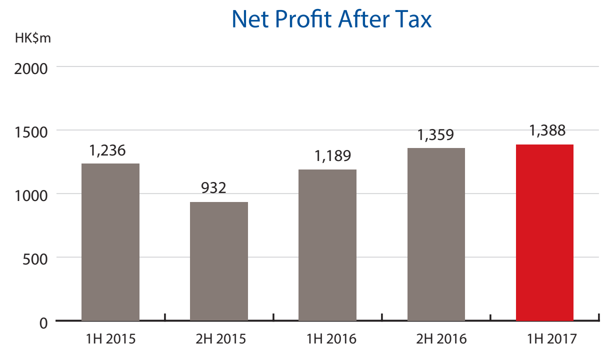
中信银行(国际)
CHINA CITIC BANK INTERNATIONAL

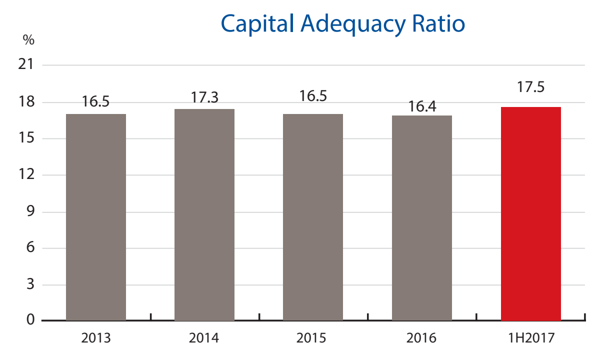
你首选的中资银行
The China Bank of Choice

2017 Interim Results Highlights

Financial Performance

- **Net profit after tax** was HK$1.39 billion, up 16.7% year on year.
- **Operating profit after impairment** was HK$1.62 billion, up 13.9% year on year. Given potential volatility in the external environment and an uncertain outlook for selected industries in the mainland, the Group adopted prudent provisioning to reduce the pressure of credit risk in the future, making HK$867 million of impairment in the first half of 2017.
- **Operating income** increased by 39.1% year on year to HK$3.97 billion, with **net interest income** of HK$2.45 billion, up 29.7% year on year. Benefitting from improved asset yields and stable deposits cost, net interest margin increased by 15 basis points year on year to 1.56%. **Customer loans** including trade bills reached HK$196.0 billion, which rose by 6.7% as compared to the end-2016 level.
- **Non-interest income** soared by 57.3% year on year to HK$1.53 billion, owing to substantial growth in loan fees and income from treasury business.
- **ROA** was up slightly by 1 basis point year on year to 0.86%.
- **ROE** increased by 53 basis points year on year to 10.41%.
- **Total assets** continued to increase by 6.9% from end-2016 to HK$327.6 billion.
- **Capital adequacy ratio** and **CET1 ratio** were above regulatory requirements at 17.5% and 11.0% respectively.





Core Businesses

- **Wholesale and cross-border banking business** sustained good momentum and revenue growth. The increase in syndication and structured loan balance, which enjoyed better yields, contributed to both higher net interest income and non-interest income. Compared with the end of 2016, syndication loan grew by 28.0% to HK$65.9 billion, representing 33.6% of CNCBI's total customer loans, up 5.6 percentage points. Leveraging CNCBI's collaboration with CNCB and the CITIC Group to provide clients with tailored one-stop integrated service solutions, customer referral income accounted for 39.9% of WBG's total operating income, up 10.0 percentage points year on year. In the meantime, the Group has been vigorously increasing the capabilities of overseas branches for conducting structured finance and treasury business. As at end-June 2017, customer loans totaling HK$150.2 billion were 6.8% ahead of the end-2016 level. Net interest income and non-interest income grew by 13.8% and 79.7% year on year respectively to reach HK$1.71 billion and HK$555 million, with the share of non-interest income showing a noticeable increase.
- **Retail banking business** achieved HK$1.13 billion of operating income during the period under review. As at end-June 2017, retail customer deposits stood at a new high of HK$121.6 billion, 6.7% above the level as at end-2016 and accounted for nearly half of CNCBI's total deposits. Personal and Business Banking Group continued to deepen its cross-border collaboration with CNCB, and operating income derived from private banking business soared by 58.8% year on year. "CNCB Connectivity" was introduced during the period to enable the personal customers of CNCB and CNCBI to easily make enquiries about their accounts and transactions through either of the two banks' internet banking accounts. The Group kept investing in technology and developing innovative products and services to fulfill customer needs. With an upgrade of the securities trading system in February, our customers can make use of the platform to conduct transactions in four bourses. CITICtoken, namely the first security mobile application in Hong Kong, was launched in May to further enhance customer experience in mobile banking. The new mortgage product "Mortgage Plus" offers customers flexibility in cash management. Furthermore, the roll-out of corporate wealth management services for business banking customers in June spurred the revenue growth of the first business center set up in last December.
- **Treasury and Markets Group** recorded a remarkable 57.4% year-on-year increase in operating income from Global Markets to HK$376 million. The establishment of a Financial Institutions marketing team at the beginning of the year has had important strategic implications, as it helps to expand the sales channel of bonds and the distribution of treasury products. Debt capital markets business maintained strong momentum and 13 deals were completed in the first six months of 2017 with a total issuance size of US$13.1 billion. Total debt capital markets fee income amounted to HK$216 million during the period. The Central Treasury Unit team managed the balance sheet prudently, thus being able to deploy its RMB surplus at desirable prices when market liquidity was tightened significantly, and generating good gains. In May 2017, CNCBI successfully issued its first ever CNY 3 billion three-year panda bond in the China interbank bond market. It is also the first banking institution in Hong Kong to have issued panda bonds this year.

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 2017 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 2017. 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 2017 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2017	2016
	Note	***HK$'000***	*HK$'000*
Interest income	*4(a)*	**4,109,777**	3,422,069
Interest expense	*4(b)*	**(1,664,729)**	(1,536,374)
Net interest income		**2,445,048**	1,885,695
Fee and commission income		**1,032,181**	579,352
Fee and commission expense		**(34,736)**	(28,291)
Net fee and commission income	*5*	**997,445**	551,061
Net trading income	*6*	**483,602**	326,673
Net hedging loss	*7*	**(21)**	(715)
Net gain on disposal of available-for-sale securities	*8*	**23,978**	74,774
Other operating income	*9*	**22,089**	18,999
Operating income		**3,972,141**	2,856,487
Operating expenses	*10*	**(1,487,028)**	(1,281,214)
Operating profit before impairment		**2,485,113**	1,575,273
Impairment losses on loans and advances and other accounts	*11*	**(867,472)**	(155,454)
Operating profit		**1,617,641**	1,419,819
Net loss on disposal of property and equipment		**(3,905)**	(24)
Revaluation gain/(loss) on investment properties		**7,009**	(237)
Profit before taxation		**1,620,745**	1,419,558
Income tax	*12*	**(232,365)**	(230,303)
Profit for the period		**1,388,380**	1,189,255
Profit attributable to shareholders		**1,388,380**	1,189,255

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2017 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Profit for the period	**1,388,380**	1,189,255
Other comprehensive income for the period		
Items that will be reclassified subsequently to income statement when specific conditions are met		
Exchange differences on translation of financial statements of overseas subsidiaries	**52,184**	(21,775)
Cash flow hedges		
– effective portion of changes in fair value of hedging instruments recognised during the period	**(751)**	–
– transfer from deferred tax	**124**	–
	(627)	–
Available-for-sale securities		
– change in fair value	**149,872**	256,883
– transfer to income statement on disposal	**(18,839)**	(73,885)
– transfer from deferred tax	**(20,577)**	(27,963)
	110,456	155,035
Other comprehensive income for the period	**162,013**	133,260
Total comprehensive income for the period	**1,550,393**	1,322,515
Total comprehensive income attributable to shareholders	**1,550,393**	1,322,515

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2017 – unaudited
(Expressed in Hong Kong dollars)

	Note	At 30 June 2017 HK$'000	At 31 December 2016 HK$'000
ASSETS			
Cash and balances with banks, central banks and other financial institutions	13	**43,243,902**	27,540,433
Placements with and advances to banks, central banks and other financial institutions	14	**21,529,151**	22,889,713
Trading assets	15	**3,520,319**	5,581,720
Loans and advances to customers and other accounts	16	**201,841,157**	191,286,538
Available-for-sale securities	17	**56,474,832**	58,204,271
Property and equipment	18		
– Investment property		**125,499**	138,490
– Other premises		**381,457**	369,479
– Equipment		**423,501**	387,907
Tax recoverable	24(a)	**–**	187
Deferred tax assets	24(b)	**15,136**	18,217
Total Assets		**327,554,954**	306,416,955
LIABILITIES AND EQUITY			
Deposits and balances of banks and other financial institutions	19	**6,401,044**	5,256,660
Deposits from customers	20	**252,915,937**	235,574,700
Trading liabilities	21	**3,146,253**	3,996,444
Certificates of deposit issued	22	**10,720,998**	10,593,445
Debt securities issued	23	**3,440,457**	–
Current taxation	24(a)	**340,175**	195,405
Deferred tax liabilities	24(b)	**9,795**	1,520
Other liabilities	25	**8,493,758**	10,138,928
Loan capital	26	**8,749,188**	8,705,837
Total Liabilities		**294,217,605**	274,462,939
Equity			
Share capital	27(a)	**9,366,271**	9,366,271
Reserves	27(b)	**17,797,826**	16,414,493
Additional equity instruments	28	**6,173,252**	6,173,252
Total Equity		**33,337,349**	31,954,016
Total Equity and Liabilities		**327,554,954**	306,416,955

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2017 – 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$'000*	Cash flow hedging reserve *HK$'000*	Investment revaluation reserve *HK$'000*	Statutory reserve *HK$'000*	Regulatory general reserve *HK$'000*	Retained profits *HK$'000*	Total reserves (note 27(b)) *HK$'000*	Additional equity instruments *HK$'000*	Total equity *HK$'000*
At 1 January 2017	**9,366,271**	**6,589**	**100,000**	**(94,212)**	**55**	**1,068**	**(61,975)**	**53,845**	**149,500**	**16,259,623**	**16,414,493**	**6,173,252**	**31,954,016**
Changes in equity for the six months ended 30 June 2017:													
Profit for the period	–	–	–	–	–	–	–	–	–	**1,388,380**	**1,388,380**	–	**1,388,380**
Other comprehensive income for the period	–	–	–	**52,184**	–	**(627)**	**110,456**	–	–	–	**162,013**	–	**162,013**
Total comprehensive income for the period	–	–	–	**52,184**	–	**(627)**	**110,456**	–	–	**1,388,380**	**1,550,393**	–	**1,550,393**
Transfer from retained profits	–	–	–	–	–	–	–	–	–	**(167,060)**	**(167,060)**	**167,060**	–
Distribution payment for AT 1 Capital Securities	–	–	–	–	–	–	–	–	–	–	–	**(167,060)**	**(167,060)**
At 30 June 2017	**9,366,271**	**6,589**	**100,000**	**(42,028)**	**55**	**441**	**48,481**	**53,845**	**149,500**	**17,480,943**	**17,797,826**	**6,173,252**	**33,337,349**
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 AT 1 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 July 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
Changes in equity for the six months ended 31 December 2016:													
Profit for the period	–	–	–	–	–	–	–	–	–	1,358,986	1,358,986	–	1,358,986
Other comprehensive income for the period	–	–	–	(71,815)	–	1,068	(205,292)	–	–	–	(276,039)	–	(276,039)
Total comprehensive income for the period	–	–	–	(71,815)	–	1,068	(205,292)	–	–	1,358,986	1,082,947	–	1,082,947
Issue of Additional Tier 1 Capital Securities ("AT 1 Capital Securities")	–	–	–	–	–	–	–	–	–	–	–	3,863,084	3,863,084
Transfer from retained profits	–	–	–	–	–	–	–	(5,098)	–	(79,278)	(84,376)	84,376	–
Distribution payment for AT 1 Capital Securities	–	–	–	–	–	–	–	–	–	–	–	(84,376)	(84,376)
At 31 December 2016	9,366,271	6,589	100,000	(94,212)	55	1,068	(61,975)	53,845	149,500	16,259,623	16,414,493	6,173,252	31,954,016

CONDENSED CONSOLIDATED CASH FLOWS STATEMENT
For the six months ended 30 June 2017 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2017 HK$'000	2016 HK$'000
Net cash flows generated from operating activities	*29(a)*	**16,081,753**	3,676,111
Cash flows generated from/(used in) investing activities			
Dividends received from equity investment securities		**4,314**	2,791
Purchase of property and equipment		**(114,450)**	(74,515)
Proceeds from disposal of property and equipment		**52**	–
Net cash flows used in investing activities		**(110,084)**	(71,724)
Cash flows generated from/(used in) financing activities			
Debt securities issued		**3,456,755**	–
Proceeds from shares issued		**–**	1,800,000
Distribution paid on Additional Tier 1 Capital Securities		**(167,060)**	(84,359)
Interest paid on loan capital		**(249,289)**	(248,287)
Net cash flows generated from financing activities		**3,040,406**	1,467,354
Net increase in cash and cash equivalents		**19,012,075**	5,071,741
Cash and cash equivalents at 1 January		**54,517,271**	51,695,416
Cash and cash equivalents at 30 June	*29(b)*	**73,529,346**	56,767,157

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 the annual financial statements for the year ended 31 December 2016 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 2016.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 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 2016 that is included in the interim financial report for the six months ended 30 June 2017 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 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

The 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 the 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 2016 accounts.

Amendments to HKFRSs effective for the financial year ending 31 December 2017 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, deposit account services 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.

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.

(3) SEGMENT REPORTING (CONTINUED)

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

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

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

(a) Reportable segments

	Six months ended 30 June 2017				
	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)	**1,705,297**	**792,587**	**(103,421)**	**50,585**	**2,445,048**
Other operating income	**555,494**	**338,609**	**591,467**	**17,545**	**1,503,115**
Net gain on disposal of available-for-sale securities	**–**	**–**	**23,978**	**–**	**23,978**
Operating income	**2,260,791**	**1,131,196**	**512,024**	**68,130**	**3,972,141**
Operating expenses	**(262,853)**	**(362,636)**	**(48,495)**	**(813,044)**	**(1,487,028)**
Inter-segment (expenses)/income	**(180,716)**	**(254,585)**	**(76,070)**	**511,371**	**–**
Operating profit/(loss) before impairment	**1,817,222**	**513,975**	**387,459**	**(233,543)**	**2,485,113**
Impairment losses written-back/(charged) on loans and advances and other accounts	**(854,750)**	**(515)**	**(12,617)**	**410**	**(867,472)**
Operating profit/(loss)	**962,472**	**513,460**	**374,842**	**(233,133)**	**1,617,641**
Net gain/(loss) on disposal of property and equipment	**13**	**(689)**	**–**	**(3,229)**	**(3,905)**
Revaluation gain on investment properties	**–**	**–**	**–**	**7,009**	**7,009**
Profit/(loss) before taxation	**962,485**	**512,771**	**374,842**	**(229,353)**	**1,620,745**
Income tax	**–**	**–**	**–**	**(232,365)**	**(232,365)**
Profit/(loss) for the period	**962,485**	**512,771**	**374,842**	**(461,718)**	**1,388,380**
Other segment items:					
Depreciation	**5,666**	**8,995**	**546**	**68,263**	**83,470**
	At 30 June 2017				
Other segment items:					
Segment assets	**168,904,585**	**45,239,731**	**148,945,170**	**(35,534,532)**	**327,554,954**
Segment liabilities	**168,987,485**	**127,805,105**	**34,894,052**	**(37,469,037)**	**294,217,605**
Capital expenditure during the period	**6,308**	**2,385**	**88**	**105,669**	**114,450**

(3) SEGMENT REPORTING (CONTINUED)

(a) Reportable segments (continued)

	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/(loss)	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/(loss)	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 31 December 2016				
Other segment items:					
Segment assets	157,373,422	43,454,369	126,017,263	(20,428,099)	306,416,955
Segment liabilities	151,281,845	120,341,297	24,246,000	(21,406,203)	274,462,939
Capital expenditure during the year	9,276	17,669	3,650	163,317	193,912

(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			
	2017	2016	**2017**	2016
	Profit before taxation	Profit before taxation	**Operating income**	Operating income
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**1,480,744**	1,212,473	**3,620,640**	2,542,263
Mainland China	**(68,081)**	24,215	**89,961**	117,179
United States	**84,808**	94,336	**117,664**	101,594
Singapore	**100,154**	67,322	**122,763**	64,433
Others	**23,104**	21,195	**21,097**	31,001
Inter-segment items	**16**	17	**16**	17
	1,620,745	1,419,558	**3,972,141**	2,856,487

	At 30 June 2017	At 31 December 2016	**At 30 June 2017**	At 31 December 2016
	Total assets	Total assets	**Total liabilities**	Total liabilities
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**317,969,895**	286,012,805	**285,401,022**	254,868,685
Mainland China	**16,914,639**	12,704,912	**15,331,780**	11,103,444
United States	**15,302,353**	9,862,043	**15,138,864**	9,641,057
Singapore	**12,655,626**	17,215,939	**12,501,663**	17,114,713
Others	**2,063,436**	2,662,933	**2,040,660**	2,612,354
Inter-segment items	**(37,350,995)**	(22,041,677)	**(36,196,384)**	(20,877,314)
	327,554,954	306,416,955	**294,217,605**	274,462,939

(4) INTEREST INCOME AND INTEREST EXPENSE

(a) Interest income

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Listed securities *(Note (i))*	**314,208**	289,327
Unlisted securities *(Note (i))*	**197,104**	157,581
Balances and placements with banks and other financial institutions	**312,151**	167,536
Advances and other accounts *(Note (ii))*	**3,286,314**	2,807,625
Interest income on financial assets that are not at fair value through profit or loss	**4,109,777**	3,422,069

Note:

(i) The Group has revisited the classification of listing status of debt securities during the period and certain comparative figures have been reclassified to conform with the current period's presentation.

(ii) Included in the above is interest income accrued on impaired financial assets of HK$21,633,000 (six months ended 30 June 2016: HK$27,828,000), which includes interest income on unwinding of discount on the loan impairment losses of HK$17,606,000 for the six months ended 30 June 2017 (six months ended 30 June 2016: HK$15,958,000).

(4) INTEREST INCOME AND INTEREST EXPENSE (CONTINUED)

(b) Interest expense

	Six months ended 30 June 2017 HK$'000	2016 HK$'000
Deposits from customers, banks and other financial institutions and others	**1,303,509**	1,199,760
Certificates of deposit issued	**92,277**	84,449
Debt securities issued	**16,145**	–
Loan capital issued	**252,798**	252,165
Interest expense on financial liabilities that are not at fair value through profit or loss	**1,664,729**	1,536,374

(5) NET FEE AND COMMISSION INCOME

	Six months ended 30 June 2017 HK$'000	2016 HK$'000
Fee and commission income		
Bills commission	**60,605**	57,220
Card-related income	**15,065**	14,622
General banking services	**77,981**	58,114
Insurance	**176,559**	195,997
Investment and structured investment products	**283,303**	37,299
Loans, overdrafts and facilities fees	**418,303**	215,696
Others	**365**	404
	1,032,181	579,352
Fee and commission expense	**(34,736)**	(28,291)
	997,445	551,061
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	**493,973**	287,538
– Fee and commission expense	**(11,037)**	(11,163)
	482,936	276,375

(6) NET TRADING INCOME

	Six months ended 30 June 2017 HK$'000	2016 HK$'000
Gains less losses from dealing in foreign currencies	**368,319**	201,717
Gains less losses from trading securities	**(4,840)**	12,288
Gains less losses from other dealing activities	**61,087**	21,728
Net interest income on trading activities		
– Listed *(Note)*	**22,347**	10,337
– Unlisted *(Note)*	**36,689**	80,603
	483,602	326,673

Note:

The Group has revisited the classification of listing status of debt securities during the period and certain comparative figures have been reclassified to conform with the current period's presentation.

(7) NET HEDGING LOSS

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Net hedging gain/(loss) on fair value hedges		
– Net gain on hedged items attributable to the hedged risk	**43,403**	8,953
– Net loss on hedging instruments	**(43,293)**	(9,668)
	110	(715)
– Net hedging loss on cash flow hedges	**(131)**	–
	(21)	(715)

(8) NET GAIN ON DISPOSAL OF AVAILABLE-FOR-SALE SECURITIES

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Net revaluation gain transferred from reserves	**18,839**	73,885
Net gain arisen in current period	**5,139**	889
	23,978	74,774

(9) OTHER OPERATING INCOME

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Dividend income from available-for-sale equity securities		
– Listed	**214**	91
– Unlisted	**4,100**	2,700
	4,314	2,791
Rental income from investment properties less direct outgoings of HK$147,000 (six months ended 30 June 2016: HK$158,000)	**2,634**	3,598
Others	**15,141**	12,610
	22,089	18,999

(10) OPERATING EXPENSES

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
(a) Staff costs		
Salaries and other staff costs	**909,921**	749,438
Retirement costs	**50,510**	44,483
	960,431	793,921
(b) Depreciation		
Depreciation of property and equipment		
– Assets held for use under operating leases	**9,680**	9,650
– Other assets	**73,790**	62,145
	83,470	71,795
(c) Other operating expenses		
Property and equipment expenses (excluding depreciation) *(Note)*		
– Rental of property	**135,784**	134,863
– Others	**119,580**	95,298
Auditors' remuneration	**4,027**	3,860
Advertising	**16,413**	15,924
Communication, printing and stationery	**47,338**	45,271
Legal and professional fees	**23,245**	24,163
Others	**96,740**	96,119
	443,127	415,498
Total operating expenses	**1,487,028**	1,281,214

Note:

Included in other operating expenses are the minimum lease payment under operating leases of HK$2,599,000 (six months ended 30 June 2016: HK$2,645,000) for renting equipment, and HK$129,690,000 (six months ended 30 June 2016: HK$128,389,000) for renting property and other assets for the six months ended 30 June 2017.

(11) IMPAIRMENT LOSSES ON LOANS AND ADVANCES AND OTHER ACCOUNTS

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Impairment losses		
– Loans and advances	**854,779**	1,330
– Other accounts	**12,693**	154,124
	867,472	155,454
Impairment losses charged/(written-back) on loans and advances and other accounts		
– Individual assessment	**801,766**	187,661
– Collective assessment	**65,706**	(32,207)
	867,472	155,454
of which:		
– Additions	**1,020,859**	275,483
– Releases	**(135,747)**	(86,167)
– Recoveries	**(17,640)**	(33,862)
	867,472	155,454

(12) INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
Provision for the period	**220,204**	198,041
Over-provision in respect of prior periods	**(14,000)**	–
	206,204	198,041
Current tax – Overseas		
Provision for the period	**14,645**	14,084
Under-provision in respect of prior periods	**20,727**	1,962
	35,372	16,046
Deferred tax		
(Reversal)/Origination of temporary differences *(note 24(b))*	**(9,211)**	16,216
	232,365	230,303

The provision for Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 June 2016: 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	At 31 December
	2017	2016
	HK$'000	*HK$'000*
Cash in hand	**240,950**	343,773
Balances with central banks	**1,824,089**	2,169,326
Balances with banks	**10,443,021**	13,024,014
Balances with other financial institutions	**30,735,842**	12,003,320
	43,243,902	27,540,433

(14) PLACEMENTS WITH AND ADVANCES TO BANKS, CENTRAL BANKS AND OTHER FINANCIAL INSTITUTIONS

	At 30 June	At 31 December
	2017	2016
	HK$'000	*HK$'000*
Placements with banks	**20,759,754**	22,275,290
Advances to banks	**769,397**	614,423
	21,529,151	22,889,713
Maturing:		
– Within 1 month	**18,053,866**	6,663,169
– Between 1 month and 1 year	**3,475,285**	16,226,544
	21,529,151	22,889,713

There were no impaired advances to banks and other financial institutions at 30 June 2017 and 31 December 2016, nor were there any individually assessed impairment allowances made for them on these two dates.

(15) TRADING ASSETS

	At 30 June 2017 HK$'000	At 31 December 2016 HK$'000
Trading securities		
– Debt securities	**610,688**	1,321,751
– Investment funds	**869**	1,078
Positive fair values of derivatives *(notes 33)*	**2,908,762**	4,258,891
	3,520,319	5,581,720
Issued by:		
Sovereigns	**223**	500
Banks and other financial institutions	**137,542**	1,153,365
Corporate entities	**473,792**	168,964
	611,557	1,322,829
Listed *(Note)*	**610,688**	1,156,255
Unlisted *(Note)*	**869**	166,574
	611,557	1,322,829

Note:

The Group has revisited the classification of listing status of debt securities during the period and certain comparative figures have been reclassified to conform with the current period's presentation.

(16) LOANS AND ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS

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

	At 30 June 2017 HK$'000	At 31 December 2016 HK$'000
Gross loans and advances to customers	**196,030,760**	183,764,241
Impairment allowances		
– Individually assessed	**(1,201,400)**	(627,498)
– Collectively assessed	**(380,643)**	(322,864)
	194,448,717	182,813,879
Accrued interest and other accounts	**7,478,419**	8,620,610
Impairment allowances		
– Individually assessed	**(85,979)**	(147,951)
	7,392,440	8,472,659
	201,841,157	191,286,538
Included in loans and advances to customers:		
Trade bills	**1,257,335**	2,191,085
Impairment allowances		
– Collectively assessed	**(520)**	(1,762)
	1,256,815	2,189,323

Note:

At 30 June 2017, an impairment provision of HK$85,210,000 (2016: HK$147,182,000) 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 2017		At 31 December 2016	
	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	**15,390,516**	**28**	13,578,793	54
– Property investment	**24,497,819**	**69**	25,060,936	67
– Financial concerns	**10,236,933**	**37**	9,171,320	24
– Stockbrokers	**3,277,047**	**48**	3,131,047	49
– Wholesale and retail trade	**15,516,981**	**74**	17,002,524	70
– Manufacturing	**13,324,310**	**34**	10,063,497	29
– Transport and transport equipment	**2,727,801**	**26**	2,946,243	28
– Recreational activities	**1,305,937**	**75**	1,205,638	72
– Information technology	**3,860,601**	**82**	3,451,364	91
– Others	**16,516,128**	**45**	9,831,651	51
Individuals				
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**18,545**	**100**	11,464	100
– Loans for the purchase of other residential properties	**14,317,990**	**100**	13,407,510	100
– Credit card advances	**424,080**	**–**	445,821	–
– Others	**8,775,409**	**88**	8,304,307	87
Gross loans and advances for use in Hong Kong	**130,190,097**	**59**	117,612,115	62
Trade finance	**9,228,441**	**29**	10,644,560	28
Gross loans and advances for use outside Hong Kong	**56,612,222**	**31**	55,507,566	32
Gross loans and advances to customers	**196,030,760**	**50**	183,764,241	51

(16) LOANS AND ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS (CONTINUED)

(c) Impaired loans and advances to customers

	At 30 June 2017 *HK$'000*	At 31 December 2016 *HK$'000*
Gross impaired loans and advances to customers	**2,733,487**	1,766,666
Impairment allowances – Individually assessed	**(1,201,400)**	(627,498)
	1,532,087	1,139,168
Gross impaired loans and advances as a % of total loans and advances to customers	**1.39%**	0.96%

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$530,571,000 (31 December 2016: HK$578,847,000) 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 2017	
	Individual impairment allowances *HK$'000*	**Collective impairment allowances** *HK$'000*	**Impaired loans and advances to customers** *HK$'000*
Gross loans and advances for use in Hong Kong:			
– Property investment	**–**	**1,268**	**54,873**
Gross loans and advances for use outside Hong Kong	**341,458**	**115,260**	**1,097,985**
	341,458	**116,528**	**1,152,858**

		At 31 December 2016	
	Individual impairment allowances *HK$'000*	Collective impairment allowances *HK$'000*	Impaired loans and advances to customers *HK$'000*
Gross loans and advances for use in Hong Kong:			
– Property investment	304	1,858	26,095
Gross loans and advances for use outside Hong Kong	152,342	112,808	647,766
	152,646	114,666	673,861

(17) AVAILABLE-FOR-SALE SECURITIES

	At 30 June 2017 HK$'000	At 31 December 2016 HK$'000
Certificates of deposit held	**14,542,796**	15,922,277
Debt securities	**30,396,090**	29,074,574
Treasury bills (including Exchange Fund Bills)	**11,425,156**	13,111,688
Equity securities	**110,790**	95,732
	56,474,832	58,204,271
Issued by:		
Sovereigns	**13,122,691**	14,664,781
Banks and other financial institutions	**32,882,219**	33,673,029
Corporate entities	**9,072,749**	7,812,716
Public entities	**1,397,173**	2,053,745
	56,474,832	58,204,271
Listed *(Note)*	**25,914,504**	24,069,686
Unlisted *(Note)*	**30,560,328**	34,134,585
	56,474,832	58,204,271
Fair value of individually impaired debt securities	**–**	27,631

Note:

The Group has revisited the classification of listing status of debt securities during the period and certain comparative figures have been reclassified to conform with the current period's presentation.

(18) PROPERTY AND EQUIPMENT

	Investment properties *HK$'000*	Other premises *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Computer equipment *HK$'000*	Total *HK$'000*
Cost or valuation:					
At 1 January 2017	**138,490**	**689,009**	**961,215**	**527,868**	**2,316,582**
Additions	**–**	**–**	**19,447**	**95,003**	**114,450**
Reclassification	**(20,000)**	**20,000**	**–**	**–**	**–**
Disposals	**–**	**–**	**(10,442)**	**(5,511)**	**(15,953)**
Surplus on revaluation	**7,009**	**–**	**–**	**–**	**7,009**
Exchange adjustments	**–**	**–**	**4,783**	**–**	**4,783**
At 30 June 2017	**125,499**	**709,009**	**975,003**	**617,360**	**2,426,871**
At 1 January 2016	185,944	632,009	910,161	403,345	2,131,459
Additions	–	–	69,379	124,533	193,912
Reclassification	(57,000)	57,000	–	–	–
Disposals	–	–	(13,129)	(10)	(13,139)
Surplus on revaluation	9,546	–	–	–	9,546
Exchange adjustments	–	–	(5,196)	–	(5,196)
At 31 December 2016	138,490	689,009	961,215	527,868	2,316,582
Accumulated depreciation:					
At 1 January 2017	**–**	**319,530**	**758,550**	**342,626**	**1,420,706**
Charge for the period *(note 10(b))*	**–**	**8,022**	**42,509**	**32,939**	**83,470**
Written back on disposals	**–**	**–**	**(9,675)**	**(2,321)**	**(11,996)**
Exchange adjustments	**–**	**–**	**4,234**	**–**	**4,234**
At 30 June 2017	**–**	**327,552**	**795,618**	**373,244**	**1,496,414**
At 1 January 2016	–	305,709	690,762	291,771	1,288,242
Charge for the year	–	13,821	85,534	50,865	150,220
Written back on disposals	–	–	(13,043)	(10)	(13,053)
Exchange adjustments	–	–	(4,703)	–	(4,703)
At 31 December 2016	–	319,530	758,550	342,626	1,420,706
Net book value:					
At 30 June 2017	**125,499**	**381,457**	**179,385**	**244,116**	**930,457**
At 31 December 2016	138,490	369,479	202,665	185,242	895,876

Investment properties

All investment properties of the Group were revalued and assessed by the management of the Group at 30 June 2017 with reference to the property valuation report which was conducted by an independent firm of surveyors. The basis of the property valuation was market value, which is consistent with the definition of fair value under HKFRS 13, *Fair value measurement*. The revaluation gain of HK$7,009,000 (31 December 2016: a revaluation gain of HK$9,546,000) was recognised and charged to the income statement for the period ended 30 June 2017.

(19) DEPOSITS AND BALANCES OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	At 30 June 2017 *HK$'000*	At 31 December 2016 *HK$'000*
Deposits and balances from banks	**6,401,044**	5,256,660

(20) DEPOSITS FROM CUSTOMERS

	At 30 June 2017 *HK$'000*	At 31 December 2016 *HK$'000*
Demand deposits and current deposits	**25,545,741**	22,124,842
Savings deposits	**57,828,366**	46,115,748
Time, call and notice deposits	**169,541,830**	167,334,110
	252,915,937	235,574,700

(21) TRADING LIABILITIES

	At 30 June 2017 *HK$'000*	At 31 December 2016 *HK$'000*
Negative fair value of derivatives *(notes 33)*	**3,146,253**	3,996,444

(22) CERTIFICATES OF DEPOSIT ISSUED

	At 30 June 2017 *HK$'000*	At 31 December 2016 *HK$'000*
At amortised cost	**10,720,998**	10,593,445

(23) DEBT SECURITIES ISSUED

	At 30 June 2017 *HK$'000*	At 31 December 2016 *HK$'000*
At amortised cost	**3,440,457**	–

(24) INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	At 30 June 2017 *HK$'000*	At 31 December 2016 *HK$'000*
Hong Kong Profits Tax		
– Balance of provision relating to prior periods	**176,022**	(31,389)
– (Over)/Under-provision in respect of prior periods	**(14,000)**	13,855
– Provision for the period/year	**220,204**	437,512
– Tax paid during the period/year	**(80,162)**	(243,956)
	302,064	176,022
Overseas Taxation		
– Balance of provision relating to prior periods	**19,196**	60,185
– Provision for the period/year	**36,116**	21,557
– Tax paid during the period/year	**(17,201)**	(62,546)
	38,111	19,196
	340,175	195,218
Of which:		
Tax recoverable	**–**	(187)
Current taxation	**340,175**	195,405
	340,175	195,218

(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 2017	**45,017**	**(51,568)**	**1,525**	**(12,815)**	**1,144**	**(16,697)**
Charged/(credited) to consolidated income statement *(note 12)*	**7,353**	**(9,762)**	**–**	**–**	**(6,802)**	**(9,211)**
Charged/(credited) to reserves	**–**	**–**	**–**	**20,577**	**(124)**	**20,453**
Exchange and other adjustments	**(9)**	**(63)**	**–**	**–**	**186**	**114**
At 30 June 2017	**52,361**	**(61,393)**	**1,525**	**7,762**	**(5,596)**	**(5,341)**
At 1 January 2016	34,501	(61,915)	1,614	(35)	(8,760)	(34,595)
Charged/(credited) to consolidated income statement	10,455	10,593	(89)	–	9,587	30,546
Charged/(credited) to reserves	–	–	–	(12,780)	211	(12,569)
Exchange and other adjustments	61	(246)	–	–	106	(79)
At 31 December 2016	45,017	(51,568)	1,525	(12,815)	1,144	(16,697)

	At 30 June 2017 *HK$'000*	At 31 December 2016 *HK$'000*
Net deferred tax assets recognised on the consolidated statement of financial position	**(15,136)**	(18,217)
Net deferred tax liabilities recognised on the consolidated statement of financial position	**9,795**	1,520
	(5,341)	(16,697)

(24) INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$641,000 at 30 June 2017 (31 December 2016: HK$641,000), as it is improbable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under the current tax legislation.

(25) OTHER LIABILITIES

	At 30 June 2017 *HK$'000*	At 31 December 2016 *HK$'000*
Accruals and other payables	**8,493,758**	10,138,928

(26) LOAN CAPITAL

	At 30 June 2017 *HK$'000*	At 31 December 2016 *HK$'000*
Subordinated notes of US$500 million at 6.875%*	**4,071,912**	4,063,457
Subordinated notes of US$300 million at 3.875%**	**2,337,632**	2,318,117
Subordinated notes of US$300 million at 6.000%***	**2,339,644**	2,324,263
	8,749,188	8,705,837

* 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 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 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 which 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 Stock Exchange of Hong Kong Limited and mature on 7 May 2024.

(27) CAPITAL AND RESERVES

(a) Share capital

(i) Ordinary shares

	At 30 June 2017		At 31 December 2016	
	No. of shares	***HK$'000***	*No. of shares*	*HK$'000*
Ordinary shares, issued and fully paid:				
At 1 January	**9,083,341,176**	**9,366,271**	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**	9,083,341,176	9,366,271

(ii) 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

The 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) Cash flow hedging reserve

The cash flow hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions.

(vi) Investment revaluation reserve

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

(vii) Statutory reserve

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

(27) CAPITAL AND RESERVES (CONTINUED)

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

(viii) Regulatory general reserve

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

(ix) Retained profits

A regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of impairment losses recognised which the Bank will or may incur on loans and advances. Movements in the reserve are earmarked directly through retained profits and in consultation with the HKMA. At 30 June 2017, HK$2,819,824,000 (31 December 2016: HK$2,805,429,000) was included in the retained profits in this respect, which was distributable to equity holders of the Bank subject to consultation with the HKMA.

(28) ADDITIONAL EQUITY INSTRUMENTS

	At 30 June 2017 *HK$'000*	At 31 December 2016 *HK$'000*
Undated non-cumulative subordinated capital securities of US$300 million*	**2,310,168**	2,310,168
Undated non-cumulative subordinated capital securities of US$500 million**	**3,863,084**	3,863,084
	6,173,252	6,173,252

* 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 listed on The Stock Exchange of Hong Kong Limited, 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 at 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 arrears on 22 April and 22 October each year. The Bank 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$84,501,000) was paid during the period ended 30 June 2017 (31 December 2016: US$21,750,000, equivalent to HK$168,735,000).

** Under a US$2 billion Medium Term Note Programme ("the Programme") issued in December 2007 and the new and supplemental offering circulars issued in August and September 2016, respectively, the Bank priced its US$500 million Basel III compliant Undated Non-Cumulative Subordinated Additional Tier 1 Capital Securities ("AT1 Capital Securities") with the legal binding subscription agreements signed on 29 September 2016. The AT1 Capital Securities with a face value and principal amount of US$500 million (equivalent to HK$3,877.86 million) are perpetual and listed on The Stock Exchange of Hong Kong Limited, and bear a 4.25% per annum distribution rate until the first call date on 11 October 2021. The distribution rate will be reset every five years if the AT1 Capital Securities are not called by the Bank at a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 3.107% per annum.

According to the terms and conditions, the AT1 Capital Securities confer a right to the holders to receive non-cumulative distributions on the principal amount from, and including, the issue date at the applicable distribution rate, payable semi-annually in arrears on 11 April and 11 October in each year. The Bank may, at its sole discretion, elect to cancel the distribution payment or redeem the AT1 Capital Securities subject to prior written consent of the HKMA. The outstanding amount of AT1 Capital Securities can be written down by the Bank following the occurrence of a non-viability event as defined and set out in the terms and conditions. At the sole discretion of the relevant Hong Kong Resolution Authority following a non-viability event, the outstanding amount of AT1 Capital Securities can be adjusted upon the exercise of Hong Kong Bail-in Power in accordance with the Hong Kong Financial Institutions (Resolution) Ordinance (Cap.628). A distribution payment of US$10,625,000 (equivalent to HK$82,559,000) was paid during the period ended 30 June 2017.

(29) NOTES TO CONSOLIDATED CASH FLOWS STATEMENT

	At 30 June 2017 HK$'000	At 30 June 2016 HK$'000
(a) Reconciliation of operating profit to net cash flows from operating activities		
Operating activities		
Profit before taxation	**1,620,745**	1,419,558
Adjustments for non-cash items:		
Impairment losses on loans and advances and other accounts	**867,472**	155,454
Net gain on disposal of available-for-sale securities	**(23,978)**	(74,774)
Net loss on disposal of property and equipment	**3,905**	24
Revaluation (gain)/loss on investment properties	**(7,009)**	237
Amortisation of deferred expenses	**7,492**	23,822
Depreciation on property and equipment	**83,470**	71,795
Dividend income from equity securities	**(4,314)**	(2,791)
Interest expense on loan capital	**252,798**	252,165
Foreign exchange differences	**181,095**	(3,798)
Operating profit before changes in working capital	**2,981,676**	1,841,692
(Increase)/decrease in operating assets		
Placements with and advances to banks, central banks and other financial institutions with original maturity beyond 3 months	**3,447,557**	3,828,475
Treasury bills with original maturity beyond 3 months	**2,156,835**	7,747,528
Certificates of deposit held with original maturity beyond 3 months	**2,130,788**	(3,432,104)
Trading assets	**2,061,401**	377,706
Loans and advances to customers and other accounts	**(11,432,027)**	(9,656,094)
Available-for-sale securities	**(1,215,407)**	(6,909,547)
	(2,850,853)	(8,044,036)
Increase/(decrease) in operating liabilities		
Deposits and balances of banks and other financial institutions	**1,144,384**	4,139,982
Deposits from customers	**17,333,257**	6,501,847
Trading liabilities	**(850,191)**	(332,459)
Certificates of deposit issued	**56,399**	2,533,034
Other liabilities	**(1,635,556)**	(2,819,045)
	16,048,293	10,023,359
Cash flows generated from operating activities	**16,179,116**	3,821,015
Income tax paid		
Hong Kong Profits Tax paid	**(80,162)**	(118,167)
Overseas tax paid	**(17,201)**	(26,737)
Net cash flows generated from operating activities	**16,081,753**	3,676,111
Cash flows from operating activities include:		
Interest received	**4,075,040**	3,380,609
Interest paid	**(1,391,019)**	(1,528,840)
(b) Analysis of the balances of cash and cash equivalents		
Cash and balances with banks, central banks and other financial institutions	**41,832,821**	25,530,700
Placements with and advances to banks, central banks and other financial institutions with original maturity within 3 months	**20,720,983**	22,405,237
Treasury bills and certificates of deposit held with original maturity within 3 months – Available-for-sale securities	**10,975,542**	8,831,220
	73,529,346	56,767,157

(30) MATURITY PROFILE

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

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

	At 30 June 2017							
	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	43,243,902	41,832,821	–	–	–	–	–	1,411,081
Placements with and advances to banks, central banks and other financial institutions	21,529,151	–	18,053,866	3,186,631	288,654	–	–	–
Trading assets	3,520,319	2,908,762	121,009	249,848	143,911	50,994	44,926	869
Loans and advances to customers and other accounts	201,841,157	5,987,136	19,091,817	25,558,921	57,971,345	64,284,877	22,952,566	5,994,495
Available-for-sale securities	56,474,832	–	5,798,081	12,613,119	17,319,010	18,196,807	2,437,025	110,790
Undated assets	945,593	–	–	–	–	–	–	945,593
Total assets	327,554,954	50,728,719	43,064,773	41,608,519	75,722,920	82,532,678	25,434,517	8,462,828
Liabilities								
Deposits and balances of banks and other financial institutions	6,401,044	4,805,570	697,664	782,757	115,053	–	–	–
Deposits from customers	252,915,937	83,374,107	71,123,177	73,884,537	24,348,920	172,296	12,900	–
Trading liabilities	3,146,253	3,146,253	–	–	–	–	–	–
Certificates of deposit issued	10,720,998	–	351,182	4,571,663	5,798,153	–	–	–
Debt securities issued	3,440,457	–	–	–	–	3,440,457	–	–
Current taxation	340,175	–	–	–	340,175	–	–	–
Other liabilities	8,493,758	–	596,548	1,281,401	1,869,242	–	–	4,746,567
Loan capital	8,749,188	–	–	2,337,632	–	6,411,556	–	–
Undated liabilities	9,795	–	–	–	–	–	–	9,795
Total liabilities	294,217,605	91,325,930	72,768,571	82,857,990	32,471,543	10,024,309	12,900	4,756,362
Asset-liability gap		(40,597,211)	(29,703,798)	(41,249,471)	43,251,377	72,508,369	25,421,617	

(30) MATURITY PROFILE (CONTINUED)

	At 31 December 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	27,540,433	26,458,664	–	–	–	–	–	1,081,769
Placements with and advances to banks, central banks and other financial institutions	22,889,713	–	6,663,169	13,803,935	2,422,609	–	–	–
Trading assets	5,581,720	4,258,891	170,724	280,825	176,901	693,301	–	1,078
Loans and advances to customers and other accounts	191,286,538	1,341,078	12,227,333	22,008,904	72,222,835	58,396,140	20,273,375	4,816,873
Available-for-sale securities	58,204,271	–	11,323,325	10,658,003	16,631,015	16,910,044	2,586,152	95,732
Tax recoverable	187	–	–	–	187	–	–	–
Undated assets	914,093	–	–	–	–	–	–	914,093
Total assets	306,416,955	32,058,633	30,384,551	46,751,667	91,453,547	75,999,485	22,859,527	6,909,545
Liabilities								
Deposits and balances of banks and other financial institutions	5,256,660	1,340,355	2,416,424	1,272,128	227,753	–	–	–
Deposits from customers	235,574,700	68,240,590	60,100,353	84,046,888	23,035,189	151,680	–	–
Trading liabilities	3,996,444	3,996,444	–	–	–	–	–	–
Certificates of deposit issued	10,593,445	–	838,556	1,950,935	7,703,508	100,446	–	–
Current taxation	195,405	–	–	–	195,405	–	–	–
Other liabilities	10,138,928	–	1,849,287	1,811,635	2,070,550	891,443	–	3,516,013
Loan capital	8,705,837	–	–	–	2,318,117	6,387,720	–	–
Undated liabilities	1,520	–	–	–	–	–	–	1,520
Total liabilities	274,462,939	73,577,389	65,204,620	89,081,586	35,550,522	7,531,289	–	3,517,533
Asset-liability gap		(41,518,756)	(34,820,069)	(42,329,919)	55,903,025	68,468,196	22,859,527	

(31) MATERIAL RELATED-PARTY TRANSACTIONS

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

(a) Transactions with group companies

During the period, the Group entered into a number of transactions with related parties in the normal course of its banking business including, inter alia, lending, acceptance and placement of inter-bank deposits, and participation in loan syndicates, correspondent banking transactions and foreign exchange transactions. The transactions were priced based on relevant market rates at the time of each transaction, and were under the same terms as those available to other counterparties and customers of the Group. In the opinion of Directors, 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		Associates *(note (i))*		Related companies *(note (ii))*	
					Six months ended 30 June					
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
	HK\$'000	*HK\$'000*	***HK\$'000***	*HK\$'000*	***HK\$'000***	*HK\$'000*	***HK\$'000***	*HK\$'000*	***HK\$'000***	*HK\$'000*
Interest income	**18,801**	22,209	**–**	–	**24,387**	21,235	**8,229**	7,170	**24,330**	4,460
Interest expense	**(95,161)**	(67,805)	**(2,189)**	(2,169)	**(23,864)**	(26,459)	**(11,610)**	(6,514)	**(2)**	(3)
Other operating income	**(1,723)**	–	**–**	–	**–**	–	**4,545**	12,337	**–**	–
Operating expenses	**–**	–	**–**	(2,500)	**(2,730)**	(2,806)	**–**	–	**–**	–
Net trading gain/(loss)	**100,191**	254,730	**–**	–	**769**	7,089	**14,667**	(2,619)	**(8,340)**	(19)
					At 30 June 2017/ 31 December 2016					
Assets										
Available-for-sale securities	**–**	196,391	**–**	–	**–**	–	**174,821**	174,535	**–**	–
Derivative financial instruments	**16,913**	72,187	**–**	–	**–**	–	**13,066**	27,538	**9,287**	–
Other receivables	**600**	3,178	**–**	–	**3,586**	3,875	**2,313**	1,596	**139**	–
Liabilities										
Derivative financial instruments	**73,980**	40,188	**–**	–	**3,407**	4,221	**4**	25,259	**36,053**	–
Other payables	**22,538**	12,842	**838**	886	**11,612**	10,611	**4,376**	332	**–**	2,794
Lending activities:										
At 30 June/31 December	**517,355**	320,358	**–**	–	**1,732,737**	2,707,688	**260,217**	600,000	**1,047,643**	–
Average for the period/year	**679,320**	2,016,340	**–**	–	**2,141,095**	2,013,141	**632,667**	577,446	**1,038,833**	–
Acceptance of deposits:										
At 30 June/31 December	**13,065,194**	8,559,965	**415,182**	415,929	**4,926,126**	11,465,328	**4,124,283**	3,148,578	**35,567**	677,293
Average for the period/year	**12,046,341**	7,653,279	**415,822**	413,580	**4,939,630**	5,704,286	**3,653,969**	4,480,058	**34,166**	871,947
					At 30 June 2017/ 31 December 2016					
Off-statement of financial position items										
Acceptances, guarantees and letters of credit										
– contract amounts payable	**–**	–	**–**	–	**(110,690)**	(107,077)	**–**	–	**–**	–
Lease commitments	**–**	–	**–**	–	**7,490**	1,552	**–**	–	**–**	–
Other commitments	**–**	–	**–**	–	**205,028**	145,489	**1,295,121**	1,134,273	**484,794**	222,861
Derivative financial instruments										
– notional amounts	**12,678,953**	6,867,094	**–**	–	**390,326**	387,744	**777,984**	2,495,188	**1,061,687**	–

(31) MATERIAL RELATED-PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with group companies (continued)

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

Note:

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

(ii) 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, including the amount paid to the Bank's Directors and certain employees with the highest emoluments are as follows:

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Short-term employee benefits	**42,698**	43,175
Post-employment benefits	**1,652**	1,469
	44,350	44,644

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.

	2017	2016
	HK$'000	*HK$'000*
At 1 January	**18,331**	21,058
At 30 June 2017/31 December 2016	**20,861**	18,331
Maximum amount during the period/year	**21,855**	21,889

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

(32) FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial instruments measured at fair value

(i) Fair value hierarchy

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

		Fair value measurements as at 30 June 2017 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*
Recurring fair value measurements				
Assets				
Trading assets				
– Debt securities	**610,688**	**610,688**	**–**	**–**
– Investment funds	**869**	**–**	**–**	**869**
– Positive fair values of derivatives	**2,908,762**	**576**	**2,908,186**	**–**
	3,520,319	**611,264**	**2,908,186**	**869**
Available-for-sale securities				
– Certificates of deposit held	**14,542,796**	**30,053**	**14,512,743**	**–**
– Treasury bills (including Exchange Fund Bills)	**11,425,156**	**11,425,156**	**–**	**–**
– Debt securities	**30,396,090**	**27,532,143**	**2,859,947**	**4,000**
– Equity securities	**110,790**	**87,249**	**–**	**23,541**
	56,474,832	**39,074,601**	**17,372,690**	**27,541**
	59,995,151	**39,685,865**	**20,280,876**	**28,410**
Liabilities				
Trading liabilities				
–Negative fair value of derivatives	**3,146,253**	**931**	**3,145,322**	**–**

(32) FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

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

(i) Fair value hierarchy (continued)

		Fair value measurements as at 31 December 2016 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*
Recurring fair value measurements				
Assets				
Trading assets				
– Debt securities	1,321,751	649,073	672,678	–
– Investment funds	1,078	–	–	1,078
– Positive fair values of derivatives	4,258,891	494	4,258,397	–
	5,581,720	649,567	4,931,075	1,078
Available-for-sale securities				
– Certificates of deposit held	15,922,277	28,065	15,894,212	–
– Treasury bills (including Exchange Fund Bills)	13,111,688	13,111,688	–	–
– Debt securities	29,074,574	24,822,266	4,248,308	4,000
– Equity securities	95,732	72,236	–	23,496
	58,204,271	38,034,255	20,142,520	27,496
	63,785,991	38,683,822	25,073,595	28,574
Liabilities				
Trading liabilities				
–Negative fair value of derivatives	3,996,444	–	3,996,444	–

During the period ended 30 June 2017 and year ended 31 December 2016, there were no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy.

(32) FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

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

(ii) Determination of fair value

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

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

Level 2 –

(i) Quoted market price for identical or similar instruments that are not active;

(ii) 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.

(32) FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

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

(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 an 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.

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 2017			
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 2017	**1,078**	**4,000**	**23,496**	**28,574**
Sales	**(119)**	**–**	**–**	**(119)**
Gains or losses recognised in the income statement	**(90)**	**–**	**45**	**(45)**
At 30 June 2017	**869**	**4,000**	**23,541**	**28,410**
Total gains or losses for the period included in the income statement for assets held at the end of the reporting period recorded in:				
– Gains less losses from dealing in foreign currencies	**–**	**–**	**45**	**45**
– Gains less losses from trading securities	**(90)**	**–**	**–**	**(90)**

(32) FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

	At 31 December 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
Sales	(253)	–	–	(253)
Gains or losses recognised in the income statement	(158)	–	(19)	(177)
At 31 December 2016	1,078	4,000	23,496	28,574
Total gains or losses for the period 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	–	–	(19)	(19)
– Gains less losses from trading securities	(158)	–	–	(158)

(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 2017			
	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	**87**	**(87)**	**–**	**–**
Available-for-sale securities				
– Debt securities	**–**	**–**	**400**	**(400)**
– Equity securities	**–**	**–**	**2,354**	**(2,354)**

	At 31 December 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	107	(107)	–	–
Available-for-sale securities				
– Debt securities	–	–	400	(400)
– Equity securities	–	–	2,350	(2,350)

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.

(32) FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(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 2017 and 31 December 2016 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, approximately equals their carrying amount.

Trading assets, securities designated at fair value through profit or loss and available-for-sale securities are stated at fair value in the financial statements.

(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 2017 and 31 December 2016, except the following:

	At 30 June 2017				
	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	**10,720,998**	**10,714,957**	**–**	**10,714,957**	**–**
Debt securities	**3,440,457**	**3,416,356**	**–**	**3,416,356**	**–**
Loan capital	**8,749,188**	**9,100,470**	**9,100,470**	**–**	**–**
	22,910,643	**23,231,783**	**9,100,470**	**14,131,313**	**–**

	At 31 December 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	10,593,445	10,538,350	–	10,538,350	–
Loan capital	8,705,837	9,066,351	9,066,351	–	–
	19,299,282	19,604,701	9,066,351	10,538,350	–

(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 amount of each significant type of derivative entered into by the Group:

	At 30 June 2017			At 31 December 2016		
	Held for hedging *HK$'000*	**Others (including held for trading)** *HK$'000*	**Total** *HK$'000*	Held for hedging *HK$'000*	Others (including held for trading) *HK$'000*	Total *HK$'000*
Currency derivatives						
Forwards	**–**	**62,162,684**	**62,162,684**	–	61,417,578	61,417,578
Swaps	**–**	**345,809,133**	**345,809,133**	–	206,534,675	206,534,675
Options purchased	**–**	**21,754,554**	**21,754,554**	–	21,199,511	21,199,511
Options written	**–**	**22,610,491**	**22,610,491**	–	19,191,456	19,191,456
Interest rate derivatives						
Forwards/Futures	**–**	**4,824,431**	**4,824,431**	–	38,774	38,774
Swaps	**14,852,749**	**31,683,544**	**46,536,293**	15,698,972	26,714,391	42,413,363
Options purchased	**–**	**1,000,000**	**1,000,000**	–	1,000,000	1,000,000
Options written	**–**	**1,078,065**	**1,078,065**	–	1,077,549	1,077,549
	14,852,749	**490,922,902**	**505,775,651**	15,698,972	337,173,934	352,872,906

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

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

	At 30 June 2017			At 31 December 2016		
	Fair value assets ***(note 15)*** *HK$'000*	**Fair value liabilities** ***(note 21)*** *HK$'000*	**Credit risk-weighted amount** *HK$'000*	Fair value assets *(note 15)* *HK$'000*	Fair value liabilities *(note 21)* *HK$'000*	Credit risk-weighted amount *HK$'000*
Currency derivatives	**2,673,294**	**3,091,415**	**3,905,314**	3,987,522	3,946,546	4,447,257
Interest rate derivatives	**235,468**	**54,838**	**228,087**	271,369	49,898	196,481
	2,908,762	**3,146,253**	**4,133,401**	4,258,891	3,996,444	4,643,738

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 2016: 0% to 150%) for contingent liabilities and commitments, and from 0% to 150% (31 December 2016: 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.

(33) DERIVATIVES (CONTINUED)

(c) Fair value of derivatives designated as hedging instruments

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

	At 30 June 2017		At 31 December 2016	
	Fair value assets	**Fair value liabilities**	Fair value assets	Fair value liabilities
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Interest rate contracts				
– Fair value hedge	**186,590**	**31,993**	223,306	25,520
– Cash flow hedge	**560**	**–**	1,441	–
	187,150	**31,993**	224,747	25,520

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.

Cash flow hedges principally consist of interest rate swaps that are used to protect against exposures to variability in future interest and principal cash flows on non-trading liabilities which bear interest at variable rates. Net loss recognised in equity, in the cash flow hedging reserve, was HK$751,000 (2016: net gain of HK$1,279,000) and a loss of HK$131,000 (2016: a gain of HK$162,000) of ineffectiveness recognised in the Group's income statement which arising from cash flow hedge during the period ended 30 June 2017.

(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 2017 Notional amounts with remaining life of			
	Total	**1 year or less**	**Over 1 year to 5 years**	**Over 5 years**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Currency derivatives	**452,336,862**	**427,067,344**	**24,892,876**	**376,642**
Interest rate derivatives	**53,438,789**	**30,403,689**	**21,031,634**	**2,003,466**
	505,775,651	**457,471,033**	**45,924,510**	**2,380,108**

	At 31 December 2016 Notional amounts with remaining life of			
	Total	1 year or less	Over 1 year to 5 years	Over 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Currency derivatives	308,343,220	292,085,731	15,873,128	384,361
Interest rate derivatives	44,529,686	24,307,839	18,041,043	2,180,804
	352,872,906	316,393,570	33,914,171	2,565,165

(34) ASSETS PLEDGED AS SECURITY AND COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

	At 30 June 2017 *HK$'000*	At 31 December 2016 *HK$'000*
Assets pledged as security		
Cash and balances with banks, central banks and other financial institutions	**7,806**	–
Available-for-sale securities pledged as statutory deposits *(Note (i))*	**85,872**	85,304
Trading securities pledged for own liabilities *(Note (ii))*	**23,419**	–
	117,097	85,304

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 30 June 2017, the assets pledged regarded as 'collateral' under the sale and repurchase transactions for the secured liabilities of HK$20,906,000 included in deposits and balances of banks and other financial institutions.

(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 liability and commitment:

	At 30 June 2017 *HK$'000*	At 31 December 2016 *HK$'000*
Direct credit substitutes	**3,765,079**	4,368,584
Transaction-related contingencies	**430,233**	535,590
Trade-related contingencies	**2,589,419**	2,767,669
Other commitments:		
– which are unconditionally cancellable or automatically cancellable due to deterioration in the creditworthiness of the borrower	**111,347,522**	105,242,666
– with an original maturity of not more than 1 year	**7,723,877**	5,232,137
– with an original maturity of more than 1 year	**3,762,654**	3,761,125
	129,618,784	121,907,771
Credit risk-weighted amounts	**6,119,746**	5,205,562

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 2016: 0% to 150%).

(35) CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS (CONTINUED)

(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 2017	At 31 December 2016
	HK$'000	*HK$'000*
Authorised and contracted for	**161,615**	166,037

(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 2017.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in Hong Kong dollars unless otherwise indicated)

(A) SUMMARY OF FINANCIAL POSITION

	At 30 June 2017 *HK$'000*	At 31 December 2016 *HK$'000*
Loans and advances to customers	**196,030,760**	183,764,241
Impairment allowances on loans and advances to customers	**1,582,043**	950,362
Total assets	**327,554,954**	306,416,955
Total customers deposits	**263,636,935**	246,168,145
Total equity	**33,337,349**	31,954,016

Financial ratios	**At 30 June 2017**	At 31 December 2016
Common Equity Tier 1 ("CET1") capital ratio	**11.0%**	10.8%
Tier 1 capital ratio	**13.9%**	13.7%
Total capital ratio	**17.5%**	17.8%
Average liquidity maintenance ratio for the period/year ended*	**57.9%**	60.8%
Loans to deposits	**74.4%**	74.7%
Loans to total assets	**59.8%**	60.0%
Cost to income (six months ended 30 June 2016: 44.9%)	**37.4%**	43.9%
Return on assets (six months ended 30 June 2016: 0.85%)	**0.86%**	0.87%
Return on average total equity attributable to equity shareholders of the Bank (six months ended 30 June 2016: 9.88%)	**10.41%**	10.25%

* 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 2017 *HK$'000*	At 31 December 2016 *HK$'000*
Common Equity Tier 1 ("CET1") capital instruments and reserves		
Directly issued qualifying CET1 capital instruments plus any related share premium	**9,366,271**	9,366,271
Retained earnings	**17,480,720**	16,259,623
Disclosed reserves	**316,954**	154,870
CET1 capital before regulatory deductions	**27,163,945**	25,780,764
CET1 capital: regulatory deductions		
Deferred tax assets net of deferred tax liabilities	**15,136**	18,217
Cash flow hedging reserve	**441**	1,068
Cumulative fair value gains arising from the revaluation of land and buildings (covering both own-use and investment properties)	**77,051**	87,873
Regulatory reserve for general banking risks	**2,819,824**	2,805,429
Valuation adjustments	**9,526**	7,013
Debt valuation adjustments in respect of derivative contracts	**1,514**	1,878
Total regulatory deductions to CET1 capital	**2,923,492**	2,921,478
CET1 capital	**24,240,453**	22,859,286
Additional Tier 1 ("AT1") capital		
Total Additional Tier 1 capital	**6,177,015**	6,177,015
Tier 1 capital	**30,417,468**	29,036,301
Tier 2 capital instruments and provisions		
Qualifying Tier 2 capital instruments plus any related share premium	**5,462,244**	6,044,744
Reserve attributable to fair value gains on revaluation of holdings of land and buildings	**34,673**	39,543
Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	**2,540,570**	2,431,093
Tier 2 capital base before deductions	**8,037,487**	8,515,380
Tier 2 capital: regulatory deductions		
Total regulatory deductions to Tier 2 capital	**–**	–
Tier 2 capital	**8,037,487**	8,515,380
Total capital	**38,454,955**	37,551,681

(ii) Risk-weighted amount

– Credit risk	**204,010,029**	195,100,156
– Market risk	**3,536,050**	5,050,513
– Operational risk	**11,960,975**	11,405,438
	219,507,054	211,556,107

(C) CAPITAL ADEQUACY (CONTINUED)

(iii) Capital adequacy ratios

	At 30 June 2017	At 31 December 2016
– CET1 capital ratio	**11.0%**	10.8%
– Tier 1 capital ratio	**13.9%**	13.7%
– Total capital ratio	**17.5%**	17.8%

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

With effect from 1 January 2016, the capital buffer ratios applicable to the Group on a consolidated basis are follows:

	At 30 June 2017	At 31 December 2016
Capital conservation buffer ratio	**1.250%**	0.625%
Countercyclical capital buffer ("CCyB") ratio	**0.635%**	0.334%
	1.885%	0.959%

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.

(v) Capital instruments

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

	At 30 June 2017 *HK$'000*	At 31 December 2016 *HK$'000*
CET1 capital instruments issued by the Bank		
Ordinary shares:		
9,083,341,176 issued and fully paid ordinary shares	**9,366,271**	9,366,271

	At 30 June 2017 *HK$'000*	At 31 December 2016 *HK$'000*
Additional Tier 1 Capital Securities		
Undated non-cumulative subordinated capital securities with US$300 million	**2,310,168**	2,310,168
Undated non-cumulative subordinated capital securities with US$500 million	**3,863,084**	3,863,084
	6,173,252	6,173,252

	At 30 June 2017 *HK$'000*	At 31 December 2016 *HK$'000*
Tier 2 capital instruments		
Issued by the Bank		
– Subordinated note due 2020 (nominal value: US$500 million)	**4,071,912**	4,063,457
– Subordinated note due 2022 (nominal value: US$300 million)	**2,337,632**	2,318,117
– Subordinated note due 2024 (nominal value: US$300 million)	**2,339,644**	2,324,263
	8,749,188	8,705,837

(C) CAPITAL ADEQUACY (CONTINUED)

(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 2017	At 31 December 2016
	8.8%	9.1%

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.

(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 2017	
Names of subsidiary	**Principal activities**	**Total assets** ***HK$'000***	**Total equity** ***HK$'000***
Viewcon Hong Kong Limited	Mortgage financing	**1,393**	**1,342**

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 2017	
Names of subsidiaries	**Principal activities**	**Total assets** ***HK$'000***	**Total equity** ***HK$'000***
Carford International Limited	Property holding	**35,476**	**12,901**
CITIC Bank International (China) Limited	Banking	**16,529,332**	**1,536,562**
CITIC Insurance Brokers Limited	Insurance broker	**70,495**	**33,960**
CKWB-SN Limited	Issue of structured notes and investments	**–**	**–**
CKWH-UT2 Limited	Issue of subordinated notes	**–**	**–**
HKCB Finance Limited	Consumer financing	**6,296,799**	**473,090**
Ka Wah International Merchant Finance Limited	Inactive	**3,907**	**3,781**
The Ka Wah Bank (Trustee) Limited	Trustee services	**5,507**	**5,492**
Viewcon Hong Kong Limited	Mortgage financing	**1,393**	**1,342**

(C) CAPITAL ADEQUACY (CONTINUED)

(vii) Basis of consolidation (continued)

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

Names of subsidiaries	Principal activities	At 30 June 2017 Total assets *HK$'000*	 Total equity *HK$'000*
The Hongkong Chinese Bank (Nominees) Limited	Nominee services	**4**	**4**
The Ka Wah Bank (Nominees) Limited	Nominee services	**3,307**	**225**
Security Nominees Limited	Nominee services	**–**	**–**
Sino-Allied Development Limited	Inactive	**10**	**10**

As at 30 June 2017, 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 2017				
	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	**95,693,766**	**1,085,302**	**1,467,420**	**706,831**	**173,243**
Mainland China	**81,658,142**	**340,475**	**1,161,081**	**436,162**	**164,691**
United States	**6,570,317**	**–**	**–**	**–**	**3,065**
Singapore	**2,864,440**	**–**	**–**	**–**	**10,312**
Others	**9,244,095**	**–**	**104,986**	**58,407**	**29,332**
	196,030,760	**1,425,777**	**2,733,487**	**1,201,400**	**380,643**

	At 31 December 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	93,832,960	755,026	1,185,045	482,324	159,342
Mainland China	66,771,703	493,342	479,970	103,513	111,132
United States	5,807,229	–	–	–	6,526
Singapore	5,504,082	–	–	–	13,386
Others	11,848,267	101,651	101,651	41,661	32,478
	183,764,241	1,350,019	1,766,666	627,498	322,864

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 2017		At 31 December 2016	
	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	**9,125**	**0.00**	190,035	0.10
– 1 year or less but over 6 months	**797,066**	**0.41**	275,830	0.15
– over 1 year	**619,586**	**0.32**	884,154	0.48
	1,425,777	**0.73**	1,350,019	0.73
Secured overdue loans and advances	**433,887**		683,672	
Unsecured overdue loans and advances	**991,890**		666,347	
	1,425,777		1,350,019	
Market value of collateral held against the secured overdue loans and advances	**1,087,668**		1,331,375	
Individual impairment allowance made	**646,765**		369,998	

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 2017 and 31 December 2016 respectively.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(F) RESCHEDULED LOANS

	At 30 June 2017		At 31 December 2016	
	HK$'000	**% of total loans and advances to customers**	*HK$'000*	% of total loans and advances to customers
Rescheduled loans	**4,191**	**0.00**	3,218	0.00

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 2017 and 31 December 2016 respectively.

(G) REPOSSESSED ASSETS

	At 30 June 2017	At 31 December 2016
	HK$'000	*HK$'000*
Included in loans and advances to customers and other accounts	**105,428**	175,768

The amount represented the estimated market value of the repossessed assets at 30 June 2017 and 31 December 2016 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 2017				
			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***
Offshore centres	**5,325,763**	**1,167**	**7,512,593**	**39,542,016**	**52,381,539**
of which Hong Kong	**4,860,609**	**223**	**6,870,745**	**30,706,163**	**42,437,740**
Developing Asia-Pacific	**45,695,798**	**234,537**	**5,297,902**	**65,638,606**	**116,866,843**
of which Mainland China	**44,077,777**	**70,229**	**5,251,509**	**63,993,718**	**113,393,233**

	At 31 December 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*
Offshore centres	2,896,204	833	6,615,856	39,691,963	49,204,856
of which Hong Kong	2,478,854	5	5,808,429	26,081,589	34,368,877
Developing Asia-Pacific	50,674,888	208,914	4,236,338	51,715,487	106,835,627
of which Mainland China	47,455,788	60,345	4,236,338	49,388,847	101,141,318

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(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 2017		
	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)	**27,180,521**	**2,273,286**	**29,453,807**
(2) Local governments, local government-owned entities and their subsidiaries and JVs	**14,297,629**	**573,004**	**14,870,633**
(3) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	**65,795,163**	**8,063,523**	**73,858,686**
(4) Other entities of central government not reported in item 1 above	**6,423,750**	**395,020**	**6,818,770**
(5) Other entities of local governments not reported in item 2 above	**326,272**	**7,605**	**333,877**
(6) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	**11,955,993**	**2,966,444**	**14,922,437**
(7) Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	**24,704,649**	**4,775,317**	**29,479,966**
Total	**150,683,977**	**19,054,199**	**169,738,176**
Total assets after provision	**327,554,954**		
On-balance sheet exposures as percentage of total assets	**46.0%**		

	At 31 December 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)	20,700,996	2,155,791	22,856,787
(2) Local governments, local government-owned entities and their subsidiaries and JVs	14,706,685	517,541	15,224,226
(3) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	58,513,060	11,931,580	70,444,640
(4) Other entities of central government not reported in item 1 above	4,153,460	325,487	4,478,947
(5) Other entities of local governments not reported in item 2 above	250,903	17,920	268,823
(6) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	11,699,470	3,280,734	14,980,204
(7) Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	23,411,016	3,348,508	26,759,524
Total	133,435,590	21,577,561	155,013,151
Total assets after provision	306,416,955		
On-balance sheet exposures as percentage of total assets	43.6%		

(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 adopts the Standardised Approach for credit and market risk measurement, and the Basic Indicator Approach for operational risk measurement. The Group has established policies, procedures and processes to identify and set appropriate risk limits, as well as to analyse, control and monitor these risks. The Group continually strives to enhance its risk management framework and infrastructure in keeping with the market, product offerings and international best practices. The Group's internal auditor performs regular independent audits to ensure due compliance with internal policies and regulatory requirements.

The Group manages the following main types of risk:

(a) Credit risk management

Credit risk is the risk of financial loss due to the failure of a customer or counterparty to fulfill its contractual obligations. Credit exposure principally arises in loans and advances, debt securities, treasury bills and trading derivatives, as well as in the credit risk from financial arrangements in the off-statement of financial position such as loan commitments. The Group has developed standards, policies and procedures to measure, monitor and mitigate the risk of its lending business. The policies and procedures are reviewed as required, to respond quickly to the changing market environment to better reflect the risk factors for the Group's credit considerations.

Credit risk is controlled and managed by the Risk Management Group ("RMG") under the oversight of the Credit Committee, and is reported to the Credit & Risk Management Committee ("CRMC") at the board level on a quarterly basis. These committees provide appropriate oversight of the Group's risk management practices by defining the Group's policies and risk appetite, and providing the RMG with the means to implement measures to mitigate credit risk arising from the Group's adopted strategy.

Credit risk embedded in products is identified and measured in product programmes. Credit risk pertaining to individual customers is identified and measured by credit officers utilising internal risk rating models. Credit applications are approved by credit officers under delegated authorities or by the Credit Committee.

The Group mitigates credit risk by taking collateral and entering into offsetting or netting agreements with borrowers and counterparties, as the case may be, should such clauses and agreements be legally established and enforceable.

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Group's total exposures. The Group's portfolio of financial instruments is diversified among geographic, industry and product sectors.

Credit risk for treasury transactions is managed in the same way as the Group manages its corporate lending risk. Risk grading is applied to the debt issuers, with individual credit limits set.

Credit and counterparty risks related to countries and financial institutions are assessed and monitored regularly according to the Group's Country Risks and Financial Institution Risks policies. The policies are implemented together to effectively assess and control credit limits and tenors made available to the respective financial institutions under an umbrella country risk limit for each country.

The Group applies the same credit policy in respect of contingent liabilities as in respect 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 mitigated by obtaining collateral in the form of pledged assets and guarantees from borrowers and third parties.

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(i) Credit quality

The Group has a 14-grade internal risk rating system (Grades 1-11 for performing loans and Grades 12-14 for non-performing loans) that maps to external agencies' Master Scales, providing calibrated internal ratings. The integration of this framework into the Group's reporting structure has enabled more accurate risk reporting, thus enhancing the internal management. The risk rating tools are calibrated according to differing customer segments (manufacturing, trading, property development/investment, etc.) which enables the ranking of the credit quality of each customer and the governing of the credit exposure for individual customers or counterparties.

Customers' risk ratings are reviewed regularly and amendments, where necessary, are implemented promptly, particularly in times of fluctuating market conditions. The Group also maintains a committee to regularly oversee weaker credits (which have lower risk ratings of 8-11) to preserve the Group's quality portfolio. The table below outlines the Group's rating scale benchmarked against external credit agencies:

Internal Rating System (14-grade)	ECAI Rating (note(a)) (S&P/ Moody)	Rating Principles
1	AA-/Aa3 or above	(i) Minimal to very low credit risk. (ii) Extremely strong to very strong capacity to meet its financial commitments. (iii) Not susceptible to adverse economic conditions to meet its financial commitments.
2	A-/A3 to A+/A1	(i) Low credit risk. (ii) Strong capacity to meet its financial commitments. (iii) Somewhat more susceptible to adverse economic conditions to meet its financial commitments than obligors rated under a better rating categories.
3	BBB/Baa2 to BBB+/Baa1	(i) Moderate credit risk and positive outlook. (ii) Adequate capacity to meet its financial commitments. (iii) Adverse economic conditions are more likely to lead to a weakened capacity of the obligor to meet its financial commitments than obligors rated under a better rating categories.
4	BBB-/Baa3	(i) Moderate credit risk. (ii) Adequate capacity to meet its financial commitments. (iii) Adverse economic conditions are more likely to lead to a weakened capacity of the obligor to meet its financial commitments than obligors rated under a better rating categories.
5	BB+/Ba1	(i) Substantial credit risk and positive outlook. (ii) Acceptable capacity to meet its financial commitments. (iii) Adverse economic conditions could lead to inadequate capacity to meet its financial commitments than obligors rated under a better rating categories.

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(i) Credit quality (continued)

Internal Rating System (14-grade)	ECAI Rating (note(a)) (S&P/ Moody)	Rating Principles
6	BB/Ba2	(i) Substantial credit risk and moderate outlook. (ii) Acceptable capacity to meet its financial commitments. (iii) Adverse economic conditions could lead to inadequate capacity to meet its financial commitments than obligors rated under a better rating categories.
7	BB-/Ba3	(i) Substantial credit risk. (ii) Acceptable capacity to meet its financial commitments. (iii) Adverse economic conditions could lead to inadequate capacity to meet its financial commitments than obligors rated under a better rating categories.
8	B+/B1	(i) High credit risk and positive outlook. (ii) Currently has the capacity to meet its financial commitments. (iii) Adverse economic conditions will likely impair the capacity or willingness to meet its financial commitments than obligors rated under a better rating categories.
9	B/B2	(i) High credit risk and moderate outlook. (ii) Currently has the capacity to meet its financial commitments. (iii) Adverse economic conditions will likely impair the capacity or willingness to meet its financial commitments than obligors rated under a better rating categories.
10	B-/B3	(i) High credit risk. (ii) Currently has the capacity to meet its financial commitments. (iii) Adverse economic conditions will likely impair the capacity or willingness to meet its financial commitments than obligors rated under a better rating categories.
11 Special Mention	C/C to CCC+/Caa1	In accordance with the Loan Classification Policy (Please refer to note (b))
12 Substandard	D	In accordance with the Loan Classification Policy (Please refer to note (b))
13 Doubtful	–	In accordance with the Loan Classification Policy (Please refer to note (b))
14 Loss	–	In accordance with the Loan Classification Policy (Please refer to note (b))

Note:

(a) ECAI stands for External Credit Assessment Institutions.

(b) The Loan Classification Policy sets out a system for classifying relevant assets in accordance with the Loan Classification Guideline issued by the HKMA such that consistent criteria and timing for the grading of relevant assets is put into effect.

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(ii) Exposure of credit risk

The maximum exposure to credit risk at the end of the reporting period, without considering any collateral held or other credit enhancements, is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowances. A summary of the maximum exposure is as follows:

	At 30 June 2017 *HK$'000*	At 31 December 2016 *HK$'000*
Cash and balances with banks, central banks and other financial institutions	**43,243,902**	27,540,433
Placements with and advances to banks, central banks and other financial institutions	**21,529,151**	22,889,713
Trading assets	**3,519,450**	5,580,642
Loans and advances to customers and other accounts	**201,333,160**	190,887,812
Available-for-sale securities	**56,364,042**	58,108,539
Financial guarantees and other credit-related contingent liabilities	**6,784,731**	7,671,843
Loan commitments and other credit-related commitments	**122,834,053**	114,235,928
	455,608,489	426,914,910

(iii) Master netting arrangement

The Group enters into enforceable master netting arrangements with counterparties. If an event of default occurs, all outstanding transactions with the counterparty are terminated and all amounts outstanding are settled on a net basis. Except for the event of default, 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 2017			
		Related amounts that are not offset in the statement of financial position		
	Derivative 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)*	**2,908,762**	**(1,898,647)**	**(46,584)**	**963,531**
Financial liabilities				
– Derivative financial instruments *(note 21)*	**3,146,253**	**(1,898,647)**	**–**	**1,247,606**

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(iii) Master netting arrangement (continued)

		At 31 December 2016		
		Related amounts that are not offset in the statement of financial position		
	Derivative 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)*	4,258,891	(2,051,890)	(154,756)	2,052,245
Financial liabilities				
– Derivative financial instruments *(note 21)*	3,996,444	(2,051,890)	–	1,944,554

(iv) Mitigation of credit risk – Collateral and other credit enhancements

The Group dedicates to mitigating credit risk, and this takes many forms. In general, risk to the Group's ultimate credit exposure is mitigated by recognised collateral and credit risk enhancement. The Group continuously seeks to enhance its level of credit risk mitigation, and it was particularly successful at safeguarding its credit quality.

The principal collateral received to secure loans and advances includes mortgages, cash collateral, equities listed on a main index/recognised exchanges, accounts receivable assignments, standby letters of credit and listed debt securities acceptable to the Group. In some cases, depending on the customer's position and the types of credit products, loans may be granted on a clean basis, backed by corporate or personal guarantees.

The Group has guidelines on the acceptability of specific classes of collateral or credit risk enhancements accompanied by the determination of valuation parameters. Such parameters are expected to be conservative and reviewed regularly. Security structures and covenants (financial and non-financial) are subject to regular review to ensure they comply with the stipulated conditions. The collateral is important to mitigate credit risk, but it is the Group's policy to assess the repayment ability of individual customers or counterparties rather than just solely relying on securities.

The Group's collateralised credit risk at 30 June 2017 and 31 December 2016, excluding impaired exposure, is broken down as follows:

	At 30 June 2017 ***HK$'000***	At 31 December 2016 *HK$'000*
Lower of gross loans and advances and fair value of collateral and other credit enhancements held against financial assets that are:		
– neither past due nor impaired	**96,079,361**	90,810,100
– past due but not impaired	**682,540**	2,570,029
	96,761,901	93,380,129

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(v) Portfolio management and risk concentration

Portfolio management – Risk-based Pricing Model

As part of the Group's portfolio management practices, the Risk-based Pricing Model has been adopted with the aim of improving the overall return for the Group (value creation), after taking into account the risks of the customers and facilities, and thus the capital required to support the loan exposure and other costs. Stress tests on the Group's credit risk are conducted regularly. The result is approved by the Credit Committee and is endorsed by the Board through the CRMC.

Risk concentration

A Credit Risk Concentration Policy is in place and the Group constantly reviews its loan exposure to monitor the concentration of credit risk relating to customers, countries, market segments and products.

(vi) Credit quality of loans and advances

The Group manages and monitors its risks, and has a Loan Classification Policy and Impairment Assessment Policy in place to govern this aspect. The Group has a professional team dedicated to handling recovery works of non-performing loans, which include loan restructuring, taking legal action, repossession and disposal of collateral.

At 30 June 2017 and 31 December 2016, all loans and advances to banks were not impaired. The credit quality of loans and advances to customers is analysed as follows:

	At 30 June 2017 *HK$'000*	At 31 December 2016 *HK$'000*
Gross loans and advances to customers		
– neither past due nor impaired	**192,315,325**	178,645,249
– past due but not impaired	**981,948**	3,352,326
– impaired	**2,733,487**	1,766,666
	196,030,760	183,764,241

Of which:

	At 30 June 2017 *HK$'000*	At 31 December 2016 *HK$'000*
Gross loans and advances to customers that are neither past due nor impaired		
– Pass: Grades 1 to 10	**191,057,561**	177,106,459
– Special Mention: Grade 11	**1,257,764**	1,538,790
	192,315,325	178,645,249

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(vi) Credit quality of loans and advances (continued)

The ageing analysis of loans and advances to customers that are past due but not impaired is as follows:

	At 30 June 2017 *HK$'000*	At 31 December 2016 *HK$'000*
Gross loans and advances to customers that are past due but not impaired		
– Overdue 3 months or less	**981,948**	3,239,738
– Overdue 6 months or less but over 3 months	**–**	112,588
	981,948	3,352,326

Loans and advances that would have been past due or impaired had the terms not been rescheduled amounted to HK$4,191,000 at 30 June 2017 (31 December 2016: HK$3,218,000).

Further detailed analyses of the impaired loan by industry sector or by geographical location are provided in note 16(b) and note (D) of the unaudited supplementary information, respectively.

(vii) Credit quality of financial assets other than loans and advances

The credit risk of treasury transactions is managed in the same way as the Group manages its corporate lending risk. Risk grading is applied to the debt issuers, with individual credit limits set.

The following table presents an analysis of the credit quality of investments in debt securities by rating agency designation at the end of the reporting period. During the six months ended 30 June 2017, the Group has reassessed the credit ratings for these debt securities in according to their issue or the issuer, certain comparatives for the following credit rating analysis have been restated accordingly in order to conform with the current period's presentation.

		At 30 June 2017	
	Trading assets *HK$'000*	**Available-for-sale securities** *HK$'000*	**Total** *HK$'000*
Aaa	**–**	**5,215,097**	**5,215,097**
Aa3 to Aa1	**29,746**	**11,203,816**	**11,233,562**
A3 to A1	**109,419**	**27,805,127**	**27,914,546**
Lower than A3	**260,673**	**10,464,215**	**10,724,888**
	399,838	**54,688,255**	**55,088,093**
Unrated	**210,850**	**1,675,787**	**1,886,637**
Total	**610,688**	**56,364,042**	**56,974,730**

(J) RISK MANAGEMENT (CONTINUED)

(a) Credit risk management (continued)

(vii) Credit quality of financial assets other than loans and advances (continued)

	At 31 December 2016		
	Trading assets *HK$'000*	Available-for-sale securities *HK$'000*	Total *HK$'000*
Aaa	165,496	5,573,226	5,738,722
Aa3 to Aa1	489	16,313,083	16,313,572
A3 to A1	79,016	23,976,774	24,055,790
Lower than A3	412,290	10,641,765	11,054,055
	657,291	56,504,848	57,162,139
Unrated	664,460	1,603,691	2,268,151
Total	1,321,751	58,108,539	59,430,290

(b) Market risk management

Market risk is the risk of loss caused by an adverse change in valuation associated with holding either long or short market positions. The risk arises as a result of market making, underwriting, principal position taking and asset/liability management in interest rate, foreign exchange, equity, credit and commodity markets and their associated derivatives instruments. The Group manages its market risk exposures mainly through its trading and treasury business. The trading business is to facilitate customer activities, but as a result, takes on principal positions. The treasury business performs asset/liability management function including liquidity risk management, with securities positions intended for liquidity management and investment purposes under available-for-sale ("AFS") treatment. The change in valuation for trading positions affects the income statement as profit-and-loss while for asset and liability related positions, as reserve.

The objective of market risk management is to consistently measure and monitor market risk on a timely and unbiased basis in order to better manage the portfolio's and, by doing so, optimize financial performance. The business is responsible in managing market risks for meeting corporate performance objectives within the market risk limit parameters. The Risk Management Group ("RMG") is responsible to independently monitor and report all market risks.

Market risk framework

The Board of the Group allocates capital or risk appetite through the limit process. The Board delegates Credit & Risk Management Committee ("CRMC") to establish limits for the different businesses. CRMC further delegates market risk limit establishment to Market Risk Committee ("MRC") which then to RMG. RMG is responsibility in designing and drafting the market risk limits and framework and reviewing and updating the limits on a regular basis. The market risk limits are to be approved by MRC and endorsed by CRMC. In addition, the Board also establishes a set of risk indicators under the risk appetite statement ("RAS") in measuring different types of risks including market risk.

RMG is an independent function reporting to the Chief Risk Officer ("CRO"). RMG uses both quantitative and qualitative measures in analysing market risk. The analysis includes, but not limited to, Value-at-Risk ("VaR"), stress testing, risk sensitivities, market events, product liquidity and volatility, underlying quality, hedging strategy, performance including P&L, accuracy of valuations and balance sheet and capital consumptions. The results are regularly reported to senior management and CRO and to MRC and CRMC.

In addressing newly introduced risks, all new products are governed by the "New Product Evaluation and Approval Policy" approved by CRMC. Prior to execution, each of the new products are to be reviewed and concurred by various functions including the senior management of the business, the Financial Management Group, the Operations and Technology Group, the Legal Department, the Compliance Department, the Internal Control Group and RMG. After the concurrence, the sponsoring business head obtains an approval from the CEO/Deputy CEO/Alternate CEO, CIOO and CRO for the new product.

(J) RISK MANAGEMENT (CONTINUED)

(b) Market risk management (continued)

Methodology and characteristics of market risk model

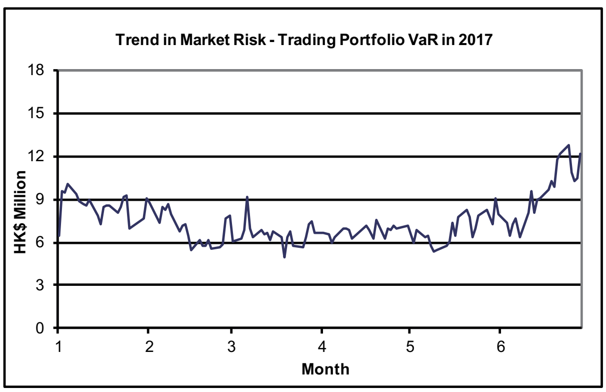
Value-at-risk ("VaR")

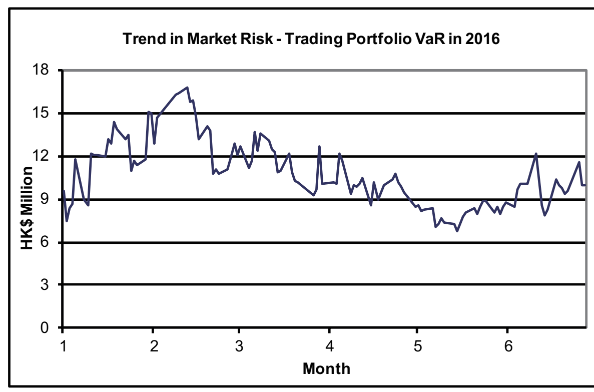
VaR is a technique in estimating the potential losses that could occur on market risk-taking positions due to market rates and prices movement under normal market conditions over a specified time horizon within a given level of confidence. The model is designed to capture different types of risk including interest rate risk, foreign exchange risk, credit spread risk, equity risk, commodity risk and volatility risk.

The VaR model used by the Group is based on the historical simulation technique. The technique predicts the value at risk by simulating or constructing position returns over time arise from the historical changes in rates and prices in the interest rate, foreign exchange, equity, credit and commodity markets.

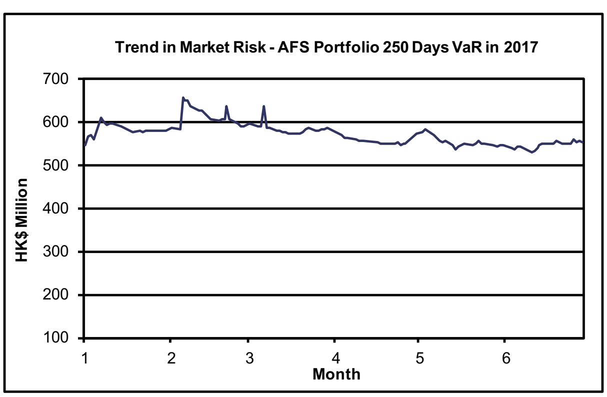
For the calculation of VaR, the Group uses the most recent two years of historical market rates, prices and volatilities.

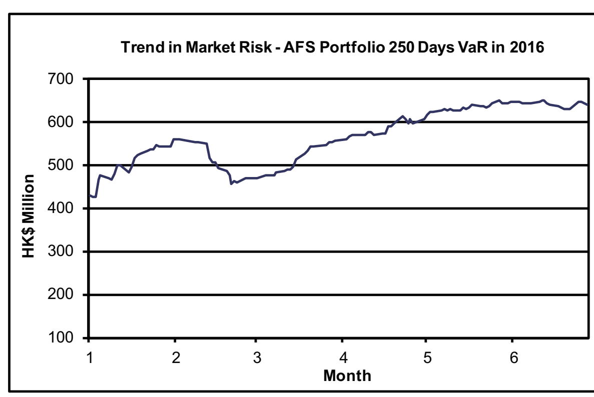
– For the trading positions, the VaR is calculated at 99% confidence level for one-day holding period.





– For the AFS and related positions, VaR is calculated at 99% confidence level for 250-day holding period.





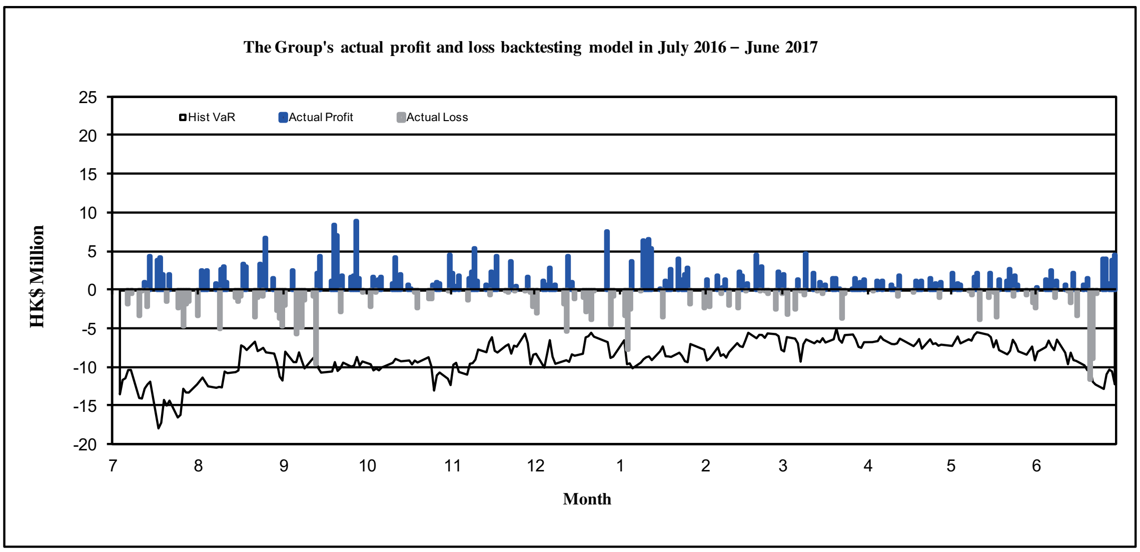
(J) RISK MANAGEMENT (CONTINUED)

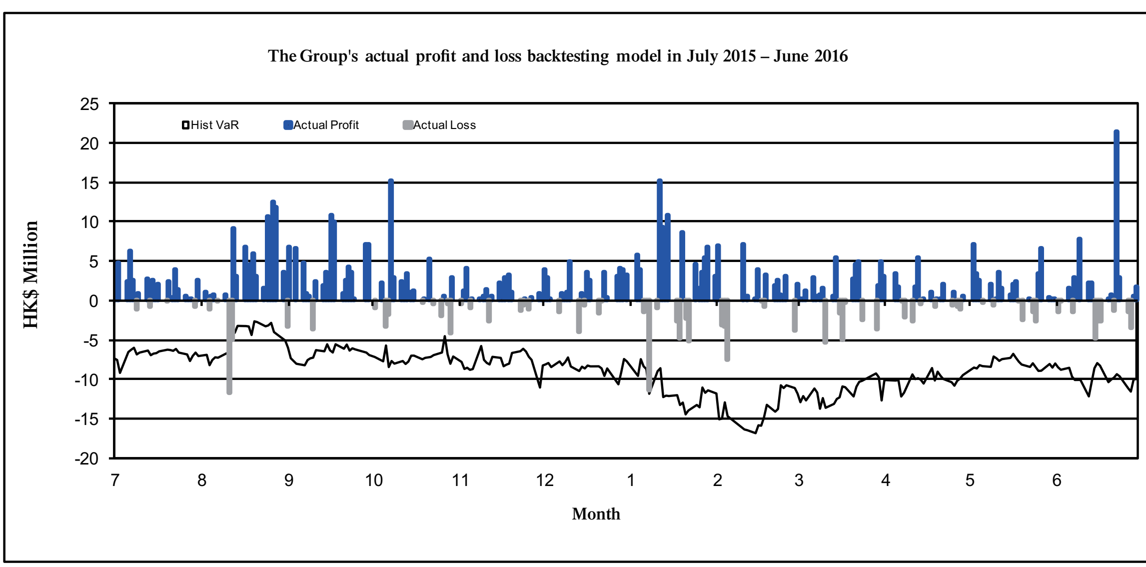
(b) Market risk management (continued)

Methodology and characteristics of market risk model (continued)

Value-at-risk ("VaR") (continued)

– The Group back-tests the accuracy of its VaR model by comparing the actual and hypothetical daily profit and loss, adjusted for items including fees and commissions, against the corresponding VaR figures. Statistically, the Group should only expect losses in excess of VaR less than 1% of the time over a one-year period. For the period from 1 July 2016 to 30 June 2017, there were 2 exceptions in the back-testing results (for the period of 1 July 2015 to 30 June 2016, there were also 2 exceptions), which corresponds to the green zone specified by the HKMA and the international Basel principles.





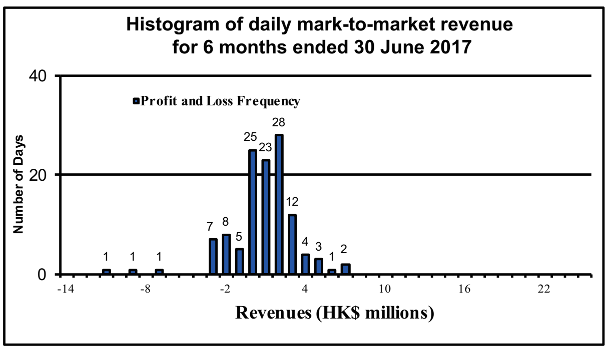
(J) RISK MANAGEMENT (CONTINUED)

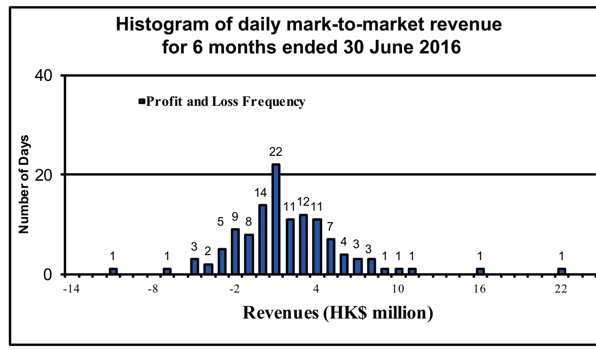
(b) Market risk management (continued)

Methodology and characteristics of market risk model (continued)

Value-at-risk ("VaR") (continued)

For the six months ended 30 June 2017, the average daily mark-to-market revenue from the Group's trading portfolio was a gain of HK$300,000 (six months ended 30 June 2016: gain of HK$1,237,000). The standard deviation of the daily revenue was HK$2,565,000 (six months ended 30 June 2016: HK$4,100,000). The graphs below show the histograms of the Group's daily mark-to-market revenue for the six-months periods ending 30 June 2017 and 2016, respectively.





The tables below decomposes VaR by risk factors for the trading positions and the AFS-related positions.

1-day 99% VaR for the Trading Positions

	Six months ended 30 June 2017				Six months ended 30 June 2016			
	Maximum	**Minimum**	**Mean**	**At 30 June 2017**	Maximum	Minimum	Mean	At 30 June 2016
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Foreign exchange risk	**11,517**	**2,672**	**5,597**	**10,524**	10,209	1,736	5,527	6,731
Interest rate risk and credit spread risk	**11,402**	**3,043**	**4,979**	**7,409**	17,468	3,792	9,083	8,602
Total VaR	**12,729**	**4,907**	**7,532**	**12,128**	16,784	6,733	10,688	9,939

250-day 99% VaR for the AFS-related Positions

	Six months ended 30 June 2017				Six months ended 30 June 2016			
	Maximum	**Minimum**	**Mean**	**At 30 June 2017**	Maximum	Minimum	Mean	At 30 June 2016
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Interest rate risk	**595,889**	**489,706**	**537,209**	**550,398**	648,357	454,445	557,273	610,600
Credit spread risk	**760,070**	**663,073**	**720,818**	**707,925**	660,097	357,681	494,088	660,097
Total 250-day VaR	**657,830**	**530,965**	**573,690**	**552,481**	651,412	426,344	562,808	641,923

Stress testing

Stress testing is implemented as a compliment of the VaR model in order to capture remote, but plausible events. The Group uses both sensitivity-based and historical-based scenarios for market risk stress testing. The results are reported to senior management, MRC and CRMC.

(J) RISK MANAGEMENT (CONTINUED)

(b) Market risk management (continued)

Currency risk

The Group's foreign exchange risk arises 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 limits approved by the MRC. The methods adopted in measuring foreign currency exposure against corresponding limits include individual currency positions, overall foreign exchange positions and sensitivities for foreign exchange options. For the six months ended 30 June 2017, the Group's average daily trading profit and loss from foreign exchange positions was a loss of HK$199,000 (six months ended 30 June 2016: profit of HK$589,000), with a standard deviation of HK$3,590,000 (six months ended 30 June 2016: HK$5,159,000).

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

	At 30 June 2017				At 31 December 2016			
Equivalent in HK$'000	**USD**	**RMB**	**Others**	**Total**	USD	RMB	Others	Total
Spot assets	**116,527,389**	**24,279,901**	**20,984,210**	**161,791,500**	114,088,679	22,567,587	21,109,286	157,765,552
Spot liabilities	**(108,917,126)**	**(26,407,845)**	**(12,153,730)**	**(147,478,701)**	(100,045,764)	(23,601,752)	(18,447,495)	(142,095,011)
Forward purchases	**207,920,048**	**143,843,902**	**23,106,602**	**374,870,552**	136,317,842	82,003,097	22,741,690	241,062,629
Forward sales	**(214,881,792)**	**(142,355,823)**	**(29,696,846)**	**(386,934,461)**	(147,252,316)	(81,995,171)	(25,026,979)	(254,274,466)
Net options position	**1,033,418**	**1,494,553**	**(2,543,765)**	**(15,794)**	(1,864,206)	2,126,441	(281,536)	(19,301)
Net long/(short) position	**1,681,937**	**854,688**	**(303,529)**	**2,233,096**	1,244,235	1,100,202	94,966	2,439,403
Net structural position	**–**	**690,319**	**48,530**	**738,849**	–	668,583	48,530	717,113

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

Interest rate risk

The Group's interest rate risk arise from its banking and trading book.

For the banking book, ALCO and RMG are responsible in overseeing the interest rate exposure arised from its assets and liabilities management. The treasury function ("CTU") is responsible in managing the interest rate risk using different financial products including interest rate derivatives, under which hedge accounting treatment is adopted. The interest rate risk includes repricing risks, basis risks, yield curve risks and embedded option risks, and are governed by the Interest Rate Risk Management Policy for the Banking Book.

For the trading book, MRC and RMG are responsible in overseeing the interest rate exposure from its trading portfolio. Global Markets is responsible in managing the interest rate risk using different financial products including derivatives, under which mark-to-market treatment is adopted. The interest rate risk includes basis risks, yield curve risks and embedded option risks, and are governed by the Market Risk Policy.

For the six months ended 30 June 2017, the Group's average daily trading profit and loss related to interest rate and fixed income trading strategy was a profit of HK$501,000 (six months ended 30 June 2016: a profit of HK$649,000), with a standard deviation of HK$3,132,000 (six months ended 30 June 2016: HK$2,735,000).

(J) RISK MANAGEMENT (CONTINUED)

(c) 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 risk profile to ensure current and future funding requirements are met. In addition, the ALCO monitors a set of risk indicators for liquidity risk. Daily liquidity stress testing, which includes general market, institution-specific and combined (general market 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 and qualitative measures 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)

(c) 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 2017, 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 2017, the Group's average liquidity maintenance ratio was 57.9% (for the year ended 31 December 2016: 60.8%). The Group always maintains sufficient cash and liquid positions as well as a pool of high quality liquid assets as a liquidity cushion that can be liquidated in stress scenarios.

(J) RISK MANAGEMENT (CONTINUED)

(d) 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 of 2.5% of risk-weighted amounts and countercyclical capital buffer ("CCyB") which is set on an individual country basis and is built up during periods of excessive credit growth, came into operation. Both 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%, 1.25% and 1.875% of risk-weighted amounts from 1 January 2016, 1 January 2017 and 1 January 2018 respectively. 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 amounts 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, risk appetite 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 and how these could be mitigated.

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

The capital adequacy ratios at 30 June 2017 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 2017 and year ended 31 December 2016, and the Group's capital ratios are well above the minimum required ratios set by the HKMA.

(J) RISK MANAGEMENT (CONTINUED)

(e) Operational risk management

Definition of operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, 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 ("CRMC"), 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 Operational Risk and Control department and senior management of business and support units.

Management of operational risk

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

The Operational Risk and Control department assists management in meeting their responsibility of understanding and managing operational risk and ensures 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 Operational Risk and Control 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 training on ORGF is compulsory for all staff. Training workshops led by the Operational Risk and Control department are offered to business and support units with the objectives of raising operational risk awareness, familiarizing with the ORM tools and enhancing 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, new products and large projects.

(J) RISK MANAGEMENT (CONTINUED)

(e) Operational risk management (continued)

Tools and methodologies

The Group identifies, assesses, monitors and reports 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 operational risk and effectiveness of control. RCSA has been rolled out across the business and support units under the guidance of the Operational Risk and Control 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 risk materializing and severity of 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 support unit KRI with reference to the business' acceptable risk level for each risk factor.

- Operational risk incidents are reported into a centralized operational loss database called the Incident Reporting System ("IRS"). Through the IRS, the Operational Risk and Control 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 quarterly 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.

(J) RISK MANAGEMENT (CONTINUED)

(f) 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 2017, 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.

(g) Strategic and reputation risk management

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

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

REPORT OF THE CHIEF EXECUTIVE OFFICER

The global economy continued to improve in the first half of 2017, creating a favourable operating environment for the banking industry. China CITIC Bank International Limited ("CNCBI") and its subsidiaries (together "the Group") fully capitalized on the positive trend to strengthen its collaboration with parent bank China CITIC Bank Corporation Limited ("CNCB"), press home the Group's competitive edge in cross-border business and continue to drive business transformation, delivering a respectable set of results for the interim period.

OPERATING ENVIRONMENT

A number of risk factors engendered by turbulence in the political and economic realms last year did not fester further in the first half of 2017. The US economy grew steadily, while the Federal Reserve Board's process of interest-rate normalization took place in an orderly fashion, with two rate hikes in March and June respectively that were mild in nature. As political uncertainties were subsiding, the Eurozone's recovery gathered momentum. Even the Japanese economy was displaying signs of bottoming out.

For the first six months of the year, China maintained a GDP growth rate of 6.9%, while expectations of further Renminbi ("RMB") depreciation were dampened and capital outflow was easing. In Hong Kong, as a result of a buoyant trade sector and stronger domestic consumption, the economy expanded moderately. Statistics of the Hong Kong Monetary Authority ("HKMA") suggest that the balance sheet of the banking sector in Hong Kong grew steadily in the first half of 2017, while there was a marked improvement in profitability.

FINANCIAL PERFORMANCE

The Group's business performed well in the first half of the year, with a 39.1% year-on-year surge in operating income to HK$3.97 billion. Profit attributable to shareholders amounted to HK$1.39 billion, up 16.7% year on year. Return on average assets at 0.86% was mildly ahead of the same period last year by one basis point, while return on average shareholders' equity was 10.41%, up 53 basis points year on year.

The noticeable growth in operating income was attributable to strong increases in both net interest income and non-interest income. The Group proactively captured the opportunities arising from a wave of overseas mergers and acquisitions undertaken by onshore enterprises to further develop its syndication and structured finance business. Net interest income for the first half of 2017 amounted to HK$2.45 billion, 29.7% higher than the corresponding period last year. Benefitting from improved asset yields and stable deposits cost, net interest margin increased by 15 basis points year on year to 1.56%. Meanwhile, owing to substantial growth in loan fees and income from treasury business, non-interest income soared by 57.3% year on year to HK$1.53 billion. Notably, Debt Capital Markets ("DCM") operations achieved a major breakthrough. CNCBI jumped to the 18th place in Bloomberg's league of Asia ex-Japan G3 Currency Bonds underwriters based on volume, and ranked 6th among Chinese institutions.

During the period under review, in response to business needs, the Group increased its investments in IT and human resources to further strengthen the foundation for sustainable development in the future. Although operating expenses at HK$1.49 billion were up 16.1% year on year, the growth was kept within budget. Moreover, in light of a sharp increase in operating income, cost to income ratio was down 7.5 percentage points from the same period last year to 37.4%.

FINANCIAL POSITION

The Group has resolutely implemented prudent balance sheet management. As at end-June 2017, total assets stood at HK$327.6 billion, representing an increase of 6.9% from the end-2016 level. Customer loans including trade bills rose by 6.7% to HK$196.0 billion. Impaired loan ratio at 1.39% was higher than the level as at end-2016 and was in line with the industry trend. Compared with the end of 2016, non-performing loan coverage ratio at 30 June 2017 was up 4.1 percentage points to 57.9%, reflecting the Group's adoption of a more conservative provisioning policy to proactively cope with the potential risk associated with an increase in non-performing loans.

As at the end of the period under review, total customer deposits grew by 7.1% from the end-2016 level to HK$263.6 billion, with a largely stable share of retail deposits.

As at end-June 2017, total capital adequacy ratio at 17.5% was down 30 basis points against the end of 2016, while both common equity tier 1 capital ratio and tier 1 capital ratio were up by 20 basis points to 11.0% and 13.9% respectively, which were above regulatory requirements. Meanwhile, average liquidity maintenance ratio for the first half of the year remained healthy at 57.9%.

BUSINESS REVIEW

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

WBG's operations sustained good momentum in the first half this year and achieved excellent growth in revenues. Total operating income grew by 25.1% year on year to HK$2.26 billion, comprising net interest income of HK$1.71 billion and non-interest income of HK$555 million, which were up 13.8% and 79.7% respectively from the same period last year. The share of non-interest income showed a year-on-year increase of 7.5 percentage points to 24.6%. As at the end of the period under review, customer loans totalling HK$150.2 billion were 6.8% ahead of the end-2016 level, which was mainly underwritten by a surge in syndication and structured finance facilities extended to strategic customers. Meanwhile, customer deposits rose by 7.9% to HK$135.2 billion, paving the way for the build-up of a core deposit base attributable to corporate operating accounts.

During the period under review, WBG continued to pursue stable growth in syndication and structured finance business, sparing no effort to improve customer experience and establish a leading market position among its peers. As at 30 June 2017, the syndication loan balance was 28.0% higher than the end-2016 level. Given that CNCBI has earned a good market reputation by successfully arranging financing for the largest ever overseas acquisition undertaken by a mainland corporation last year, WBG managed to win the mandates for participating in several significant cross-border structured finance transactions, thus receiving a major boost to non-interest income.

Meanwhile, WBG joined hands with CNCB and the CITIC Group to provide clients with tailored one-stop integrated services solutions, affording the Group sustained growth momentum. The net interest income and non-interest income generated from customers referred by CNCB and the CITIC Group accounted for 39.9% of WBG's total operating income in the first half this year, up from 29.9% in the corresponding period last year.

Furthermore, the Group has been vigorously increasing the capabilities of overseas branches for conducting structured finance and treasury businesses. For the first half of 2017, the combined operating income of overseas branches reached HK$247 million, up 31.2% from the same period in 2016. The Singapore branch succeeded in tapping a fleeting opportunity for commodities trading and strategically repositioned its long-term loan portfolio. Both the New York and Los Angeles branches took advantage of the enthusiasm of many Chinese corporate clients to invest in the US, providing them with financing solutions in the American market. The Macau branch also seized the development opportunities of the city to develop its customer deposit base.

Personal and Business Banking Group ("PBG")

For the first six months of 2017, the operating income of PBG reached HK$1.13 billion, representing a 2.7% year-on-year increase, which was primarily underpinned by healthy growth in the balance sheet. As at end-June 2017, PBG's customer deposits stood at a new high of HK$121.6 billion, 6.7% above the level as at end-2016, while retail loans rose by 4.6% to HK$44.7 billion. Net interest income at HK$793 million was 1.9% ahead of the same period last year, while non-interest income increased by 4.5% year on year to HK$339 million. PBG was able to maintain good asset quality as a result of rigorous credit risk management and improvement in collection management. Loan impairment losses at HK$0.5 million were down 97.1% year on year. Profit before taxation amounted to HK$513 million, which was largely maintained at the same level for the corresponding period last year, as operating expenses climbed on the back of increased investments for future development.

PBG continued to deepen its cross-border collaboration with parent bank CNCB, introducing "CNCB Connectivity" to facilitate the banking activities undertaken by customers in both mainland China and Hong Kong. Through internet banking, the personal customers of CNCB and CNCBI can make enquiries about their accounts and transactions. With continuous strengthening of product and servicing capabilities, the operating income derived from private banking business grew rapidly, up 58.8% year on year.

PBG also kept investing in technology and developing innovative products and services to satisfy customer needs. In February this year, the securities trading system was upgraded in anticipation of the launch of "Shenzhen-Hong Kong Connect" in June. Our customers can operate through one account and make use of a trading platform to conduct transactions in four bourses (Hong Kong, the US, Shanghai and Shenzhen).

On mobile banking, CITICtoken, namely the first security mobile application in Hong Kong, was launched in May this year, with the aim of enhancing customer experience in mobile banking and ensuring robust security protection for customers. In addition, Apple Pay and Android Pay have been rolled out one after another to provide customers with a time-saving and convenient mobile payment platform.

At the same time, PBG also launched a new mortgage product “Mortgage Plus”, which links current accounts with mortgage loan accounts, offering customers flexibility in cash flow management. In June, corporate wealth management services were rolled out to provide one-stop financial and wealth management solutions for business banking customers, so our first business banking centre set up in late December last year has achieved good business growth.

Treasury and Markets Group (“TMG”)

TMG’s business enjoyed very profitable returns in the first six months of 2017. Operating income of Global Markets recorded a 57.4% year-on-year increase to HK$376 million, which was principally attributable to the outstanding performance of the DCM team and various marketing teams. The establishment of a Financial Institutions (“FI”) marketing team at the beginning of the year has had important strategic implications, as it has since been building a portfolio of FI clients to expand the sales channel of bonds and the distribution of treasury products. The FI marketing team and the DCM team have worked closely together in the distribution of new issuances, with many clients showing strong interest in our products.

Building on the strong momentum in 2016, the DCM business of the Group produced pleasing results in the first half of 2017 in terms of both the number of deals concluded and the fee income earned. During the period under review, the DCM team’s hard work bore fruit, as it completed 13 deals with CNCBI acting as joint lead manager, joint book runner or joint global coordinator and the issuance size totalled US$13.1 billion. The total DCM fee income amounted to HK$ 216 million during the period.

The Central Treasury Unit (“CTU”) also showed remarkable performance in the first half this year. The team managed the balance sheet prudently and succeeded in seizing market opportunities to ensure ample RMB liquidity since the beginning of the year. When market liquidity was tightened significantly, the team deployed its RMB surplus through FX funding swaps at desirable prices, resulting in good gains for the first half of the year.

In May 2017, CNCBI successfully issued its first ever CNY 3 billion three-year panda bond in the China interbank bond market. It is also the first banking institution in Hong Kong to have issued panda bonds this year. The proceeds generated from the issuance will be used to support CNCBI’s onshore business growth.

Risk Management and Internal Control

During the first half of 2017, the Group continued to reinforce its risk management and internal control practices with a particular focus on credit risk and operational risk management. The Group is committed to upholding stringent credit policies, conducting intensive in-depth credit assessments and strengthening post-lending monitoring, as well as proactively performing portfolio reviews. Moreover, the Group continued to enhance its operational risk management and internal control framework.

The Group emphasizes the importance of fortifying its risk management infrastructure, tools and capabilities. This encompasses initiatives which focus on strengthening (i) risk culture, (ii) fraud risk management capabilities, (iii) market and liquidity modeling, (iv) bank-wide stress testing programme, (v) credit scorecards and rating models, and (vi) impairment model and framework development for the implementation of International Financial Reporting Standard 9 (“IFRS 9”). The Risk Appetite Statement (“RAS”) and Risk Appetite Framework (“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 ahead into the second half of 2017, the prospects for the global economy remain promising. However, there are several potential downside risks. Coupled with the Federal Reserve Board's plan to scale down its balance sheet, rising US interest rates may trigger a capital flight from emerging markets in favour of the US, posing a challenge to liquidity management especially with respect to funding in US dollar. Meanwhile, although the RMB exchange rate has thus far stabilized, the trend ahead remains uncertain. While administrative measures have in general checked the capital outflow from China, the pressure has yet to dissipate, and the Chinese government's further tightening of credit growth and control of capital flows may impact on mainland corporations' mergers and acquisitions activities abroad. Moreover, in view of the volatility in mainland bond and equity markets, together with an increase in financing costs, corporations may face a crisis of capital shortage, which will compound the difficulty in credit risk management.

"In fair weather prepare for foul", as the saying goes. The Group will continue to deepen its collaboration with parent bank CNCB, focusing on serving cross-border customers. By means of business transformation to develop both commercial banking and investment banking businesses, it will strive to become "the best overseas integrated financial services provider". While continuously increasing the share of non-interest income to achieve a diversification of income sources, the Group will take the initiative in enhancing its balance sheet management to increase asset turnover, endeavouring to attain the objective of generating "capital-light and asset-light" growth.

In the meantime, the Group has made credit risk management a top priority. It will proactively ensure sufficient loan provisioning, step up efforts to manage and recover non-performing loans, and continue post-lending management of existing assets, with a view to increasing the capability for risk mitigation. Additionally, the Group places a heavy emphasis on managing liquidity risk, compliance risk and operational risk (including cyber security and moral hazard). It will ensure that thorough preparations are made for the implementation of liquidity coverage ratio ("LCR") on October 1 this year and IFRS 9 at the beginning of 2018, laying a solid foundation for the Group's long-term development in the years ahead.

Zhang Xiaowei
President & Chief Executive Officer

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