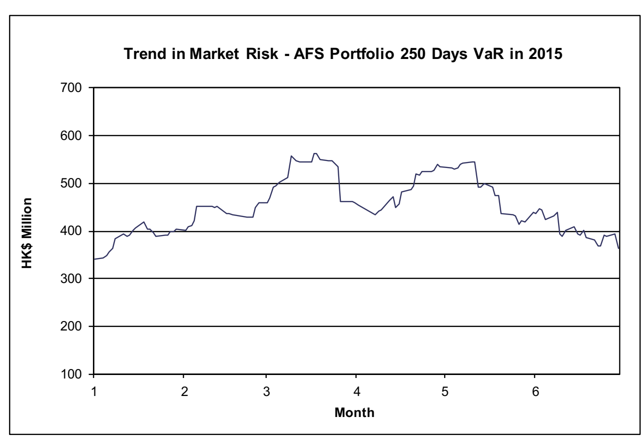
– For the trading portfolio, VaR is calculated with a 99% confidence level and for a one-day holding period.





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





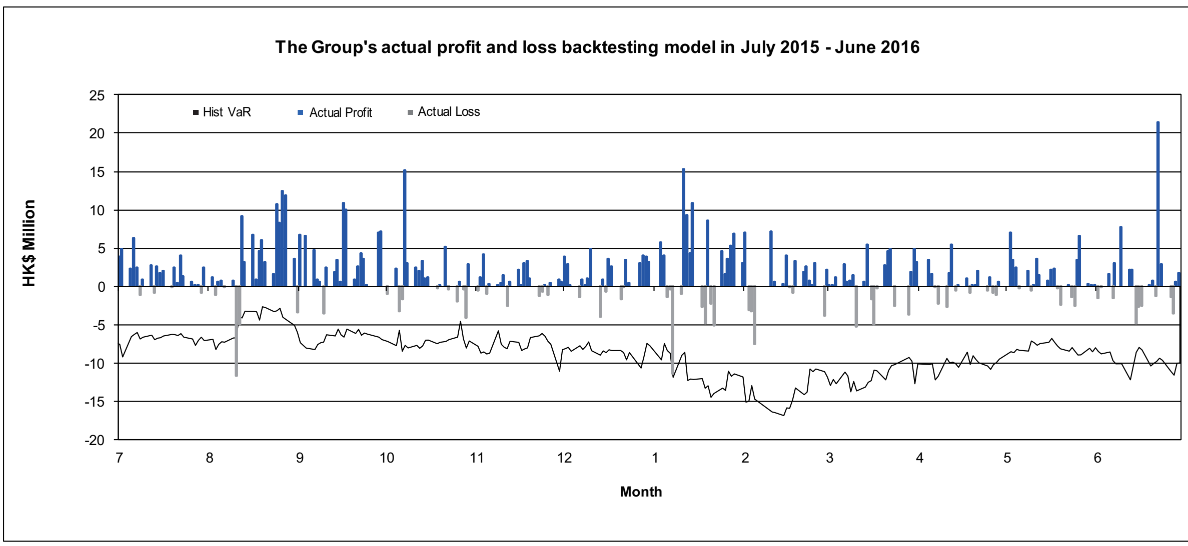
(J) Risk management (continued)

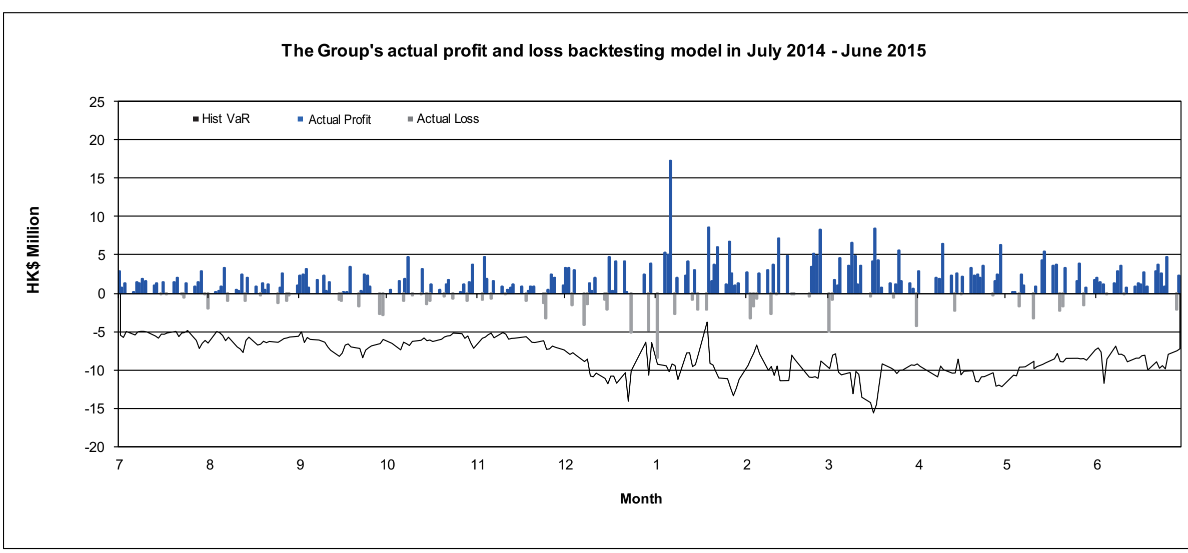
(ii) Market risk management (continued)

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 2015 to 30 June 2016, there were two exceptions in the back-testing results (1 July 2014 to 30 June 2015: no exception), which corresponds to the green zone specified by the HKMA and the international Basel principles.





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 events beyond the 99% confidence interval are not considered. In order to mitigate such limitations, the MR&LM provides the MRC with the stress test results reflecting potential extreme events on the market risk exposures for the trading and AFS portfolios.

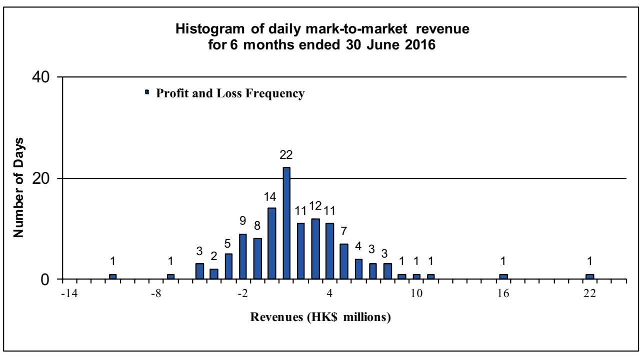
(J) Risk management (continued)

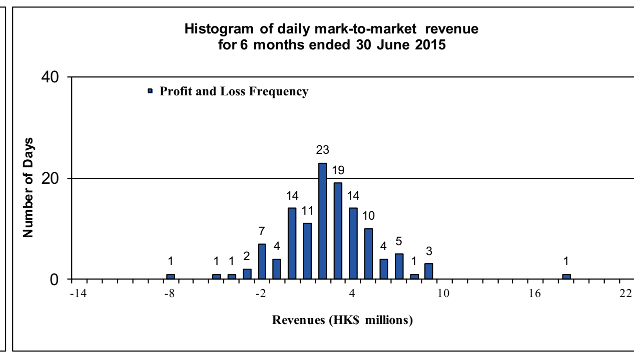
(ii) Market risk management (continued)

Methodology and characteristics of the market risk model (continued)

Value at risk (continued)

For the six months ended 30 June 2016, the average daily mark-to-market revenue from the Group's trading portfolio and fund investments was a gain of HK$1,237,000 (six months ended 30 June 2015: gain of HK$1,941,000). The standard deviation of the daily revenue was HK$4,100,000 (six months ended 30 June 2015: HK$3,136,000). The graphs below show the histograms of the Group's daily mark-to-market revenue for the six-months periods ended 30 June 2016 and 2015 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 2016				Six months ended 30 June 2015			
	Maximum ***HK$'000***	**Minimum** ***HK$'000***	**Mean** ***HK$'000***	**At 30 June 2016** ***HK$'000***	Maximum *HK$'000*	Minimum *HK$'000*	Mean *HK$'000*	At 30 June 2015 *HK$'000*
Foreign exchange risk	**10,209**	**1,736**	**5,527**	**6,731**	15,307	2,484	8,574	7,554
Interest rate risk	**17,468**	**3,792**	**9,083**	**8,602**	5,700	1,635	3,501	4,230
Total VaR	**16,784**	**6,733**	**10,688**	**9,939**	15,834	3,932	9,858	7,107

Market Risk for the AFS Portfolio

	Six months ended 30 June 2016				Six months ended 30 June 2015			
	Maximum ***HK$'000***	**Minimum** ***HK$'000***	**Mean** ***HK$'000***	**At 30 June 2016** ***HK$'000***	Maximum *HK$'000*	Minimum *HK$'000*	Mean *HK$'000*	At 30 June 2015 *HK$'000*
Interest rate risk	**648,357**	**454,445**	**557,273**	**610,600**	666,262	418,994	529,828	433,525
Credit spread risk	**660,097**	**357,681**	**494,088**	**660,097**	438,153	244,392	347,650	345,558
Total 250-day VaR	**651,412**	**426,344**	**562,808**	**641,923**	563,371	340,291	453,080	364,014

(J) Risk management (continued)

(ii) Market risk management (continued)

Methodology and characteristics of the market risk model (continued)

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.

- historical scenarios, which incorporate the historical observation of 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 MRC, 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 2016 were below the stress loss alerts and limits.

Credit spread risk

In addition to interest rate risk and extreme market volatility, a 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, the framework 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 for choosing the 250-day credit spread VaR statistics is to measure the potential adverse impact on the Group's reserve on an annual basis.

(J) Risk management (continued)

(ii) Market risk management (continued)

Methodology and characteristics of the market risk model (continued)

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 MRC. 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 2016, the Group's average daily trading profit and loss from foreign exchange positions was a profit of HK$589,000 (six months ended 30 June 2015: profit of HK$1,083,000) with a standard deviation of HK$5,159,000 (six months ended 30 June 2015: HK$3,643,000).

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

	At 30 June 2016			
Equivalent in HK$'000	**USD**	**RMB**	**Others**	**Total**
Spot assets	**113,696,293**	**37,255,628**	**11,820,372**	**162,772,293**
Spot liabilities	**(84,648,876)**	**(31,602,778)**	**(11,845,472)**	**(128,097,126)**
Forward purchases	**195,113,712**	**122,629,997**	**21,770,498**	**339,514,207**
Forward sales	**(222,321,982)**	**(126,307,820)**	**(21,973,451)**	**(370,603,253)**
Net option position	**2,048,556**	**(1,858,458)**	**(199,284)**	**(9,186)**
Net long/(short) position	**3,887,703**	**116,569**	**(427,337)**	**3,576,935**
Net structural position	**–**	**698,951**	**48,543**	**747,494**

	At 31 December 2015			
Equivalent in HK$'000	USD	RMB	Others	Total
Spot assets	111,198,523	38,183,176	21,605,506	170,987,205
Spot liabilities	(76,375,425)	(48,600,920)	(14,800,852)	(139,777,197)
Forward purchases	194,529,305	149,392,813	18,648,643	362,570,761
Forward sales	(230,469,964)	(138,031,495)	(25,149,766)	(393,651,225)
Net option position	4,153,786	(3,702,140)	(470,109)	(18,463)
Net long/(short) position	3,036,225	(2,758,566)	(166,578)	111,081
Net structural position	–	708,052	48,526	756,578

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 has interest rate risk exposures from both its banking and trading books. The Group's ALCO oversees banking book interest rate risk arising from the interest rate profile of the Group's assets and liabilities. 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 TMG 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 MRC oversees interest rate risk arising form the interest profile of the Group's trading portfolio. 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 2016, the Group's average daily trading profit and loss from interest rate positions was a profit of HK$649,000 (six months ended 30 June 2015: a profit of HK$857,000), with a standard deviation of HK$2,735,000 (six months ended 30 June 2015: HK$1,607,000).

(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 as 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 established which sets out the strategies for addressing liquidity stress situations. The plan contains a set of policies, procedures and action plans, with clearly established lines of responsibility, as well as invocation and escalation procedures. This 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. 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. The liquidity situation of overseas branches and subsidiaries falls under the overall supervision of the ALCO. Policy and respective counterparty limits are set for overseas branches and subsidiaries in respect of the funding support extended from the head office. 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 2016, 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 2016, the Group's average liquidity maintenance ratio was 65.5% (for the year ended 31 December 2015: 61.8%). 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; and

– 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. In accordance with the Banking (Capital) (Amendment) Rules 2014 which came into effect on 1 January 2015, the Basel III capital buffers, namely capital conservation buffer ("CCB") which is designed to ensure that banks build up capital outside periods of stress and countercyclical capital buffer ("CCyB") which is built up during periods of excessive credit growth, came into operation. Such would be gradually phased in from 1 January 2016 to 1 January 2019. The HKMA announced a CCyB ratio for Hong Kong of 0.625% from 1 January 2016 and 1.25% from 1 January 2017. 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 requirement for Pillar 2 risks and hence the capital requirement for Pillar 1 and 2 is derived. 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 monitoring levels and regulatory requirement. 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 year.

The capital adequacy ratios at 30 June 2016 were 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 2016 and year ended 31 December 2015, and the Group's capital ratios 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, mitigate, control, 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 risks 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 outsourced activities and new products.

Tools and methodologies

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

– Operational Risk & Control Self-Assessment (“RCSA”) is a tool to identify and assess the level of risk and effectiveness of control. RCSA has been rolled out across the business and major support units under the guidance of the ORM department. RCSA leaders are nominated by the management of each business and support unit to conduct self-assessments 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 metrics 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 the group and the 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 unit/service unit KRI by reference to the business’ acceptable risk level for each risk factor.

(J) Risk management (continued)

(v) Operational risk management (continued)

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. Lesser impact operational risk events are also collected to assist trend analysis and provide a more forward looking perspective of potential risk issues that warrant for closer attention.

– Operational Risk Dashboard ("ORD") provides management with an overview of the key operational risk issues including but not limited to the progress of the RCSA reviews and KRI evaluation results. This information is submitted to the ORMC monthly and relevant summarized information is submitted to the CRMC quarter as part of the Group-wide Risk Status Update Report. The Group-wide Risk Status Update Report captures the implementation status of ORM initiatives, contains analyses on the trend of operational losses, highlights operational risk incidents that have a material impact on the Group, and lists incident details during the reporting period.

The Group will continuously fine-tune and enhance its operational risk management framework in line with industrial developments.

The Group's long-term goal is to cultivate a proactive, responsible and accountable culture on ORM, and achieve operational excellence through robust and continuous 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 2016, 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

Amid a complex and variable external environment in the first six months of 2016, with the market being affected by a host of unfavourable factors, the performance of **China CITIC Bank International Limited** ("CNCBI") **and its subsidiaries** (together "the Group") was largely flat on a year-on-year basis but remained satisfactory when compared with the second half of 2015.

OPERATING ENVIRONMENT

The global economy experienced a further slowdown in the first half of 2016. While financial markets were in turmoil at the beginning of the year with escalating expectations of RMB depreciation and capital outflows from mainland China, the referendum held in the UK to decide on its European Union ("EU") membership created additional uncertainties to the operating environment.

US economic expansion lost some momentum, with only a 1.4% GDP growth recorded for the first half of the year, which was a full percentage point lower than in 2015. Coupled with the unpredictability regarding British's relationship with the EU, this caused the Federal Reserve Board to hesitate to raise interest rates. Meanwhile, prompted by lingering weakness in the economy, the Japanese government launched a new set of strong stimulus measures, but their effectiveness was expected to be limited. In addition, most emerging economies also faced the pressure of slower growth and needed to implement more expansionary policies, while some countries even slipped into recession.

The GDP growth of China was 6.7% in the first half this year as both the first and second quarters recorded the same growth rate, reflecting some signs of economic stability. However, the Hong Kong economy expanded by merely 0.8% in the first quarter, which was 1.1 percentage points lower than that in the previous quarter. In view of various risk factors, there is unlikely to be a significant improvement in the second half.

FINANCIAL PERFORMANCE

For the first six months of 2016, the Group's operating income rose 6.0% year-on-year to HK$2.86 billion. Profit attributable to shareholders at HK$1.19 billion was down 3.8% year-on-year, but remained higher than the HK$932 million achieved in the second half of 2015. Return on average assets was 0.85%, a 12 basis-point decrease from the 0.97% recorded for the same period last year. Return on average equity was 9.88%, 2.1 percentage points lower than the 12.02% recorded in the first half of 2015.

The increase in operating income during the period under review was mainly attributable to higher net interest income resulting from loan growth and deposit cost reduction. Net interest income amounted to HK$1.89 billion, a 9.1% year-on-year increase. Non-interest income grew slightly by 0.3% to HK$971 million, principally due to increases in loan fees and insurance product commissions.

Meanwhile, the Group actively invested in technology and strengthened cost controls. Operating expenses for the first six months of the year amounted to HK$1.28 billion, representing only a 0.3% year-on-year increase.

FINANCIAL POSITION

Notwithstanding a challenging operating environment, the Group maintained a solid balance sheet. As at 30 June 2016, total assets amounted to HK$295.69 billion, up 4.7% when compared with HK$282.53 billion as at end-2015. Customer loans increased by 3.7% from six months ago to HK$176.16 billion. Impaired loan ratio was 0.86%, an increase of 37 basis points from a year earlier, but was 3 basis points lower than end-2015, reflecting that non-performing loans were under control, while asset quality remained at a sound level. Non-performing loan coverage ratio stood at 42.0% at end-June 2016, 4.2 percentage points lower than the 46.2% recorded at end-2015. The lower non-performing loan coverage ratio was warranted as a much larger portion of the loan book was secured against high-quality properties that were accounted for in the Group's book at a discount to prevailing market prices.

As at 30 June 2016, customer deposits amounted to HK$240.13 billion, 3.9% higher than the HK$231.07 billion as at end-2015, as retail deposits increased and deposit structure improved.

The Group's capital adequacy ratio at the end of June this year stood at 16.4%, around the same level as at end-2015. Common equity tier 1 ratio increased by 65 basis points to 11.1%. Both ratios well exceeded regulatory requirements. In addition, the Group's average consolidated liquidity maintenance ratio was maintained at a comfortable level of 65.5%.

BUSINESS REVIEW

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

Against the backdrop of highly unpredictable economic conditions and ongoing business transformation within the financial industry, WBG stressed that it had to be proactive yet prudent in its operations during the first half this year, as it fully capitalized on its cross-border collaboration with CNCB to drive various businesses and achieved promising results. Net fee and commission income registered a 38.2% year-on-year growth, while total operating income rose 14.4% compared with the same period last year, and profit before taxation at HK$1.43 billion was up HK$131 million or 10.1% year-on-year. Compared with end-2015, customer loans and deposits as at 30 June 2016 expanded steadily by 4.1% and 0.9% respectively, paving the way for stable growth in both revenue and profits.

The Chinese government's key economic development strategies, in particular initiatives such as "One Belt, One Road", "Going Out" and "Free Trade Zones", have created enormous business opportunities. WBG has seized such opportunities by focusing on serving the strategic corporate customers of CNCB in mainland China which have overseas businesses and investments. In June this year, a new team was established to be responsible for mega projects and strategic initiatives, aiming to capture as many opportunities as practicable in the face of a fast-changing market environment, targeting our services at major corporations, key industries and large-scale projects.

WBG's collaboration with CNCB and the CITIC Group has reached new heights, with revenue generated from business referrals (including Global Markets Income) surging 40.6% year-on-year, accounting for 17.5% of the Group's income. The business cooperation between CNCBI and its parents has gained in momentum and advanced into uncharted territory. On the technology front, the cross-border host-to-host connectivity between CNCBI and CNCB was successfully initiated on 1 June 2016, enabling the onshore customers of CNCB (including the CITIC Group) to conduct account enquiries and internal transfers with their subsidiaries and associated companies in Hong Kong.

Moreover, WBG continued to step up its overseas operations to satisfy the strong demand of corporate customers for cross-border financial services. As a case in point, the US branch has been committed to enhancing its risk management and treasury business capabilities, delivering a 56.6% year-on-year growth in customer loans as well as a noticeable increase in the volume of US dollar clearing business.

For the first six months of the year, WBG's structured finance and syndication business also showed remarkable growth and gathered new momentum for further development. Compared with end-2015, syndication loan balance on 30 June 2016 was up 22.4%, while net interest margin widened considerably. Notably, in the second quarter, the structured finance and syndication team managed to conclude a landmark deal. As joint global coordinators, CNCBI and parent bank CNCB involved a few other banks to finance a Chinese enterprise to complete an overseas acquisition exercise that was historically the biggest in scale.

Adhering to its established principle, WBG continued to give credit quality precedence. Although provisions rose as a result of a worsening external environment, the quality of its loan portfolio remained healthy, which was in line with expectations. The strategy of growing both assets (with manageable risks) and earnings is set to stay intact.

WBG will also capitalize on the prevailing stability in China's economy to develop its business while it continues to strengthen risk management relating to its loan portfolio and market volatility.

Personal and Business Banking Group ("PBG")

The operating income of PBG reached a new record of HK$1.1 billion for the first six months of the year, representing a 13.1% increase year-on-year, which was primarily attributed to stable growth in the balance sheet and effective management of interest margin. Profit before taxation amounted to HK$513 million, up 16.2% compared with the same period last year.

As at end-June 2016, PBG's customer deposits stood at a new high of HK$108.0 billion, 5.3% above the level as at end-2015, while retail loans rose 2.1% to HK$41.6 billion. Net interest income at HK$778 million was 22.5% ahead of the corresponding period last year. Despite a sluggish market environment with increased volatility, non-interest income dropped by only 4.6% year-on-year to HK$324 million.

CNCBI continued to bolster its cross-border collaboration with parent bank CNCB, introducing the Diamond Wealth Management Service, which was well received by high net worth customers in both mainland China and Hong Kong. Compared with end-2015, the number of Diamond customers and related assets under management doubled and increased five-fold respectively.

PBG has maintained its core commitment to investing in technology and developing innovative products and services for the benefits of its customers. During the Chinese New Year in 2016, CNCBI was the first bank in Hong Kong to cooperate with Tencent to introduce HK WeChat Red Packet Distribution. Moreover, CNCBI was among the first batch of local banks to offer JETCO Pay P2P Service, introducing an online payment platform to its customers in April this year. In recognition of CNCBI's continuous breakthrough in the applications of financial technology, the Hong Kong ICT Award 2016 bestowed the "Best Fintech (Emerging Solutions) Certificate of Merit" on CNCBI's "WeChat Pay for Travel Insurance" and "Touch Balance" services.

Treasury and Markets Group ("TMG")

Given greater market volatility in the first half of the year, the operating income of Global Markets fell 17.0% year-on-year to HK$239 million. Nevertheless, its interest-rate and derivatives trading operations staged a robust performance. In response to the turbulence triggered by Britain's referendum to decide on its EU membership, the trading teams proactively adjusted their positions to make use of this window of opportunity, generating gains for Global Markets. Meanwhile, the scale of the proprietary fixed-income trading business of Global Markets also expanded at a rapid pace during the period under review, with the size of the trading portfolio up by 105.0% or HK$224 million from end-2015.

In April this year, TMG established the Debt Capital Markets ("DCM") Division, which has since been fully operational. The DCM team completed its first deal in June, with CNCBI acting as the Joint Lead Manager in CITIC Limited's issuance of 5-year and 10-year bonds worth a total of US$1.25 billion. The team will continue to build up its relationship with some potential debt issuers, exploring opportunities for private placements and public offers.

As part of CNCBI's expansion plan for its treasury business, throughout the first half of the year, TMG was dedicated to setting up an operation in the New York Branch. Currently the branch's treasury business is gradually being rolled out and it has started to conduct FX spot trades directed from Hong Kong.

Risk Management and Internal Control

During the first half of 2016, the Group continued to reinforce risk management practices with particular focus on credit risk assessment. 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, the Group continued to boost its operational risk culture and internal control practices.

Furthermore, resources have been invested in strengthening the risk management infrastructure, tools and capabilities, encompassing (i) the Risk Appetite Framework ("RAF"), (ii) Market and Liquidity modeling, (iii) Bank-wide stress testing models, (iv) credit scorecard, (v) connected lending process and (vi) system enhancements. The Risk Appetite Statement ("RAS") and RAF, expressed in both qualitative and quantitative terms, enable the measurement and monitoring of the Group's risk profile under various dimensions, comprising credit, market, interest rate, liquidity, operational (including legal), reputation, strategic, earnings and capital risks.

OUTLOOK

Looking into the second half of the year, the negative impact of the UK's decision to leave the EU should start to surface, placing renewed pressure on the global economy. While the British economy and the pound sterling are likely to weaken markedly, the Eurozone and the euro may also be afflicted. Besides, the recovery path of the US economy is bound to be impeded, leading to continued postponement of interest-rate hikes. With other economies also likely to further slacken off, global growth is expected to trend lower.

Although China's economy has already displayed a clear sign of stability with 6.7% GDP growth in both the first and second quarters, its export sector will probably be undermined by weaknesses in the pound sterling and the euro, blighting its growth prospects going forward. As such, the Chinese government may have to offer a stronger dose of policy stimulus to sustain the auspicious trend of GDP growth. In the meantime, given Britain's prospective exit from the EU, the value of the yuan against the US dollar may embark on a downtrend again. However, longer term, given various reforms to reduce excess capacity and to improve supply-side dynamics, as well as a bulk of strategic economic and trade initiatives such as "One Belt, One Road", China's economy is expected to be transformed and upgraded. As the UK disentangles itself from the EU, the Hong Kong economy and financial market will also be affected and become volatile. Nevertheless, the impact should be relatively moderate compared with other developed economies.

In view of a challenging external environment, the Group will strengthen its collaboration with CNCB, driving the growth in loan and treasury businesses. While loan business is boosted to spur net interest income, the loan model will be revamped, focusing on structured finance relating to capital market activities, the funding needs of mainland enterprises for their overseas investments relating to initiatives such as "One Belt, One Road" and "Going Out", as well as financing mergers and acquisitions arising from the course of economic transformation in China. To facilitate parent bank CNCB's strategic intent to become "the world's best integrated financial services provider", the Group is committed to developing into "the best overseas integrated financial services provider". It will invest considerable effort in transforming its business and jump-starting new growth areas, laying a strong foundation for the business development in the second half of this year and next year.

Zhang Xiaowei

President & Chief Executive Officer
Hong Kong, 24 August 2016