



**INDUSTRIAL AND COMMERCIAL BANK OF CHINA (ASIA) LIMITED**

**中國工商銀行（亞洲）有限公司**

*(Incorporated in Hong Kong with limited liability)*

**INTERIM FINANCIAL DISCLOSURE STATEMENTS  
FOR THE SIX MONTHS ENDED  
30 JUNE 2017**

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## **INTERIM RESULTS AND FINANCIAL REVIEW**

The Board of Directors (the “Board”) of Industrial and Commercial Bank of China (Asia) Limited (the “Bank” or “ICBC (Asia)”) is pleased to present the interim financial disclosure statements of the Bank and its subsidiaries (the “Group”) for the six months ended 30 June 2017. The consolidated income statement, consolidated statement of comprehensive income, condensed consolidated statement of cash flows and consolidated statement of changes in equity of the Group for the six months ended 30 June 2017, and the consolidated statement of financial position as at 30 June 2017 of the Group, all of which are unaudited but has been reviewed by KPMG, 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”), along with selected explanatory notes are set out on pages 4 to 59 of these interim financial disclosure statements.

### **Interim Results**

The Board of Directors is pleased to announce that the unaudited consolidated profit attributable to the equity holders of the Bank for the six months ended 30 June 2017 was HK\$3,615 million. This represents a 2.07% increase over the same period last year (first half of 2016: HK\$3,542 million). Basic earnings per share for the six months ended 30 June 2017 were HK\$1.40 (first half of 2016: HK\$1.37). Return on average assets and return on average equity were 0.94% and 9.36% respectively (first half of 2016: 0.98% and 9.87% respectively).

### **Interim Dividend**

The Board has not recommended the payment of interim dividend for the six months ended 30 June 2017 (2016 interim dividend: Nil).

### **Financial Review**

In the first half of 2017, the Group achieved satisfactory results. Consolidated profit attributable to equity holders was HK\$3,615 million, representing an increase of HK\$73 million or 2.06% over HK\$3,542 million achieved for the corresponding period in 2016.

Net interest income increased HK\$21 million or 0.47% to HK\$4,520 million. Net fee and commission income increased HK\$45 million or 4.09% to HK\$1,148 million.

Non-interest income decreased HK\$503 million or 30.23% to HK\$1,161 million from HK\$1,664 million for the corresponding period in 2016. The ratio of non-interest income to total operating income was 20.44%, down 6.57 percentage points compared with 27.01% for the corresponding period in 2016.

Operating expenses decreased by HK\$34 million or 2.40% to HK\$1,423million, compared with HK\$1,457 million for the corresponding period in 2016. The cost to income ratio was 25.04%, up 1.39 percentage points compared with the corresponding period in 2016.

The impairment losses on loans and advances for the period were HK\$57 million, out of which HK\$40 million was made as additional provision for individual assessment and HK\$17 million was made as additional provision for collective assessment.

## INTERIM RESULTS AND FINANCIAL REVIEW

### Statement of Financial Position

The total assets of the Group amounted to HK\$849,141 million as at 30 June 2017, representing an increase of HK\$50,466 million or 6.32% over the financial position as at 31 December 2016.

Customer deposits amounted to HK\$483,158 million as at 30 June 2017 representing an increase of HK\$61,578 million or 14.61%, compared to HK\$421,580 million as at 31 December 2016. Loans and advances also increased by HK\$20,395 million or 4.86% to HK\$440,051 million as at 30 June 2017 compared to HK\$419,655 million as at 31 December 2016.

Total securities investment amounted to HK\$162,374 million as at 30 June 2017, which represents an increase of HK\$6,727 million or 4.32% compared to HK\$155,647 million as at 31 December 2016.

Total certificates of deposit issued increased by HK\$4,744 million or 10.89% to HK\$48,305 million as at 30 June 2017, compared to HK\$43,561 million as at 31 December 2016.

### Capital and Liquidity Management

The Group's capital adequacy ratio decreased to 16.51% as at 30 June 2017 from 17.01% as at 31 December 2016. In the first half of 2017, the average liquidity coverage ratio amounted to 134% (first half of 2016:115%).

### Asset Quality

Impaired loans and advances increased by HK\$154 million to HK\$3,297 million as at 30 June 2017, compared with HK\$3,143 million as at 31 December 2016. The impaired loan ratio was 0.74% as at 30 June 2017 (31 December 2016: 0.74%).

As at 30 June 2017, the cumulative loan impairment allowances amounted to HK\$3,855 million (31 December 2016: HK\$3,801 million), which included individual impairment allowance of HK\$1,836 million (31 December 2016: HK\$1,829 million) and collective impairment allowance of HK\$2,019 million (31 December 2016: HK\$1,972 million).

Hong Kong, 11 August 2017

**CONSOLIDATED INCOME STATEMENT**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2017**  
**(UNAUDITED)**

	Notes	Six months ended	
		30 Jun 2017 HK\$'000	30 Jun 2016 HK\$'000
Interest income	(6)	<b>9,699,112</b>	9,131,069
Interest expense	(6)	<b>(5,179,517)</b>	(4,632,690)
<b>Net interest income</b>	(6)	<b>4,519,595</b>	4,498,379
Fee and commission income	(7)	<b>1,280,366</b>	1,241,882
Fee and commission expense	(7)	<b>(132,768)</b>	(139,370)
<b>Net fee and commission income</b>	(7)	<b>1,147,598</b>	1,102,512
Net trading income	(8)	<b>27,669</b>	553,138
Net loss on financial assets and liabilities designated at fair value through profit or loss	(9)	<b>(20,590)</b>	–
Dividend income from financial investments	(10)	<b>2,913</b>	2,908
Other operating income	(11)	<b>3,472</b>	5,739
<b>Operating income</b>		<b>5,680,657</b>	6,162,676
Operating expenses	(12)	<b>(1,422,527)</b>	(1,457,473)
<b>Operating profit before impairment losses</b>		<b>4,258,130</b>	4,705,203
Charge for impairment losses on placement		<b>(1,239)</b>	–
Charge for impairment losses on loans and advances	(13)	<b>(56,897)</b>	(492,666)
Charge for impairment losses on held-to-maturity financial investments		<b>(2,318)</b>	–
Write back of impairment losses on available-for-sale financial investments		<b>4,964</b>	21,397
<b>Operating profit after impairment losses</b>		<b>4,202,640</b>	4,233,934
Net loss from property, plant and equipment		<b>(2,436)</b>	(691)
Net gain on disposal of available-for-sale financial investments		<b>207,004</b>	137,248
Net gain on disposal of held-to-maturity financial investments		<b>19,793</b>	2,417
<b>Operating profit</b>		<b>4,427,001</b>	4,372,908
Share of (loss)/profit of associates		<b>(3,161)</b>	10,906
<b>Profit before tax</b>		<b>4,423,840</b>	4,383,814
Income tax expense	(14)	<b>(808,405)</b>	(841,861)
<b>Profit for the period and attributable to equity holders</b>		<b>3,615,435</b>	3,541,953
<b>Earnings per share – Basic and diluted</b>	(16)	<b>HK\$1.40</b>	HK\$1.37

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2017**  
**(UNAUDITED)**

	<b>Six months ended</b>	
	<b>30 Jun 2017</b>	<b>30 Jun 2016</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Profit for the period	<b><u>3,615,435</u></b>	<b><u>3,541,953</u></b>
Item that will not be reclassified to income statement:		
Revaluation surplus on bank premises	<b>5,242</b>	4,306
Income tax effect	<b><u>(33,106)</u></b>	<b><u>(711)</u></b>
	<b><u>(27,864)</u></b>	<b><u>3,595</u></b>
Items that may be reclassified subsequently to income statement:		
Change of fair value of hedging instruments under cash flow hedges	<b>(38,084)</b>	(175,637)
Income tax effect	<b><u>6,284</u></b>	<b><u>28,980</u></b>
	<b><u>(31,800)</u></b>	<b><u>(146,657)</u></b>
Change in fair value reserve of available-for-sale financial investments	<b>11,377</b>	706,593
Income tax effect	<b><u>(60,105)</u></b>	<b><u>(188,393)</u></b>
	<b><u>(48,728)</u></b>	<b><u>518,200</u></b>
Exchange differences arising from translation of results of a foreign subsidiary	<b><u>354,580</u></b>	<b><u>(236,652)</u></b>
Other comprehensive income for the period, net of tax	<b><u>246,188</u></b>	<b><u>138,486</u></b>
Total comprehensive income for the period, net of tax	<b><u>3,861,623</u></b>	<b><u>3,680,439</u></b>
Attributable to:		
Equity holders of the Bank	<b><u>3,861,623</u></b>	<b><u>3,680,439</u></b>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2017**  
**(UNAUDITED)**

	Notes	Unaudited 30 Jun 2017 HK\$'000	Audited 31 Dec 2016 HK\$'000	Unaudited 30 Jun 2016 HK\$'000
<b>Assets</b>				
Cash and balances with banks and other financial institutions	(17)	192,568,331	165,606,506	164,841,175
Placements with banks and other financial institutions	(18)	33,453,572	26,593,495	25,593,395
Financial assets held for trading	(19)	1,346,231	672,251	1,148,335
Derivative financial instruments	(20)	9,434,763	18,415,757	12,667,426
Advances and other accounts	(21)	440,050,497	419,655,275	407,783,808
Financial investments:		161,027,718	154,974,415	161,027,048
– Available-for-sale	(22)	87,736,471	80,692,819	87,856,091
– Held-to-maturity	(23)	73,291,247	74,281,596	73,170,957
Interest in an associate		380,090	383,199	295,784
Goodwill and other intangible assets		1,019,637	1,027,525	1,031,930
Investment properties	(24)	79,658	79,658	80,919
Property, plant and equipment	(25)	937,589	944,313	941,129
Current income tax assets		7,746	14,855	–
Deferred income tax assets	(29)	189,431	269,650	66,071
Other assets	(26)	8,645,255	10,037,618	12,633,088
<b>Total assets</b>		<b>849,140,518</b>	<b>798,674,517</b>	<b>788,110,108</b>
<b>Liabilities</b>				
Deposits from banks and other financial institutions	(27)	197,830,074	208,329,544	162,221,012
Derivative financial instruments	(20)	9,332,708	18,003,999	12,586,462
Deposits from customers	(28)	483,158,305	421,579,909	450,507,201
Certificates of deposit issued		48,305,005	43,561,378	57,044,521
Debt securities in issue measured		1,096,664	1,023,179	3,188,451
– Designated at fair value through profit or loss		95,351	72,101	–
– At amortised cost		1,001,313	951,078	3,188,451
Current income tax liabilities		803,406	289,289	509,018
Deferred income tax liabilities	(29)	–	–	178,456
Subordinated debts measured at amortised cost	(30)	11,682,539	11,603,948	13,353,500
Other liabilities	(31)	9,202,415	10,397,125	14,503,590
<b>Total liabilities</b>		<b>761,411,116</b>	<b>714,788,371</b>	<b>714,092,211</b>
<b>Equity</b>				
Share capital	(32)	36,379,331	36,379,331	36,379,331
Retained earnings		40,352,208	37,150,962	33,471,889
Other reserves		3,259,531	2,617,521	4,166,677
Total equity attributable to shareholders of the Bank		79,991,070	76,147,814	74,017,897
Additional equity instruments	(33)	7,738,332	7,738,332	–
<b>Total equity</b>		<b>87,729,402</b>	<b>83,886,146</b>	<b>74,017,897</b>
<b>Total equity and liabilities</b>		<b>849,140,518</b>	<b>798,674,517</b>	<b>788,110,108</b>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2017**  
**(UNAUDITED)**

Note	Bank		Investment revaluation reserve	Cash flow hedge reserve	Exchange reserve	General reserve	Additional		Total
	Share capital	premises revaluation reserve					Retained earnings	equity instrument	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2017	36,379,331	607,297	(464,382)	143,232	(687,267)	3,018,641	37,150,962	7,738,332	83,886,146
Profit for the period	-	-	-	-	-	-	3,615,435	-	3,615,435
Other comprehensive income for the period:	-	-	-	-	-	-	-	-	-
Change in fair value of available-for-sale financial investments	-	-	(134,365)	-	-	-	-	-	(134,365)
Reserve realised on disposal of available-for-sale financial investments	-	-	145,742	-	-	-	-	-	145,742
Changes in fair value of cash flow hedge	-	-	-	(38,084)	-	-	-	-	(38,084)
Revaluation surplus on bank premises	-	5,242	-	-	-	-	-	-	5,242
Change in deferred tax (29)	-	(33,106)	(60,105)	6,284	-	-	-	-	(86,927)
Exchange differences	-	-	-	-	354,580	-	-	-	354,580
Total comprehensive income for the period	-	(27,864)	(48,728)	(31,800)	354,580	-	3,615,435	-	3,861,623
Partial transfer of retained earnings to general reserve	-	-	-	-	-	395,822	(395,822)	-	-
Other adjustments	-	-	-	-	-	-	(18,367)	-	(18,367)
At 30 June 2017	<u>36,379,331</u>	<u>579,433</u>	<u>(513,110)</u>	<u>111,432</u>	<u>(332,687)</u>	<u>3,414,463</u>	<u>40,352,208</u>	<u>7,738,332</u>	<u>87,729,402</u>



**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2016**  
**(UNAUDITED)**

		Bank premises	Investment	Cash flow				Additional	
	Share	revaluation	revaluation	hedge	Exchange	General	Retained	equity	Total
	capital	reserve	reserve	reserve	reserve	reserve	earnings	instrument	
Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2016	36,379,331	590,220	236,209	167,225	43,760	2,917,975	30,002,738	–	70,337,458
Profit for the period									
Other comprehensive income for the period:	–	–	–	–	–	–	3,541,953	–	3,541,953
Change in fair value of available-for-sale financial investments	–	–	718,040	–	–	–	–	–	718,040
Reserve realised on disposal of available-for-sale financial investments	–	–	(11,447)	–	–	–	–	–	(11,447)
Changes in fair value of cash flow hedge	–	–	–	(175,637)	–	–	–	–	(175,637)
Revaluation surplus on bank premises	–	4,306	–	–	–	–	–	–	4,306
Change in deferred tax (29)	–	(711)	(188,393)	28,980	–	–	–	–	(160,124)
Exchange differences	–	–	–	–	(236,652)	–	–	–	(236,652)
Total comprehensive income for the period	–	3,595	518,200	(146,657)	(236,652)	–	3,541,953	–	3,680,439
Partial transfer of retained earnings to general reserve	–	–	–	–	–	72,802	(72,802)	–	–
At 30 June 2016	<u>36,379,331</u>	<u>593,815</u>	<u>754,409</u>	<u>20,568</u>	<u>(192,892)</u>	<u>2,990,777</u>	<u>33,471,889</u>	<u>–</u>	<u>74,017,897</u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED 30 JUNE 2017  
(UNAUDITED)**

	<b>Six months ended</b>	
	<b>30 Jun 2017</b>	<b>30 Jun 2016</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Net cash flows generated from operating activities	<b>23,699,000</b>	36,695,194
Net cash flows used in investing activities	<b>(39,578)</b>	(43,078)
Net cash flows used in financing activities	<b>(440,612)</b>	(3,945,993)
Net increase in cash and cash equivalents	<b>23,218,810</b>	32,706,123
Cash and cash equivalents at 1 January	<b>173,356,946</b>	147,153,421
Effects of foreign exchange differences	<b>348,767</b>	(231,023)
Cash and cash equivalents at 30 June	<b><u>196,924,523</u></b>	<b><u>179,628,521</u></b>

Components of cash and cash equivalents in the condensed consolidated statement of cash flows:

For the purposes of the condensed consolidated statement of cash flows, cash and cash equivalents comprise the following balances with original maturity of three months or less:

	<b>30 Jun 2017</b>	<b>30 Jun 2016</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Cash and balances with banks and other financial institutions	<b>66,728,295</b>	41,437,900
Placements with banks and other financial institutions	<b><u>130,196,228</u></b>	<u>138,190,621</u>
	<b><u>196,924,523</u></b>	<b><u>179,628,521</u></b>

## **NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**

### **1 Principal activities**

The principal activities of the Bank are the provision of banking, financial and other financial related services.

### **2.1 Basis of preparation**

The unaudited interim financial disclosure statements of the Group have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and fully comply with the requirements set out in the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority (the “HKMA”).

The accounting policies adopted in the preparation of the interim financial disclosure statements are consistent with those used in the preparation of the Group’s audited financial statements for the year ended 31 December 2016 except for the adoption of the HKFRSs and HKASs issued up to 30 June 2017 which are pertinent to the Group’s operations and relevant to these interim financial disclosure statements.

The unaudited interim financial disclosure statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2016.

The preparation of unaudited interim financial disclosure statements requires management to exercise its judgment and make estimates and assumptions in the process of applying the Group’s accounting policies and reporting amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. The significant judgments made by management were the same as those applied to the annual financial statements for the year ended 31 December 2016.

The financial information relating to the financial year ended 31 December 2016 that is included in the interim financial disclosure statements as comparative information does not constitute the Group’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements 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 Companies Ordinance. 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 section 406(2), 407(2) or (3) of the Companies Ordinance.

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 2.2 Basis of consolidation

The unaudited interim financial disclosure statements include the accounts of the Bank and all its subsidiaries, a controlled unit trust and attributable share of results and reserves of its associates. For regulatory reporting, the basis of consolidation is set out in Note 1 of the “Supplementary Financial Information” section.

List of subsidiaries and a unit trust, which are all 100% held by the Bank, included in the consolidation are:

- Chinese Mercantile Bank
- ICBC (Asia) Bullion Company Limited
- ICBC (Asia) Futures Company Limited
- ICBC (Asia) Investment Management Company Limited
- ICBC (Asia) Nominee Limited
- ICBC (Asia) Securities Limited
- ICBC (Asia) Trustee Company Limited
- ICBC (Asia) Wa Pei Nominees Limited
- ICBCA (C.I.) Limited
- UB China Business Management Co. Ltd.
- SINO-CEEF Holding Company Limited
- The Greater China Fund

### 3.1 Impact of new/revised Hong Kong Financial Reporting Standards (“HKFRSs”) and Hong Kong Accounting Standards (“HKASs”)

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

- Annual Improvements to HKFRSs 2014-2016 Cycle
- Amendments to HKAS 12, Income taxes “Recognition of deferred tax assets for unrealised losses”

#### Annual Improvements to HKFRSs 2014-2016 Cycle

This cycle of annual improvements contains amendments to three standards. Among them, the amendments to HKFRS 12 clarify that the disclosure requirements of HKFRS 12, other than the requirements to disclose summarised financial information, also apply to an entity’s interests in other entities classified as held for sale or discontinued operations in accordance with HKFRS 5. The amendments do not have an impact on the Group’s interim financial disclosure statements as the Group does not have assets classified as held for sale or discontinued operations in accordance with HKFRS 5.

**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS****3.1 Impact of new/revised Hong Kong Financial Reporting Standards (“HKFRSs”) and Hong Kong Accounting Standards (“HKASs”) (continued)****Amendments to HKAS 12, Income taxes “Recognition of deferred tax assets for unrealised losses”**

The amendments stemmed from a request to clarify the requirements on recognition of deferred tax assets for unrealized losses on debt instruments measured at fair value. However, the amendments address a broader area of accounting for deferred tax assets in general.

The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also provide guidance on how an entity should determine future taxable profits to support the recognition of a deferred tax asset arising from a deductible temporary difference.

The amendments do not have a material impact on the presentation and disclosure of the Group’s interim financial disclosure statements.

**3.2 Issued but not yet effective HKFRSs and HKASs**

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 4 Financial risk management

#### 4.1 Analysis of assets and liabilities by remaining maturity

The table below summarises the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date.

At 30 June 2017	Repayable on demand HK\$'000	Up to 1 month HK\$'000	1-3 months HK\$'000	3-12 months HK\$'000	1-5 years HK\$'000	Over 5 years HK\$'000	Indefinite HK\$'000	Total HK\$'000
<b>Assets</b>								
Cash and balances with banks and other financial institutions	66,728,295	125,840,036	-	-	-	-	-	192,568,331
Placements with banks and other financial institutions	-	-	11,477,023	21,976,549	-	-	-	33,453,572
Financial assets held for trading								
– equity securities	-	-	-	-	-	-	-	-
– other debt securities	-	-	223,218	1,123,013	-	-	-	1,346,231
Derivative financial instruments	122,072	1,851,366	1,218,482	3,862,917	1,788,200	591,726	-	9,434,763
Advances and other accounts	9,932,636	11,659,968	29,344,631	97,795,719	196,441,285	93,421,564	1,454,694	440,050,497
Available-for-sale financial investments								
– treasury bills	-	-	-	-	7,626,906	731,259	-	8,358,165
– equity securities	-	-	-	-	-	-	196,912	196,912
– certificates of deposit held	-	780,494	649,679	2,592,671	-	-	-	4,022,844
– other debt securities	-	23,021	3,149,186	7,762,301	39,040,207	24,842,795	7,840	74,825,350
– wealth management product	-	90,136	232,534	10,530	-	-	-	333,200
Held-to-maturity financial investments								
– treasury bills	-	-	3,913,153	12,715,269	-	-	-	16,628,422
– certificates of deposit held	-	-	3,112,197	4,704,325	-	-	-	7,816,522
– other debt securities	-	547,590	3,103,096	6,623,716	25,727,549	12,844,352	-	48,846,303
Interest in an associate	-	-	-	-	-	-	380,090	380,090
Goodwill and other intangible assets	-	-	-	-	-	-	1,019,637	1,019,637
Investment properties	-	-	-	-	-	-	79,658	79,658
Property, plant and equipment	-	-	-	-	-	-	937,589	937,589
Other assets, including current and deferred income tax assets	25,917	2,930,932	454,763	700,709	4,379,740	324,033	26,338	8,842,432
<b>Total assets</b>	<b>76,808,920</b>	<b>143,723,543</b>	<b>56,877,962</b>	<b>159,867,719</b>	<b>275,003,887</b>	<b>132,755,729</b>	<b>4,102,758</b>	<b>849,140,518</b>
<b>Liabilities</b>								
Deposits from banks and other financial institutions	63,356,711	64,712,666	44,169,986	25,317,518	273,193	-	-	197,830,074
Derivative financial instruments	-	1,783,193	1,382,337	3,898,441	1,933,577	335,160	-	9,332,708
Deposits from customers	155,076,250	116,649,894	74,490,634	102,365,263	34,552,596	23,668	-	483,158,305
Certificates of deposit issued	-	9,269,808	25,513,525	13,176,462	345,210	-	-	48,305,005
Debt securities in issue at fair value through profit or loss	-	-	-	-	95,351	-	-	95,351
Debt securities in issue at amortised cost	-	-	-	3,000	998,313	-	-	1,001,313
Subordinated debts measured at amortised cost	-	-	-	-	3,864,938	7,817,601	-	11,682,539
Other liabilities, including current and deferred income tax liabilities	1,505,098	4,569,333	1,125,360	1,662,414	895,190	204,659	43,767	10,005,821
<b>Total liabilities</b>	<b>219,938,059</b>	<b>196,984,894</b>	<b>146,681,842</b>	<b>146,423,098</b>	<b>42,958,368</b>	<b>8,381,088</b>	<b>43,767</b>	<b>761,411,116</b>
<b>Net liquidity gap</b>	<b>(143,129,139)</b>	<b>(53,261,351)</b>	<b>(89,803,880)</b>	<b>13,444,621</b>	<b>232,045,519</b>	<b>124,374,641</b>	<b>4,058,991</b>	<b>87,729,402</b>

# NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

## 4 Financial risk management (continued)

### 4.1 Analysis of assets and liabilities by remaining maturity (continued)

At 31 December 2016	Repayable on demand HK\$'000	Up to 1 month HK\$'000	1-3 months HK\$'000	3-12 months HK\$'000	1-5 years HK\$'000	Over 5 years HK\$'000	Indefinite HK\$'000	Total HK\$'000
<b>Assets</b>								
Cash and balances with banks and other financial institutions	35,649,110	129,957,396	–	–	–	–	–	165,606,506
Placements with banks and other financial institutions	–	–	12,033,725	14,559,770	–	–	–	26,593,495
Financial assets held for trading								
– equity securities	–	–	–	–	–	–	17,556	17,556
– other debt securities	–	–	331,341	323,354	–	–	–	654,695
Derivative financial instruments	116,823	1,880,483	3,956,545	7,849,281	3,912,626	699,999	–	18,415,757
Advances and other accounts	6,606,921	16,729,390	35,028,388	79,614,815	199,829,495	80,538,303	1,307,963	419,655,275
Available-for-sale financial investments								
– treasury bills	–	–	–	–	6,728,690	1,830,510	–	8,559,200
– equity securities	–	–	–	–	–	–	183,652	183,652
– certificates of deposit held	–	–	–	521,302	252,868	–	–	774,170
– other debt securities	–	323,661	3,930,591	7,001,355	27,993,933	27,322,253	–	66,571,793
– wealth management product	–	1,462,733	1,616,089	1,525,182	–	–	–	4,604,004
Held-to-maturity financial investments								
– treasury bills	–	–	2,334,001	9,638,061	1,164,272	–	–	13,136,334
– certificates of deposit held	–	4,651,234	3,091,708	1,549,020	–	–	–	9,291,962
– other debt securities	–	960,735	2,858,716	12,953,321	25,574,399	9,506,129	–	51,853,300
Interest in an associate	–	–	–	–	–	–	383,199	383,199
Goodwill and other intangible assets	–	–	–	–	–	–	1,027,525	1,027,525
Investment properties	–	–	–	–	–	–	79,658	79,658
Property, plant and equipment	–	–	–	–	–	–	944,313	944,313
Other assets, including current and deferred income tax assets	11,410	2,385,963	603,705	2,286,891	4,723,006	253,921	57,227	10,322,123
<b>Total assets</b>	<b>42,384,264</b>	<b>158,351,595</b>	<b>65,784,809</b>	<b>137,822,352</b>	<b>270,179,289</b>	<b>120,151,115</b>	<b>4,001,093</b>	<b>798,674,517</b>
<b>Liabilities</b>								
Deposits from banks and other financial institutions	42,062,598	84,450,975	65,899,124	15,562,696	354,151	–	–	208,329,544
Derivative financial instruments	–	1,814,296	3,843,384	7,990,285	4,013,624	342,410	–	18,003,999
Deposits from customers	130,516,183	87,643,183	76,649,855	78,346,237	48,424,451	–	–	421,579,909
Certificates of deposit issued	–	1,387,524	19,006,747	22,832,247	334,860	–	–	43,561,378
Debt securities in issue designated at fair value through profit or loss	–	–	–	–	72,101	–	–	72,101
Debt securities in issue at amortised cost	1,000	2,000	–	–	948,078	–	–	951,078
Subordinated debts measured at amortised cost	–	–	–	–	3,864,938	7,739,010	–	11,603,948
Other liabilities, including current and deferred income tax liabilities	1,944,560	4,692,863	1,269,327	1,675,751	1,057,055	–	46,858	10,686,414
<b>Total liabilities</b>	<b>174,524,341</b>	<b>179,990,841</b>	<b>166,668,437</b>	<b>126,407,216</b>	<b>59,069,258</b>	<b>8,081,420</b>	<b>46,858</b>	<b>714,788,371</b>
<b>Net liquidity gap</b>	<b>(132,140,077)</b>	<b>(21,639,246)</b>	<b>(100,883,628)</b>	<b>11,415,136</b>	<b>211,110,031</b>	<b>112,069,695</b>	<b>3,954,235</b>	<b>83,886,146</b>

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

## 4 Financial risk management (continued)

## 4.2 Fair values of financial assets and liabilities

*Financial instruments measured at fair value using a valuation technique*

Fair values of standardized financial assets and financial liabilities that are traded in active market are based on quoted market prices. For all other financial instruments, the Group determines fair values using valuation techniques. In general, quoted prices in active market will be used if available. When quoted prices in active markets are not available, an appropriate valuation technique will be employed.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price of the financial instrument that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the reporting date.

The Group uses widely recognised valuation models for determining the fair value of the common financial instruments. The market data inputs are independent and observable in the market which avoids any manipulation of the fair values. The Group has also an established Valuation Committee to set up control framework with respect to the measurement of fair values. Valuation Committee is responsible for review of all market prices and rate sources used as well as curves, methodology and models for valuation of financial instruments.

A Credit Valuation Adjustment (CVA) is applied to the Group's over-the-counter derivative exposures to take into account the counterparty's risk of default when measuring the fair value of the derivatives. CVA is the mark-to-market adjustment to the fair value to reflect potential credit risk from counterparties in the Group's over-the-counter derivative portfolio. CVA is calculated by multiplying the expected loss rates and the exposure value of the instruments at deal level.

The Group estimates the expected loss rates by referencing the historical loss rates of the counterparties at similar internal credit grading level. A Debit Valuation Adjustment (DVA) is applied to incorporate the Group's own credit risk in the fair value of derivatives, using same methodology as for CVA.



## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 4 Financial risk management (continued)

#### 4.2 Fair values of financial assets and liabilities

##### *Determination of fair value hierarchy*

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations:	Fair value measured using only Level 1 inputs i.e. quoted prices in active markets for identical assets or liabilities at the measurement date.
Level 2 valuations:	Fair value measured using Level 2 inputs i.e inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 valuations:	Fair value measured using unobservable inputs. Unobservable inputs are used to measure fair value to the extent that relevant observable inputs are not available.

# NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

## 4 Financial risk management (continued)

### 4.2 Fair values of financial assets and liabilities (continued)

30 June 2017	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>Recurring fair value measurements</b>				
<b>Financial assets</b>				
Derivative financial instruments				
Forward foreign exchange contracts	–	5,469,154	–	5,469,154
Structured foreign exchange contracts	–	8,446	–	8,446
Currency swaps	–	2,532,849	–	2,532,849
FX options	–	124,842	–	124,842
Interest rate swaps	–	841,732	–	841,732
Interest rate futures	–	2,884	–	2,884
Commodity forward	–	357,099	–	357,099
Equity swap	–	97,746	–	97,746
Equity options	–	11	–	11
	–	9,434,763	–	9,434,763
Financial assets held for trading				
Debt securities	–	1,346,231	–	1,346,231
Equities	–	–	–	–
	–	1,346,231	–	1,346,231
Available-for-sale financial investments				
Debt securities	72,825,006	14,373,512	–	87,198,518
Equities	65,807	–	130,798	196,605
Wealth management products	–	333,200	–	333,200
	72,890,813	14,706,712	130,798	87,728,323
Total financial assets	<u>72,890,813</u>	<u>25,487,706</u>	<u>130,798</u>	<u>98,509,317</u>
<b>Financial liabilities</b>				
Derivative financial instruments				
Forward foreign exchange contracts	–	5,579,696	–	5,579,696
Structured foreign exchange contracts	–	8,562	–	8,562
Currency swaps	–	2,507,538	–	2,507,538
FX options	–	115,064	–	115,064
Interest rate swaps	–	477,787	–	477,787
Interest rate futures	–	911	–	911
Commodity forward	–	357,513	–	357,513
Equity swap	–	285,626	–	285,626
Equity options	–	11	–	11
	–	9,332,708	–	9,332,708
Financial liabilities designated at fair value through profit or loss				
Debt securities in issue	–	95,351	–	95,351
Total financial liabilities	<u>–</u>	<u>9,428,059</u>	<u>–</u>	<u>9,428,059</u>

**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**
**4 Financial risk management (continued)**
**4.2 Fair values of financial assets and liabilities (continued)**

31 December 2016	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>Recurring fair value measurements</b>				
<b>Financial assets</b>				
Derivative financial instruments				
Forward foreign exchange contracts	–	10,399,556	–	10,399,556
Structured foreign exchange contracts	–	99,543	–	99,543
Currency swaps	–	6,061,034	–	6,061,034
FX options	–	338,803	–	338,803
Interest rate swaps	–	1,032,472	–	1,032,472
Interest rate futures	–	9,516	–	9,516
Commodity forward	–	474,806	–	474,806
Equity swaps	–	–	–	–
Equity options	–	27	–	27
	–	18,415,757	–	18,415,757
Financial assets held for trading				
Debt securities	–	654,695	–	654,695
Equities	–	17,556	–	17,556
	–	672,251	–	672,251
Available-for-sale financial investments				
Debt securities	58,904,085	16,993,239	–	75,897,324
Equities	54,772	–	128,572	183,344
Wealth management products	–	2,836,808	–	2,836,808
	58,958,857	19,830,047	128,572	78,917,476
Total financial assets	<u>58,958,857</u>	<u>38,918,055</u>	<u>128,572</u>	<u>98,005,484</u>
<b>Financial liabilities</b>				
Derivative financial instruments				
Forward foreign exchange contracts	–	10,216,188	–	10,216,188
Structured foreign exchange contracts	–	100,749	–	100,749
Currency swaps	–	6,114,222	–	6,114,222
FX options	–	352,748	–	352,748
Interest rate swaps	–	510,444	–	510,444
Interest rate futures	–	5,643	–	5,643
Commodity forward	–	476,090	–	476,090
Equity swaps	–	227,888	–	227,888
Equity options	–	27	–	27
	–	18,003,999	–	18,003,999
Financial liabilities designated at fair value through profit or loss				
Debt securities in issue	–	72,101	–	72,101
Total financial liabilities	<u>–</u>	<u>18,076,100</u>	<u>–</u>	<u>18,076,100</u>

# NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

## 4 Financial risk management (continued)

### 4.2 Fair values of financial assets and liabilities (continued)

#### *Movements in level 3 financial instruments measured at fair value*

The following table shows a reconciliation of the opening and closing amounts of Level 3 financial assets and liabilities which are recorded at fair value:

	At 1 January 2017 HK\$'000	Addition/ (disposal) HK\$'000	Total gains/(losses) recorded in profit or loss HK\$'000	Total gains/(losses) recorded in equity HK\$'000	At 30 June 2017 HK\$'000
<b>Financial assets</b>					
Available-for-sale financial investments					
Debt securities	-	-	-	-	-
Equities	128,572	-	-	2,226	130,798
<b>Total Level 3 financial assets</b>	<b>128,572</b>	<b>-</b>	<b>-</b>	<b>2,226</b>	<b>130,798</b>

	At 1 January 2016 HK\$'000	Addition/ (disposal) HK\$'000	Total gains/(losses) recorded in profit or loss HK\$'000	Total gains/(losses) recorded in equity HK\$'000	At 31 December 2016 HK\$'000
<b>Financial assets</b>					
Available-for-sale financial investments					
Debt securities	89,649	(89,649)	-	-	-
Equities	97,017	-	-	31,555	128,572
<b>Total Level 3 financial assets</b>	<b>186,666</b>	<b>(89,649)</b>	<b>-</b>	<b>31,555</b>	<b>128,572</b>

During the half year ended 30 June 2017, there was no transfer into or out of Level 3.

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 4 Financial risk management (continued)

#### 4.2 Fair values of financial assets and liabilities (continued)

##### *Significant transfers between Level 1 and 2*

The following tables show significant transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets and liabilities which are recorded at fair value:

	<b>Transfers from level 1 to level 2</b>	
	<b>30 Jun 2017</b>	<b>30 Jun 2016</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Available-for-sale financial investments		
Debt securities	<b>57,513</b>	325,447

The above financial assets were transferred from Level 1 to Level 2 as they ceased to be actively traded during the half year ended 30 June 2017 and fair values were consequently obtained using valuation techniques using observable market inputs.

	<b>Transfers from level 2 to level 1</b>	
	<b>30 Jun 2017</b>	<b>30 Jun 2016</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Available-for-sale financial investments		
Debt securities	<b>982,713</b>	800,499

The above financial assets were transferred from Level 2 to Level 1 as they have been actively traded during the half year ended 30 June 2017 and fair values were no longer obtained using valuation techniques using observable market inputs.

Transfers between levels of the fair value hierarchy are deemed to occur at the end of the reporting period.

#### 4.3 Fair values of non-financial assets and liabilities

##### *Fair value hierarchy*

The following table presents the fair value of the Group's bank premises and properties and investment properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 4 Financial risk management (continued)

#### 4.3 Fair values of non-financial assets and liabilities (continued)

Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

Level 3 valuations: Fair value measured using significant unobservable inputs.

#### Fair value at 30 June 2017

	HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
<b>Recurring fair value measurement</b>				
Bank premises and properties	652,490	–	–	652,490
Investment properties	79,658	–	–	79,658

#### Fair value at 31 December 2016

	HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
<b>Recurring fair value measurement</b>				
Bank premises and properties	655,436	–	–	655,436
Investment properties	79,658	–	–	79,658

During the half year ended 30 June 2017 there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All of the Group's investment properties and bank premises and properties were revalued as at 30 June 2017. The valuations on the Banks's investment properties and bank premises and properties were carried out by an independent professionally qualified valuer, A.G. Wilkinson & Associates. The valuation on investment properties and bank premises and properties of the Bank's subsidiary were carried out by an independent professionally qualified valuer in the Mainland China, Shenzhen GuoZhongLian Asset and Real Estate Appraisal Consulting Co., Ltd. The valuers are with recent experience in the location and category of property being valued. The Group's management has discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 4 Financial risk management (continued)

#### 4.3 Fair values of non-financial assets and liabilities (continued)

##### *Information about Level 3 fair value measurements*

	Valuation techniques	Unobservable input	Range
<i>Investment properties</i>			
– Hong Kong	Investment method	Market yield	2.68%
– Mainland China	Discount cash flow	Risk adjusted discount rate	5.5%
		Expected market rental growth	2.5% - 4%
		Expected occupancy rate	97%
<i>Bank premises and properties</i>			
– Hong Kong	Direct comparison approach	Premium/(discount) on characteristic of the properties	12.80% to (33.17%)
– Mainland China method 1	Discount cash flow	Risk adjusted discount rate	5%
		Expected market rental growth	4%
		Expected occupancy rate	97%
– Mainland China method 2	Direct comparison approach	Market value discount rate	5%

For investment properties classified under level 3, the fair values are valued by:

- i) investment method of valuation and have assessed the contractual rental income and the expected future market rental income after allowing for outgoings and maintenance requirements at appropriate market yields as perceived in the actual market; and
- ii) discounting a projected cash flow series associated with the properties using risk adjusted discount rates. The valuation takes into account expected market rental growth and occupancy rate of the respective properties. The discount rates used have been adjusted for the quality and location of the buildings and the tenant credit quality. The fair value measurement is positively correlated to the expected market rental growth and the occupancy rate, and negatively correlated to the risk-adjusted discount rates.

For bank premises and properties classified under level 3, the fair values are determined by:

- i) discounting a projected cash flow series associated with the properties using risk adjusted discount rates. The valuation takes into account expected market rental growth and occupancy rate of the respective properties. The discount rates used have been adjusted for the quality and location of the buildings and the tenant credit quality. The fair value measurement is positively correlated to the expected market rental growth and the occupancy rate, and negatively correlated to the risk-adjusted discount rates; and

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 4 Financial risk management (continued)

#### 4.3 Fair values of non-financial assets and liabilities (continued)

##### *Information about Level 3 fair value measurements (continued)*

- ii) using direct comparison approach to value properties in their respective existing states and uses on the market basis assuming sale with immediate vacant possession and by making reference to comparable sales evidence. The valuations take into account the characteristic of the properties which included the location, size, shape, view, floor level, year of completion and others factors collectively. Higher premium for properties with higher characteristic will result in a higher fair value measurement.

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

<b>Bank premises and properties:</b>	<b>HK\$'000</b>
At 1 January 2017	655,436
Addition for the period	–
Exchange rate and other adjustment	1,084
Depreciation charge for the period	(9,272)
Surplus on revaluation	5,242
At 30 June 2017	652,490
<b>Investment properties:</b>	<b>HK\$'000</b>
At 1 January 2017	79,658
Fair value adjustment	–
Exchange adjustment	–
At 30 June 2017	79,658
<b>Bank premises and properties:</b>	<b>HK\$'000</b>
At 1 January 2016	653,564
Addition for the year	–
Exchange rate and other adjustment	(99)
Depreciation charge for the year	(18,031)
Surplus on revaluation	20,002
At 31 December 2016	655,436
<b>Investment properties:</b>	<b>HK\$'000</b>
At 1 January 2016	80,919
Fair value adjustment	1,262
Exchange adjustment	(2,523)
At 31 December 2016	79,658



**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS****5 Segment reporting****5.1 Class of business**

The Group comprises eight operating segments. Asia Pacific Business represents the banking business in Asia Pacific Region. Corporate and investment banking mainly comprises corporate banking, the provision of debt capital market and investment banking. Commercial banking represents commercial lending and trade financing. Retail banking represents retail banking, hire purchase and leasing, and credit card business. Global markets and trading represents foreign exchange, money market and capital market activities. Institutional banking represents financial institution business. Chinese Mercantile Bank represents the business of the Bank's subsidiary in Mainland China. Unallocated items mainly comprise the central management unit, bank premises, inter-segment elimination entries and any items which cannot be reasonably allocated to specific operating segments.

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 5 Segment reporting (continued)

#### 5.1 Class of business (continued)

30 June 2017	Asia-Pacific Business HK\$'000	Corporate and investment banking HK\$'000	Commercial banking HK\$'000	Retail banking HK\$'000	Global markets and trading HK\$'000	Institutional banking HK\$'000	Chinese Mercantile Bank HK\$'000	Unallocated HK\$'000	Total HK\$'000
Net interest income	83,209	416,321	1,087,622	653,006	598,493	383,628	1,027,109	270,207	4,519,595
Fee and commission income	60,437	179,379	424,384	346,824	-	108,240	123,442	37,660	1,280,366
Fee and commission expense	-	(6,135)	(5,888)	(118,442)	-	-	(2,303)	-	(132,768)
Net fee and commission income	60,437	173,244	418,496	228,382	-	108,240	121,139	37,660	1,147,598
Net trading income/(expense)	1,441	20,105	96,398	56,635	106,073	20,285	(118,729)	(154,539)	27,669
Net loss on financial assets and liabilities designated at fair value through profit or loss	-	-	-	-	(20,590)	-	-	-	(20,590)
Dividend income from financial investments	-	-	-	-	-	-	-	2,913	2,913
Other operating income	-	-	291	676	46	79	1,316	1,064	3,472
Operating income	145,087	609,670	1,602,807	938,699	684,022	512,232	1,030,835	157,305	5,680,657
Operating expenses	(33,264)	(89,068)	(275,222)	(599,683)	(154,004)	(90,655)	(172,122)	(8,509)	(1,422,527)
Operating profit before impairment losses	111,823	520,602	1,327,585	339,016	530,018	421,577	858,713	148,796	4,258,130
Charge for impairment losses on placement (Charge for)/Write back of impairment losses on loans and advances	-	-	-	-	-	-	(1,239)	-	(1,239)
Charge for impairment losses on held-to-maturity financial investments	(7,960)	(20,114)	6,375	(20,763)	-	(14,096)	(605)	266	(56,897)
Write back of impairment losses on available-for-sale financial investments	-	-	-	-	-	-	(2,318)	-	(2,318)
Operating profit after impairment losses	103,863	500,488	1,333,960	318,253	534,982	407,481	854,551	149,062	4,202,640
Net loss from property, plant and equipment	-	-	-	(860)	-	-	-	(1,576)	(2,436)
Net gain on disposal of available-for-sale financial investments	-	-	-	-	199,483	-	7,521	-	207,004
Net gain on disposal of held-to-maturity financial investments	-	-	-	-	19,793	-	-	-	19,793
Operating profit	103,863	500,488	1,333,960	317,393	754,258	407,481	862,072	147,486	4,427,001
Share of (loss)/profits of an associate	-	-	-	-	-	-	-	(3,161)	(3,161)
Profit before tax	103,863	500,488	1,333,960	317,393	754,258	407,481	862,072	144,325	4,423,840
Segment assets	11,758,110	92,720,304	139,976,347	60,254,933	149,983,117	41,311,098	158,812,007	193,944,512	848,760,428
Interest in associates	-	-	-	-	-	-	-	380,090	380,090
Total assets	11,758,110	92,720,304	139,976,347	60,254,933	149,983,117	41,311,098	158,812,007	194,324,602	849,140,518
Segment liabilities	11,575,123	91,767,694	138,172,091	60,726,661	136,249,795	52,923,577	147,253,791	122,742,384	761,411,116
Total liabilities	11,575,123	91,767,694	138,172,091	60,726,661	136,249,795	52,923,577	147,253,791	122,742,384	761,411,116
Capital expenditure	176	-	102	19,084	601	24	3,400	20,218	43,605
Depreciation and amortisation charge	37	66	512	25,648	2,592	694	8,586	23,474	61,609

**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**
**5 Segment reporting (continued)**
**5.1 Class of business (continued)**

30 June 2016	Asia-Pacific Business HK\$'000	Corporate and investment banking HK\$'000	Commercial banking HK\$'000	Retail banking HK\$'000	Global markets and trading HK\$'000	Institutional banking HK\$'000	Chinese Mercantile Bank HK\$'000	Unallocated HK\$'000	Total HK\$'000
Net interest income	-	663,723	1,380,326	636,187	711,516	314,029	1,028,615	(236,017)	4,498,379
Fee and commission income	-	209,946	459,146	308,618	2	137,618	86,757	39,795	1,241,882
Fee and commission expense	-	(7,290)	(11,276)	(117,865)	-	-	(2,934)	(5)	(139,370)
Net fee and commission income	-	202,656	447,870	190,753	2	137,618	83,823	39,790	1,102,512
Net trading income/(expense)	-	67,077	149,732	51,616	(2,865)	23,803	10,717	253,058	553,138
Net loss on financial assets and liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-	-	-
Dividend income from financial investments	-	-	-	-	-	-	-	2,908	2,908
Other operating income	-	-	1,288	135	-	81	2,784	1,451	5,739
Operating income	-	933,456	1,979,216	878,691	708,653	475,531	1,125,939	61,190	6,162,676
Operating expenses	-	(98,247)	(295,088)	(593,101)	(160,969)	(87,874)	(251,529)	29,335	(1,457,473)
Operating profit before impairment losses	-	835,209	1,684,128	285,590	547,684	387,657	874,410	90,525	4,705,203
(Charge for)/Write back of impairment losses on loans and advances	-	(293,279)	8,275	(4,842)	-	(6,862)	(196,024)	66	(492,666)
Write back of impairment losses on available-for-sale financial investments	-	-	-	-	21,397	-	-	-	21,397
Operating profit after impairment losses	-	541,930	1,692,403	280,748	569,081	380,795	678,386	90,591	4,233,934
Net loss from property, plant and equipment	-	-	(2)	(83)	-	-	-	(606)	(691)
Net (loss)/gain on disposal of available-for-sale financial investments	-	-	-	-	48,875	-	13,297	75,076	137,248
Net gain on disposal of held-to-maturity financial investments	-	-	-	-	2,417	-	-	-	2,417
Operating profit	-	541,930	1,692,401	280,665	620,373	380,795	691,683	165,061	4,372,908
Share of profits of an associate	-	-	-	-	-	-	-	10,906	10,906
Profit before tax	-	541,930	1,692,401	280,665	620,373	380,795	691,683	175,967	4,383,814
Segment assets	-	99,827,937	153,123,145	48,513,556	86,581,617	23,870,049	149,499,676	226,398,344	787,814,324
Interest in associates	-	-	-	-	-	-	-	295,784	295,784
Total assets	-	99,827,937	153,123,145	48,513,556	86,581,617	23,870,049	149,499,676	226,694,128	788,110,108
Segment liabilities	-	99,022,220	151,705,424	48,850,626	83,509,875	39,176,513	138,497,844	153,329,709	714,092,211
Total liabilities	-	99,022,220	151,705,424	48,850,626	83,509,875	39,176,513	138,497,844	153,329,709	714,092,211
Capital expenditure	-	13	403	20,349	131	14	5,059	20,527	46,496
Depreciation and amortization charges	-	79	332	21,832	3,161	795	12,856	24,282	63,337

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 5 Segment reporting (continued)

#### 5.2 Geographical area

The Group operates predominantly in Hong Kong. The geographical analysis, which has been classified by the location of the principal operations, is as follows:

##### For the six months ended 30 June 2017

	Hong Kong HK\$'000	Asia Pacific (excluding Hong Kong) HK\$'000	Consolidated HK\$'000
Operating income	4,640,661	1,039,996	5,680,657
Profit before tax	3,550,505	873,335	4,423,840
Total assets	690,331,226	158,809,292	849,140,518
Total liabilities	614,160,995	147,250,121	761,411,116
Contingent liabilities and commitments	231,049,135	26,513,290	257,562,425
Capital expenditure during the period	40,205	3,400	43,605

##### For the six months ended 30 June 2016

	Hong Kong HK\$'000	Asia Pacific (excluding Hong Kong) HK\$'000	Consolidated HK\$'000
Operating income	4,966,922	1,195,754	6,162,676
Profit before tax	3,620,863	762,951	4,383,814
Total assets	638,613,996	149,496,112	788,110,108
Total liabilities	575,577,740	138,514,471	714,092,211
Contingent liabilities and commitments	222,494,610	30,492,562	252,987,172
Capital expenditure during the period	41,437	5,059	46,496

**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**
**6 Net interest income**

	<b>30 Jun 2017</b>	30 Jun 2016
	<b>HK\$'000</b>	HK\$'000
Interest income on:		
Cash and balances with banks and other financial institutions	<b>542,101</b>	356,670
Placements with banks and other financial institutions	<b>243,983</b>	178,970
Advances and other accounts	<b>6,782,718</b>	6,341,427
Financial investments – available-for-sale	<b>1,187,009</b>	1,329,194
Financial investments – held-to-maturity	<b>943,301</b>	924,808
	<u><b>9,699,112</b></u>	<u>9,131,069</u>
Interest expense on:		
Deposits from banks and other financial institutions	<b>1,613,278</b>	729,055
Deposits from customers	<b>2,869,846</b>	2,923,746
Certificates of deposit issued	<b>341,966</b>	560,658
Debt securities measured at amortised cost	–	40,411
Subordinated debts measured at amortised cost	<b>277,083</b>	330,773
Others	<b>77,344</b>	48,047
	<u><b>5,179,517</b></u>	<u>4,632,690</u>
Net interest income	<u><b>4,519,595</b></u>	<u>4,498,379</u>

Included in the above is interest income accrued on impaired financial assets of HK\$22,828,000 (First half of 2016: HK\$20,006,000), including unwinding of discounts on loan impairment losses of HK\$12,886,000 (First half of 2016: HK\$13,491,000).

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 7 Net fee and commission income

	30 Jun 2017 HK\$'000	30 Jun 2016 HK\$'000
Loans, overdrafts and guarantees	652,412	694,490
Securities and brokerage	115,240	107,309
Trade finance	74,616	68,726
Credit card	137,228	139,860
Remittance	41,187	39,577
Insurance	62,611	59,156
Other retail and commercial banking services	16,439	18,921
Securities arrangement fee	25,881	17,132
Others	154,752	96,711
	<hr/>	<hr/>
Fee and commission income	1,280,366	1,241,882
Fee and commission expense	(132,768)	(139,370)
	<hr/>	<hr/>
Net fee and commission income	<u>1,147,598</u>	<u>1,102,512</u>
Of which:		
Net fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value through profit or loss	689,524	763,216
Net fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	50,171	13,541
Of which:		
Fee and commission income by product line constituting not less than 10% of the total amount of fee and commission income, as follows:		
– syndication loan	323,008	304,245
– term loan	232,720	287,036
– credit card	137,228	139,860

**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**
**8 Net trading income**

	<b>30 Jun 2017</b>	30 Jun 2016
	<b>HK\$'000</b>	HK\$'000
Equity investments	(411)	(1,593)
Debt securities – Financial assets held for trading	10,678	8,506
– Available-for-sale financial investments	6,293	(2,899)
Derivatives	170,985	(41,086)
Foreign exchange	(163,147)	589,596
	<b>24,398</b>	552,524
Gain/(loss) from hedging activities		
Fair value hedges		
– Net gain on hedged items attributable to the hedged risk	27,397	20,338
– Net loss on hedging instruments	(24,126)	(19,724)
	<b>3,271</b>	614
Total net trading income	<b>27,669</b>	553,138

There is no gain or loss on financial liabilities measured at amortised cost included in total net trading income for first half of 2017 (First half of 2016: Nil).

**9 Net loss on financial assets and liabilities designated at fair value through profit or loss**

	<b>30 Jun 2017</b>	30 Jun 2016
	<b>HK\$'000</b>	HK\$'000
Financial liabilities designated at fair value through profit or loss	(20,590)	–
Total net loss on financial assets and liabilities designated at fair value through profit or loss	<b>(20,590)</b>	–

**10 Dividend income from financial investments**

	<b>30 Jun 2017</b>	30 Jun 2016
	<b>HK\$'000</b>	HK\$'000
Dividend income from listed available-for-sale financial investments	163	158
Dividend income from unlisted available-for-sale financial investments	2,750	2,750
Total dividend income from financial investments	<b>2,913</b>	2,908

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 11 Other operating income

	30 Jun 2017 HK\$'000	30 Jun 2016 HK\$'000
Rental income from investment properties	1,783	1,403
Less: Direct operating expenses arising from investment properties that generated rental income during the period	(39)	(46)
Others	1,728	4,382
	<u>3,472</u>	<u>5,739</u>
Total other operating income	<u>3,472</u>	<u>5,739</u>

### 12 Operating expenses

	30 Jun 2017 HK\$'000	30 Jun 2016 HK\$'000
Staff costs		
– Salaries and other costs	756,726	727,846
– Retirement benefit costs	37,895	37,358
	<u>794,621</u>	<u>765,204</u>
Premises and equipment expenses, excluding depreciation and amortisation		
– Rental of premises	208,475	214,622
– Others	83,032	77,869
	<u>291,507</u>	<u>292,491</u>
Depreciation and amortisation expenses	61,586	63,337
Auditors' remuneration	2,340	2,340
General administration expenses	43,888	40,949
Business promotion expenses	64,907	54,218
Communication expenses	46,393	42,366
Other operating expenses	117,285	196,568
	<u>1,422,527</u>	<u>1,457,473</u>
Total operating expenses	<u>1,422,527</u>	<u>1,457,473</u>



## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 13 Charge for impairment losses on loans and advances

	<b>30 Jun 2017</b>	30 Jun 2016
	<b>HK\$'000</b>	HK\$'000
Charge for impairment losses on loans and advances		
Individually assessed		
– New allowances	<b>105,443</b>	440,588
– Releases	<b>(63,321)</b>	(54,201)
– Recoveries	<b>(1,900)</b>	(1,859)
Net charge for impairment losses on individually assessed loans and advances	<b>40,222</b>	384,528
Net charge for impairment losses on collectively assessed loans and advances	<b>16,675</b>	108,138
Net charge to the income statement	<b>56,897</b>	492,666

### 14 Taxation

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable for overseas branches and subsidiaries have been calculated at the rates of tax prevailing in the countries in which the Group operates.

The amount of tax charged to the consolidated income statement represents:

	<b>30 Jun 2017</b>	30 Jun 2016
	<b>HK\$'000</b>	HK\$'000
Current tax – Provision for Hong Kong profits tax for the period	<b>589,507</b>	597,572
– Provision for overseas tax for the period	<b>219,749</b>	220,162
Under provision in respect of prior years	<b>2,031</b>	23,955
Deferred taxation	<b>(2,882)</b>	172
	<b>808,405</b>	841,861

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 14 Taxation (continued)

The difference between the tax expense for the Group's profit before tax and the theoretical amount that would arise using the current tax rate is as follows:

	30 Jun 2017 HK\$'000	30 Jun 2016 HK\$'000
Profit before tax	4,423,840	4,383,814
Calculated at a tax rate of 16.5% (2016: 16.5%)	729,933	723,329
Effect of different tax rates in other countries	75,661	95,354
Income not subject to tax	(8,989)	(4,792)
Expenses not deductible for tax purposes	9,247	5,814
Adjustments in respect of current tax of previous periods	2,031	23,955
Share of tax of an associate	522	(1,799)
Tax charge	<u>808,405</u>	<u>841,861</u>

### 15 Interim dividend

At a meeting held on 11 August 2017, the Board do not recommend the payment of interim dividend for the six months ended 30 June 2017 (First half of 2016: Nil).

### 16 Earnings per share

Basic earnings per share amount is calculated by dividing the profit for the period attributable to shareholders of the Group by the weighted average number of ordinary shares in issue during the period.

	30 Jun 2017	30 Jun 2016
Profit attributable to shareholders (HK\$'000)	3,615,434	3,541,953
Weighted average number of ordinary shares in issue (thousands)	2,577,000	2,577,000
Basic earnings per share	HK\$1.40	HK\$1.37

Diluted earnings per share amount for the periods ended 30 June 2017 and 30 June 2016 were the same as basic earnings per share, as the Group had no potential dilutive ordinary shares in issue during those periods.

**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**
**17 Cash and balances with banks and other financial institutions**

	<b>30 Jun 2017</b>	31 Dec 2016
	<b>HK\$'000</b>	HK\$'000
Cash on hand	<b>460,733</b>	494,430
Balances with central banks	<b>23,077,115</b>	22,863,053
Balances with other banks and financial institutions	<b>43,190,447</b>	12,291,627
Placements with banks and other financial institutions maturing within one month	<b>125,840,036</b>	129,957,396
	<b><u>192,568,331</u></b>	<b><u>165,606,506</u></b>

**18 Placements with banks and other financial institutions**

	<b>30 Jun 2017</b>	31 Dec 2016
	<b>HK\$'000</b>	HK\$'000
Placements with banks and other financial institutions maturing between one and twelve months	<b>33,453,572</b>	26,593,495
	<b><u>33,453,572</u></b>	<b><u>26,593,495</u></b>

**19 Financial assets held for trading**

	<b>30 Jun 2017</b>	31 Dec 2016
	<b>HK\$'000</b>	HK\$'000
Debt securities, at fair value:		
Unlisted	<b>1,346,231</b>	654,695
	<b><u>1,346,231</u></b>	<b><u>654,695</u></b>
Equity securities, at fair value:		
Unlisted	–	17,556
	–	17,556
Total financial assets held for trading	<b><u>1,346,231</u></b>	<b><u>672,251</u></b>
Financial assets held for trading are analysed by category of issuer as follows:		
Banks and other financial institutions	<b>896,146</b>	654,695
Corporate entities	<b>450,085</b>	17,556
	<b><u>1,346,231</u></b>	<b><u>672,251</u></b>

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 20 Derivative financial instruments

The Group enters into the following equity, foreign exchange and interest rate related derivative financial instruments for trading and risk management purposes:

Currency forwards represent commitments to purchase and sell foreign currencies on a future date.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an exchange of currencies, interest rates (for example, fixed rate for floating rate), or a combination of all these (i.e., cross-currency interest rate swaps). Except for certain currency swap contracts, no exchange of principal takes place.

Foreign currency, interest rate and equity options are contractual agreements under which the seller (writer) grants the purchaser (holder) the rights, but not an obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of the financial instrument at a predetermined price. In consideration for the assumption of foreign exchange and interest rate risk, the seller receives a premium from the purchaser. Options are negotiated OTC between the Group and its counterparty or traded through the stock exchange (for example, exchange-traded stock options).

The contractual/notional amounts and fair values of derivative financial instruments held by the Group are set out in the following tables. The contractual/notional amounts of these instruments indicate the volume of transactions outstanding at the end of the reporting periods and certain of them provide a basis for comparison with fair value instruments recognised on the consolidated statement of financial position. However, they do not necessarily indicate the amounts of future cash flows involved or the current fair values of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates and equity relative to their terms. The aggregate fair values of derivative financial instruments (assets and liabilities) can fluctuate significantly from time to time.

The Group trades derivative products (both exchange-traded or OTC) mainly for customer business. The Group strictly follows risk management policies in providing derivative products to the customers and in trading derivative products in the interbank market.

Derivatives are also used to manage the interest rate risk of the banking book. A derivative instrument must be included in the approved product list before any transactions for that instrument can be made. There are limits to control the notional amount of exposure arising from derivative transactions and the maximum tenor of the deal and management alert limit in profit or loss is set. Every derivative transaction must be input into the relevant system for settlement, mark to market revaluation, reporting and control.

**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**
**20 Derivative financial instruments (continued)**

The following tables summarise the contractual/notional amounts of each significant type of derivative financial instrument as at 30 June 2017 and 31 December 2016:

<b>As at 30 June 2017</b>	<b>Contractual/ notional amount HK\$'000</b>	<b>Fair value assets HK\$'000</b>	<b>Fair value liabilities HK\$'000</b>
1) Derivatives held for trading			
a) Foreign exchange derivatives			
– Currency forwards	929,574,599	8,002,003	(8,087,234)
– OTC currency options purchased	30,397,091	124,348	(373)
– OTC currency options written	32,436,416	494	(114,691)
– Structured foreign exchange instruments	450,284	8,446	(8,562)
Total foreign exchange derivatives		8,135,291	(8,210,860)
b) Interest rate derivatives			
– Interest rate swaps	102,523,326	488,283	(338,872)
– Interest rate futures	4,738,598	2,884	(911)
Total interest rate derivatives		491,167	(339,783)
c) Equity derivatives			
– Equity options	1,179	11	(11)
– Equity swaps	2,381,035	97,746	(285,626)
Total equity derivatives		97,757	(285,637)
d) Commodity contract	15,700,163	357,099	(357,513)
Total derivative assets/(liabilities) held for trading		9,081,314	(9,193,793)
2) Derivatives held for hedging			
a) Derivatives designated as fair value hedges			
– Interest rate swaps	13,333,884	189,776	(107,484)
b) Derivatives designated as cash flow hedges			
– Interest rate swaps	14,018,319	163,673	(31,431)
Total derivative assets/(liabilities) held for hedging		353,449	(138,915)
Total recognised derivative assets/(liabilities)		9,434,763	(9,332,708)

**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**
**20 Derivative financial instruments (continued)**

As at 31 December 2016	Contractual/ notional amount HK\$'000	Fair value assets HK\$'000	Fair value liabilities HK\$'000
1) Derivatives held for trading			
a) Foreign exchange derivatives			
– Currency forwards	707,501,681	16,460,590	(16,330,410)
– OTC currency options purchased	23,070,823	334,392	–
– OTC currency options written	25,415,975	4,411	(352,748)
– Structured foreign exchange instruments	527,181	99,543	(100,749)
Total foreign exchange derivatives		16,898,936	(16,783,907)
b) Interest rate derivatives			
– Interest rate swaps	98,354,536	625,030	(465,961)
– Interest rate futures	17,659,551	9,516	(5,643)
Total interest rate derivatives		634,546	(471,604)
c) Equity derivatives			
– Equity options	8,067	27	(27)
– Equity swaps	2,309,648	–	(227,888)
Total equity derivatives		27	(227,915)
d) Commodity contract	9,088,063	474,806	(476,090)
Total derivative assets/(liabilities) held for trading		<u>18,008,315</u>	<u>(17,959,516)</u>
2) Derivatives held for hedging			
a) Derivatives designated as fair value hedges			
– Interest rate swaps	4,341,017	215,448	(21,815)
b) Derivatives designated as cash flow hedges			
– Interest rate swaps	16,465,912	191,994	(22,668)
Total derivative assets/(liabilities) held for hedging		<u>407,442</u>	<u>(44,483)</u>
Total recognised derivative assets/(liabilities)		<u>18,415,757</u>	<u>(18,003,999)</u>

The contractual or notional amounts of contingent liabilities and commitments and derivative financial instruments provide only an indication of the volume of business outstanding at the end of the reporting period and bear little relation to the underlying risks of the exposures.

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 20 Derivative financial instruments (continued)

Among the above derivative financial instruments, certain of them were designated as hedging instruments.

Fair value hedges are used by the Group to protect it against changes in the fair value of financial assets due to movements in market interest rates. The financial instruments hedged for interest rate risk mainly include available-for-sale debt securities. The Bank uses interest rate swaps to hedge interest rate risk.

The effectiveness of the hedge based on changes in fair value of the derivatives and the hedged items attributable to the hedged risk recognised in the income statement during the period is presented as follows:

	30 Jun 2017 HK\$'000	30 Jun 2016 HK\$'000
Gain/(loss) arising from fair value hedge, net:		
– Hedging instruments	(24,126)	(19,724)
– Hedged items attributable to the hedged risk	27,397	20,338
	<u>3,271</u>	<u>614</u>

Cash flow hedge consists of interest rate swaps entered into that are used to protect the Group against exposures to variability of floating-rate assets and liabilities. Gains and losses on the effective portion of the swaps are initially recognised directly in equity, in the cash flow hedge reserve, and are transferred to the income statement when the forecast cash flows affect the income statement. The gains and losses on ineffective portions of such derivatives are recognised immediately in the income statement. During the period, there was no ineffectiveness recognised in the income statement that arose from cash flow hedges (2016: Nil).

Below is a schedule indicating as at 30 June 2017 and 31 December 2016, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss:

	Within 1 year HK\$ million	1-3 years HK\$ million	3-8 years HK\$ million	Over 8 years HK\$ million
<b>30 June 2017</b>				
Cash inflows (assets)	48	95	20	–
Cash outflows (liabilities)	(100)	(133)	(120)	(1)
Net cash flows	(52)	(38)	(100)	(1)
<b>31 December 2016</b>				
Cash inflows (assets)	38	74	34	–
Cash outflows (liabilities)	(101)	(106)	(110)	(6)
Net cash flows	(63)	(32)	(76)	(6)

# NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

## 20 Derivative financial instruments (continued)

During the period, realised gain amounting to HK\$16,738,000 previously recognised in equity under the cash flow hedge reserve was transferred to the income statement and included in the net interest income (First half of 2016: Realised gain of HK\$44,995,000).

There were no transactions for which cash flow hedge accounting had to be ceased in the first half of 2017 as a result of the highly probable cash flows no longer being expected to occur.

The aggregate replacement costs and credit risk weighted amounts of the above contingent liabilities and commitments and derivative financial instruments are:

	30 Jun 2017		31 Dec 2016	
	Replacement cost	Credit risk weighted amount	Replacement cost	Credit risk weighted amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contingent liabilities and commitments	–	34,892,748	–	32,369,742
Exchange rate contracts				
– Forwards	4,328,517	2,530,503	10,058,763	3,911,926
– Swaps	2,460,796	2,892,797	5,987,111	5,021,705
– Options purchased	47,176	65,755	70,519	69,615
– Options written	49,206	156,087	20,978	128,717
– Structured FX	8,401	492,192	99,543	487,789
	<u>6,894,096</u>	<u>6,137,334</u>	<u>16,236,914</u>	<u>9,619,752</u>
Interest rate contracts				
– Swaps	611,125	705,352	751,573	799,077
– Eurodollar Futures Product	2,855	2,855	7,266	19,673
	<u>613,980</u>	<u>708,207</u>	<u>758,839</u>	<u>818,750</u>
Equity contracts				
– Options	11	9	27	54
– Swaps	97,746	288,229	–	184,772
	<u>97,757</u>	<u>288,238</u>	<u>27</u>	<u>184,826</u>
Debt securities or other commodities				
– Commodity contract	354,974	1,026,370	472,408	866,843
– US Treasury Futures Product	30	36,792	2,251	47,460
	<u>355,004</u>	<u>1,063,162</u>	<u>474,659</u>	<u>914,303</u>
OTC with netting				
– Forwards	185,889	212,121	–	–
– Swaps	4,670	15,321	–	–
– Options purchased	11,355	11,013	–	–
– Options written	10,023	6,245	–	–
– Structured FX	–	3,714	–	–
	<u>211,937</u>	<u>248,414</u>	<u>–</u>	<u>–</u>
	<u>8,172,774</u>	<u>43,338,103</u>	<u>17,470,439</u>	<u>43,907,373</u>

The replacement costs and credit risk weighted amounts of the exposures do not take into account the effects of bilateral netting arrangements.



## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 21 Advances and other accounts

#### 21.1 Loans and advances to customers, banks and trade bills

	30 Jun 2017 HK\$'000	31 Dec 2016 HK\$'000
Advances to customers	425,283,908	392,966,358
Advances to banks	1,786,402	2,159,837
Trade bills	15,734,584	27,357,571
	<u>442,804,894</u>	<u>422,483,766</u>
Gross loans and advances to customers, banks and trade bills	442,804,894	422,483,766
Accrued interest	1,100,343	972,928
	<u>443,905,237</u>	<u>423,456,694</u>
Less: impairment allowances		
– Individually assessed	(1,836,068)	(1,828,704)
– Collectively assessed	(2,018,672)	(1,972,715)
	<u>440,050,497</u>	<u>419,655,275</u>
	30 Jun 2017 HK\$'000	31 Dec 2016 HK\$'000
Gross impaired loans and advances	3,297,168	3,143,237
Impairment allowances made in respect of such loans	1,836,068	1,828,704
Gross impaired loans and advances as a percentage of total gross loans and advances	0.74%	0.74%
Market value of collateral	<u>893,354</u>	<u>773,281</u>

Impaired loans and advances are defined as those loans which are individually determined to have objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event has an impact on the estimated future cash flows of the loans that can be reliably estimated.

The impaired loan ratio of advances to customers was 0.78% as at 30 June 2017 (31 December 2016: 0.80%).

There were no impaired advances to banks and trade bills as at 30 June 2017 and 31 December 2016; nor were there any individual impairment allowances made for them on these two dates.

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 21 Advances and other accounts (continued)

#### 21.2 Overdue advances to customers and banks (excluding trade bills and receivables)

The gross amount of the Group's advances to customers (excluding trade bills and receivables) which have been overdue is analysed as follows:

	Gross advances HK\$'000	% of advances to customers	Market value of collateral HK\$'000	Amount of secured balance HK\$'000	Amount of unsecured balance HK\$'000	Individual impairment allowance HK\$'000
<b>As at 30 Jun 2017</b>						
Six months or less but over three months	61,372	0.0	71,383	27,912	33,458	6,869
One year or less but over six months	237,983	0.1	192,789	29,302	208,681	100,587
Over one year	2,437,818	0.6	376,127	318,191	2,124,901	1,703,358
	<u>2,737,173</u>	<u>0.7</u>	<u>640,299</u>	<u>375,405</u>	<u>2,367,040</u>	<u>1,810,814</u>
<b>As at 31 Dec 2016</b>						
Six months or less but over three months	53,232	0.0	58,834	37,244	15,988	13,987
One year or less but over six months	338,626	0.1	96,513	60,342	278,284	125,630
Over one year	2,311,236	0.6	304,812	277,437	2,033,799	1,622,265
	<u>2,703,094</u>	<u>0.7</u>	<u>460,159</u>	<u>375,023</u>	<u>2,328,071</u>	<u>1,761,882</u>

The criteria for eligible collateral are as follows:

- The market value of the collateral is readily determinable or can be reasonably established and verified;
- The collateral is marketable and there exists a readily available secondary market for disposing of the collateral;
- The Bank's rights to repossess the collateral is legally enforceable and without impediment; and
- If the collateral is a moveable asset, it should be under the Bank's custody, or its whereabouts can be located by the Bank.

The eligible collaterals are mainly properties, deposits and shares.

There were no advances to banks (excluding trade bills and receivables) which were overdue for over 3 months as at 30 June 2017 and 31 December 2016.

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 21 Advances and other accounts (continued)

#### 21.3 Other overdue assets

	30 Jun 2017 Accrued interest HK\$'000	30 Jun 2017 Other assets HK\$'000	31 Dec 2016 Accrued interest HK\$'000	31 Dec 2016 Other assets HK\$'000
Six months or less but over				
three months	64	–	240	–
One year or less but over six months	2,979	–	214	–
Over one year	53,816	–	43,349	–
	<u>56,859</u>	<u>–</u>	<u>43,803</u>	<u>–</u>

Other assets refer to trade bills and receivables.

#### 21.4 Rescheduled advances

	30 Jun 2017 HK\$'000	% of advances to customers	31 Dec 2016 HK\$'000	% of advances to customers
Rescheduled advances (excluding overdue loans over three months)	<u>566,620</u>	<u>0.13</u>	<u>423,550</u>	<u>0.11</u>

Rescheduled advances which have been overdue for more than three months under the revised repayment terms are included in the analysis of overdue advances in Note 21.2 above.

There were no advances to banks which were overdue; nor were there any rescheduled advances to banks as at 30 June 2017 and 31 December 2016.

#### 21.5 Repossessed assets

At 30 June 2017, the Group has no repossessed assets (31 December 2016: Nil). These are properties which the Group has acquired access to or control of (e.g., through legal actions or voluntary actions by the borrowers concerned) for releasing in full or in part the obligations of the borrowers.

#### 21.6 Cash collateral on securities borrowed and reverse repurchase agreements (the “Reverse Repo”)

In respect of reverse repurchase transactions, the fair value of collateral held by the Group which were permitted to be sold or repledged amounted to be nil as at 30 June 2017 (31 December 2016: Nil). No collateral has been actually sold or repledged by the Group as at 30 June 2017 and 31 December 2016. The transactions are conducted on terms that are usual and customary to standard lending activities.

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 22 Available-for-sale financial investments

	30 Jun 2017 HK\$'000	31 Dec 2016 HK\$'000
Debt securities:		
Listed in Hong Kong	31,260,728	20,844,039
Listed outside Hong Kong	43,401,762	39,806,079
Unlisted	12,543,869	15,255,045
	<u>87,206,359</u>	<u>75,905,163</u>
Equity securities:		
Listed outside Hong Kong	65,807	54,772
Unlisted	131,105	128,880
	<u>196,912</u>	<u>183,652</u>
Wealth Management Products:		
Unlisted	333,200	4,604,004
Total available-for-sale financial investments	<u>87,736,471</u>	<u>80,692,819</u>
Market value of listed securities	<u>74,728,297</u>	<u>60,704,890</u>
Debt securities after taking into account of impairment losses are comprised of the following items:		
Treasury bills	8,358,165	8,559,200
Certificates of deposit held	4,022,844	774,170
Other debt securities	74,825,350	66,571,793
	<u>87,206,359</u>	<u>75,905,163</u>
Available-for-sale financial investments are analysed by category of issuer as follows:		
Central governments and central banks	14,642,715	15,982,561
Public sector entities	658,116	865,387
Banks and other financial institutions	35,207,667	35,547,441
Corporate entities	37,227,973	28,297,430
	<u>87,736,471</u>	<u>80,692,819</u>

#### Movement in individual impairment allowances on available-for-sale financial investments

	30 Jun 2017 HK\$'000	31 Dec 2016 HK\$'000
At 1 January	82,923	122,578
Write back for the period/year	(4,964)	(67,050)
Transfer from held-to-maturity investment	–	26,887
Exchange difference	513	508
At 30 June/31 December	<u>78,472</u>	<u>82,923</u>

**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**
**23 Held-to-maturity financial investments**

	<b>30 Jun 2017</b>	31 Dec 2016
	<b>HK\$'000</b>	HK\$'000
Debt securities:		
– Listed in Hong Kong	<b>21,527,615</b>	25,911,718
– Listed outside Hong Kong	<b>9,568,955</b>	13,683,906
– Unlisted	<b>42,194,677</b>	34,685,972
	<u><b>73,291,247</b></u>	<u>74,281,596</u>
Total held-to-maturity financial investments	<u><b>73,291,247</b></u>	<u>74,281,596</u>
Market value of listed securities	<u><b>31,505,437</b></u>	<u>39,830,565</u>
Debt securities after taking into account of impairment losses are comprised of the following items:		
Treasury bills	<b>16,628,422</b>	13,136,334
Certificates of deposits held	<b>7,816,522</b>	9,291,962
Other debt securities	<b>48,846,303</b>	51,853,300
	<u><b>73,291,247</b></u>	<u>74,281,596</u>
Held-to-maturity financial investments are analysed by category of issuer as follows:		
Central governments and central banks	<b>20,152,613</b>	21,822,768
Public sector entities	<b>934,662</b>	658,723
Banks and other financial institutions	<b>27,999,917</b>	26,106,825
Corporate entities	<b>24,204,055</b>	25,693,280
	<u><b>73,291,247</b></u>	<u>74,281,596</u>

**Movement in collective impairment allowances on held-to-maturity financial investments**

	<b>30 Jun 2017</b>	31 Dec 2016
	<b>HK\$'000</b>	HK\$'000
At 1 January	–	–
Charge for the period/year	<b>2,318</b>	–
	<u><b>2,318</b></u>	<u>–</u>
At 30 June/31 December	<u><b>2,318</b></u>	<u>–</u>

# NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

## 24 Investment properties

	30 Jun 2017 HK\$'000	31 Dec 2016 HK\$'000
Carrying amount at 1 January	79,658	80,919
Net revaluation gain	–	1,262
Exchange difference	–	(2,523)
Carrying amount at 30 June/31 December	<u>79,658</u>	<u>79,658</u>

## 25 Property, plant and equipment

	Bank premises and properties HK\$'000	Leasehold improvements HK\$'000	Furniture and equipment HK\$'000	Total HK\$'000
At 31 December 2016 and 1 January 2017:				
Cost or valuation	830,379	389,851	426,737	1,646,967
Accumulated depreciation and impairment	<u>(174,943)</u>	<u>(233,216)</u>	<u>(294,495)</u>	<u>(702,654)</u>
Net book value at 31 December 2016 and 1 January 2017	<u>655,436</u>	<u>156,635</u>	<u>132,242</u>	<u>944,313</u>
Additions	–	22,668	19,844	42,512
Disposals	–	(2,017)	(1,533)	(3,550)
Revaluation	5,242	–	–	5,242
Depreciation provided during the year	(9,272)	(16,581)	(26,640)	(52,493)
Exchange rate and other adjustments	<u>1,084</u>	<u>520</u>	<u>(39)</u>	<u>1,565</u>
Net book value at 30 June 2017	<u>652,490</u>	<u>161,225</u>	<u>123,874</u>	<u>937,589</u>
At 30 June 2017:				
Cost or valuation	831,946	410,438	437,230	1,679,614
Accumulated depreciation and impairment	<u>(179,456)</u>	<u>(249,213)</u>	<u>(313,356)</u>	<u>(742,025)</u>
Net book value at 30 June 2017	<u>652,490</u>	<u>161,225</u>	<u>123,874</u>	<u>937,589</u>
The analysis of cost or valuation of the above assets is as follows:				
At 30 June 2017:				
At cost	–	410,438	437,230	847,668
At valuation	<u>652,490</u>	<u>–</u>	<u>–</u>	<u>652,490</u>
	<u>652,490</u>	<u>410,438</u>	<u>437,230</u>	<u>1,500,158</u>

**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**
**25 Property, plant and equipment (continued)**

	Bank premises and properties HK\$'000	Leasehold improvements HK\$'000	Furniture and equipment HK\$'000	Total HK\$'000
At 31 December 2015 and 1 January 2016:				
Cost or valuation	890,286	371,516	405,047	1,666,849
Accumulated depreciation and impairment	(236,722)	(212,178)	(271,671)	(720,571)
Net book value at 31 December 2015 and 1 January 2016	653,564	159,338	133,376	946,278
Additions	–	29,693	46,002	75,695
Disposals	–	(2,096)	(9,663)	(11,759)
Revaluation	20,002	–	–	20,002
Depreciation provided during the year	(18,031)	(29,874)	(44,667)	(92,572)
Exchange rate and other adjustments	(99)	(426)	7,194	6,669
Net book value at 31 December 2016	655,436	156,635	132,242	944,313
At 31 December 2016:				
Cost or valuation	830,379	389,851	426,737	1,646,967
Accumulated depreciation and impairment	(174,943)	(233,216)	(294,495)	(702,654)
Net book value at 31 December 2016	655,436	156,635	132,242	944,313
The analysis of cost or valuation of the above assets is as follows:				
At 31 December 2016:				
At cost	–	389,851	426,737	816,588
At valuation	655,436	–	–	655,436
	655,436	389,851	426,737	1,472,024

# NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

## 26 Other assets

	30 Jun 2017 HK\$'000	31 Dec 2016 HK\$'000
Interest receivable	2,136,946	1,963,623
Prepayments	175,217	191,857
Settlement accounts	2,543,623	3,266,953
Margin deposit paid	3,471,239	4,252,691
Factoring	72,677	96,348
Others	245,553	266,146
	<u>8,645,255</u>	<u>10,037,618</u>

## 27 Deposits from banks and other financial institutions

	30 Jun 2017 HK\$'000	31 Dec 2016 HK\$'000
Deposits from banks and other financial institutions	<u>197,830,074</u>	<u>208,329,544</u>

In respect of repurchase transactions, the fair value of collateral which were permitted to be sold or repledged from the Group was HK\$13,031,766,000 as at 30 June 2017 (2016: HK\$24,337,097,000). The transactions are conducted on terms that are usual and customary to standard lending activities.

## 28 Deposits from customers

	30 Jun 2017 HK\$'000	31 Dec 2016 HK\$'000
Demand deposits and current accounts	40,819,410	39,689,441
Savings deposits	112,730,096	90,255,162
Time, call and notice deposits	<u>329,608,799</u>	<u>291,635,306</u>
	<u>483,158,305</u>	<u>421,579,909</u>



## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 29 Deferred income tax

The movements in the deferred income tax asset/(liabilities) accounts are as follows:

	30 Jun 2017 HK\$'000	31 Dec 2016 HK\$'000
At 1 January	269,650	48,904
Credited to income statement	2,882	74,105
(Debited)/Credited to equity	(86,927)	139,255
Exchange and other adjustments	3,826	7,386
	<u>189,431</u>	<u>269,650</u>
At 30 June/31 December	<u>189,431</u>	<u>269,650</u>

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated statement of financial position.

The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	30 Jun 2017 HK\$'000	31 Dec 2016 HK\$'000
Net deferred income tax assets recognised in the consolidated statement of financial position	189,431	269,650
Net deferred income tax liabilities recognised in the consolidated statement of financial position	—	—
	<u>189,431</u>	<u>269,650</u>
At 30 June/31 December	<u>189,431</u>	<u>269,650</u>

### 30 Subordinated debts measured at amortised cost

	30 Jun 2017 HK\$'000	Interest rate %	31 Dec 2016 HK\$'000	Interest rate %
Subordinated fixed rate notes				
– with a final maturity on 30 November 2020	3,891,783	5.125%	3,864,938	5.125%
– with a final maturity on 10 October 2023 (callable on 10 October 2018)	3,888,106	4.5%	3,861,710	4.5%
– with a final maturity on 30 December 2024 (callable on 30 December 2019)	3,902,650	4.5%	3,877,300	4.5%
	<u>11,682,539</u>		<u>11,603,948</u>	

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 30 Subordinated debts measured at amortised cost (continued)

Subordinated debts were raised by the Bank for the development and expansion of business. Fixed rate debts have been fully subscribed by the ultimate holding company. These notes have been qualified and included as the Bank's supplementary capital in accordance with the Capital Rules.

The Bank has not had any defaults of principal or interest or other breaches with respect to the subordinated debts during the period (2016: Nil).

### 31 Other liabilities

	30 Jun 2017 HK\$'000	31 Dec 2016 HK\$'000
Interest payable	3,889,533	3,464,551
Salaries and welfare payable	455,060	499,059
Settlement accounts	3,487,617	3,982,755
Margin deposit received	729,463	550,800
Factoring	72,677	96,348
Others	568,065	1,803,612
	<u>9,202,415</u>	<u>10,397,125</u>

The Group has not had any defaults of principal, interest or other breaches with respect to their liabilities during the period (2016: Nil).

### 32 Share capital

	Number of shares (in thousands)	Ordinary shares HK\$'000
At 1 January 2016, 1 January 2017 & 30 June 2017	<u>2,577,000</u>	<u>36,379,331</u>

### 33 Additional Equity Instruments

	30 Jun 2017 HK\$'000	31 Dec 2016 HK\$'000
US\$1 billion undated non-cumulative subordinated additional tier 1 capital securities	<u>7,738,332</u>	<u>7,738,332</u>

On 21 July 2016, the Bank issued Basel III-compliant Non-Cumulative Subordinated Additional Tier 1 Capital Securities (the "Additional Tier 1 Capital Securities") in the aggregate amount of US\$1 billion (equivalent to approximately HK\$7,738 million net of related issuance costs). The Additional Tier 1 Capital Securities bear a 4.250% distribution until the first call date on 21 July 2021. If the Additional Tier 1 Capital Securities are not called, the distribution will be reset based on the then-prevailing 5-year US Treasury yield plus a fixed initial spread (3.135% Per annum) every 5 years.

**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS****33 Additional Equity Instruments (continued)**

The distribution shall be payable semi-annually, with the first distribution payment date being 21 January 2017. The Bank has the right to cancel distribution payment (subject to the requirement as set out in the terms and conditions of the Additional Tier 1 Capital Securities) and the distribution cancelled shall not be cumulative.

The principal of the Additional Tier 1 Capital Securities will be written off up to the amount as directed by the HKMA if the HKMA notifies the Bank that in the opinion of the HKMA or a relevant government body, the Bank would become non-viable if there is no written off of the principal. The Additional Tier 1 Capital Securities also contain Hong Kong Bail-in Power. Each holder of the Additional Tier 1 Capital Securities shall be subject to the exercise by the Hong Kong Resolution Authority to any or a combination of the following:

- (a) reduction or cancellation of all or a part of the principal and/or distribution of the Additional Tier 1 Capital Securities;
- (b) the conversion of all or a part of the principal and/or distribution of the Additional Tier 1 Capital Securities into shares of the Bank or another person; and/or
- (c) the amendment of the maturity, distribution payment date and/or the distribution amount of the Additional Tier 1 Capital Securities.

The Bank has a call option to redeem all the outstanding capital securities from 21 July 2021 or any subsequent distribution payment date thereafter.

**34 Reserves**

The general reserve of the Group for the period is comprised of:

- the transfer of retained earnings which is distributable to the shareholders of the Group; and
- a statutory surplus reserve of a subsidiary representing 10% of the profit after tax appropriation and 1% of the book value of risk assets as required by law and regulation in PRC. This reserve is used to offset accumulated losses or increase in capital.

As at 30 June 2017, the Group has earmarked a “Regulatory Reserve” of HK\$3,604,950,000 (31 December 2016: HK\$3,758,226,000) from retained earnings. The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purpose. Movements in the reserve are made directly through retained earnings and in consultation with the Hong Kong Monetary Authority.

The consolidated profit attributable to shareholders of the Group includes a profit of HK\$2,923,877,000 (31 December 2016: HK\$6,104,339,000) which has been dealt with in the accounts of the Bank.

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 35 Related-party transactions

Listed out below is a summary of the balances and transactions entered into during the ordinary course of business with the ultimate holding company and fellow subsidiaries and associates, including the acceptance of placement of interbank deposits, corresponding banking transactions and off-balance sheet transactions. The activities were priced at the relevant market rates at the time of transactions.

#### 35.1 Ultimate holding company

	Six months ended	
	30 Jun 2017	30 Jun 2016
	HK\$'000	HK\$'000
Interest income	452,281	249,432
Interest expense	870,662	494,447
Other operating income <sup>1,2</sup>	(43,075)	(40,554)
Other operating expenses <sup>3,4</sup>	431	15,670
	30 Jun 2017	31 Dec 2016
	HK\$'000	HK\$'000
Amounts due from	139,532,129	138,523,141
Amounts due to	152,331,252	192,215,639

1. In accordance with the collaboration agreement dated 3 July 2001 and the supplemental collaboration agreements dated 4 February 2005 and 13 February 2008, management fee income was received from the Hong Kong Branch of ICBC (the "Branch") for the provision of services such as accounting and budgeting, internal audit, marketing and back office settlement and clearing. In accordance with the collaboration agreement dated 21 December 2012, management fee income was received from the ultimate holding company for the provision of management, administrative and marketing services of its credit card business.
2. In accordance with the custodian and trustee services agreement dated 4 September 2007 and the supplemental custodian and trustee services agreements dated 16 May 2008 and 31 December 2009, services fees were paid by the ultimate holding company to the Bank for providing custodian, settlement and clearing services in relation to the investments outside the PRC in certain investment products by the customers of the ultimate holding company in connection with the Qualified Domestic Institutional Investor Scheme of the PRC.
3. In accordance with the service level agreement with the Bank dated 21 February 2002 (as amended and supplemented by supplemental agreements), and the service levels agreement with subsidiary of the Bank dated 19 March 2008, service fee expense was paid to the ultimate holding company for the provision of data processing services to the Bank and its subsidiaries.
4. In accordance with the tenancy agreement dated 23 May 2012, rental expense was paid to the ultimate holding company for the leasing of property located in Hong Kong.

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 35 Related-party transactions (continued)

#### 35.1 Ultimate holding company (continued)

The transactions with the ultimate holding company included the issuance of fixed rate certificates of deposit and subordinated fixed rate notes, which were both fully subscribed by the ultimate holding company and its branches. As at 30 June 2017, the Bank has issued certificates of deposit with a nominal value of HK\$17,900,000,000 and CNY300,000,000 to the branch of the ultimate holding company (First half of 2016: certificates of deposit with a nominal value of US\$2,000,000,000 and CNY450,000,000).

As at 30 Jun 2017, the Bank has committed facilities to the ultimate holding company in the amount of CNY700,000,000 (2016: CNY700,000,000). The Bank also received conglomerate guarantee on loan from the ultimate holding company in the amount of HK\$15,183,853,000 (2016: HK\$18,591,856,000).

##### *i. Undertaking from the ultimate holding company*

To demonstrate its support to the Bank, a Letter of Comfort dated 3 July 2001 was executed by the ultimate holding company, pursuant to which it will provide the Bank with such funding as may be required by the Bank to ensure that it will maintain sufficient capital and liquidity levels.

Simultaneously on 3 July 2001, the ultimate holding company and the Bank entered into a guarantee agreement whereby the ultimate holding company agreed to guarantee to the extent of HK\$9,000,000,000, being the payment obligations of certain customers whose “large exposures” were transferred to the Bank pursuant to the business transfer agreement and to indemnify the Bank in respect of any losses incurred if any obligation of such customers becomes unenforceable. There are no on-balance sheet large exposures of the Bank covered by this guarantee as at 30 June 2017 (First half of 2016: HK\$ Nil).

##### *ii. Sub-participation of loans*

During the period, the Bank entered into various capital market transactions with the Branch, which include arranging participation/sub-participation in loans, acquiring and disposing of interests in syndicated or individual loans, subscribing to and/or issuing of debt securities and tax efficient financing. These transactions included sub-participation in loans of the Bank by the ultimate holding company and/or the Branch for a total of HK\$4,466,511,000 (First half of 2016: HK\$13,754,092,000). For both the first half of 2017 and 2016, there was no sub-participation in loans of the Branch by the Bank. The total fee attributable to the above transactions of approximately HK\$3,721,000 (First half of 2016: HK\$10,922,000) was paid by the Bank to the Branch. These transactions were priced based either on the terms of the underlying loan agreement, if applicable, or prevailing market rates if such comparable rates were available, or on terms that were no less favorable than those available to other independent loan members.

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 35 Related-party transactions (continued)

#### 35.2 Fellow subsidiaries

	Six months ended	
	30 Jun 2017 HK\$'000	30 Jun 2016 HK\$'000
Interest income	76,603	78,141
Interest expense	5,646	13,614
Other operating income	3,643	(8,178)
	<b>30 Jun 2017</b>	<b>31 Dec 2016</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Amounts due from	6,123,465	5,962,418
Amounts due to	12,765,742	11,502,401

#### 35.3 Associates

	Six months ended	
	30 Jun 2017 HK\$'000	30 Jun 2016 HK\$'000
Interest income	–	949
Interest expense	1,229	126
	<b>30 Jun 2017</b>	<b>31 Dec 2016</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Amounts due from	–	–
Amounts due to	262,679	259,141

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 35 Related-party transactions (continued)

#### 35.4 Transactions with other state-controlled entities and government authorities

Transactions with the following state-controlled entities and government authorities are considered as individually significant or collectively significant to the Group:

- The Ministry of Finance of the PRC
- Central Huijin Investment Limited (“Huijin”)
- Other banks and financial institutions under the direction of the PRC government in which Huijin has equity interests

	<b>Six months ended</b>	
	<b>30 Jun 2017</b>	30 Jun 2016
	<b>HK\$'000</b>	HK\$'000
Interest income	<b>508,663</b>	503,991
Interest expense	<b>106,873</b>	91,402
Operating income	<b>(2,980)</b>	881
	<b>30 Jun 2017</b>	31 Dec 2016
	<b>HK\$'000</b>	HK\$'000
Amounts due from	<b>43,660,755</b>	40,477,586
Amounts due to	<b>5,709,670</b>	11,925,641

In addition, the Group may also enter into transactions with other state-controlled entities and government authorities, including but not limited to lending, deposit taking and the provision of financial products or services. In the opinion of management, transactions with these state-controlled entities and government authorities were conducted in the ordinary course of business under normal terms and conditions and at market rates. As a result, none of these transactions are considered individually significant.

#### 35.5 Key management personnel remuneration

Remuneration for key management personnel, including the Bank's directors' emoluments, is as follows:

	<b>Six months ended</b>	
	<b>30 Jun 2017</b>	30 Jun 2016
	<b>HK\$'000</b>	HK\$'000
Employee benefits	<b>10,817</b>	10,951

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 35 Related-party transactions (continued)

#### 35.6 Material transactions with key management personnel

During the period, the Group entered into certain banking transactions consisting of loans and advances, deposits and other financial related transactions with related parties in the normal course of business. The related parties include key management personnel of the Bank, their close family members and companies controlled or significantly influenced by them.

	Six months ended	
	30 Jun 2017	30 Jun 2016
	HK\$'000	HK\$'000
Interest income	49	—
Interest expense	211	185
	30 Jun 2017	31 Dec 2016
	HK\$'000	HK\$'000
Loans and advances	5,169	2,549
Deposits	43,399	39,433

### 36 Transferred financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets.

#### *Repurchase transactions and securities lending transactions*

Transferred financial assets that do not qualify for derecognition mainly include debt securities held by counterparties as collateral under repurchase agreements and debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities sold under agreements to repurchase in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may in certain circumstances require or be required to pay additional cash collateral. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, it recognises a financial liability for cash received as collateral.



## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 36 Transferred financial assets (continued)

#### *Repurchase transactions and securities lending transactions (continued)*

The following table analyses the carrying amount of the abovementioned financial assets transferred to third parties that did not qualify for derecognition and their associated financial liabilities:

	30 Jun 2017		31 Dec 2016	
	Carrying amount of transferred assets HK\$'000	Carrying amount of associated liabilities HK\$'000	Carrying amount of transferred assets HK\$'000	Carrying amount of associated liabilities HK\$'000
Repurchase agreements	1,534,097	1,543,906	6,067,494	8,968,144
Securities lending agreements	13,031,766	12,484,764	24,336,666	22,343,746

#### *Discounted bills transactions*

The Group enters into discounted bills transactions in the normal course of business by which it transfers discounted bills to third parties in the PRC with recourse term which would give rise to the Group's continuing involvement in the transferred assets. As at 30 June 2017, the Group retained obligation on those PRC discounted bills transferred but not matured with a carrying amount of HK\$1,910,598 (31 December 2016: HK\$11,751,718).

### 37 Off-balance sheet exposures

#### 37.1 Contingent liabilities and commitments

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

	30 Jun 2017	30 Jun 2017	31 Dec 2016	31 Dec 2016
	Contractual amount HK\$'000	Credit risk weighted amount HK\$'000	Contractual amount HK\$'000	Credit risk weighted amount HK\$'000
Direct credit substitutes	14,352,017	5,289,612	16,276,629	4,492,005
Transaction-related contingencies	55,241	22,238	169,465	71,419
Trade-related contingencies	9,689,915	1,903,478	13,224,592	2,566,316
Forward forward deposits placed	629,035	125,807	10,279,920	2,055,984
Other commitments with an original maturity of:				
– Unconditionally cancellable	174,542,910	–	180,816,984	–
– With original maturity of less than one year	805,490	161,098	781,340	156,268
– With original maturity of over one year	57,487,817	27,390,515	47,944,517	23,027,750
	<u>257,562,425</u>	<u>34,892,748</u>	<u>269,493,447</u>	<u>32,369,742</u>

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 37 Off-balance sheet exposures

#### 37.2 Capital commitments

Capital commitments for property, plant and equipment outstanding as at 30 June 2017 and 31 December 2016 not provided for in the financial statements are as follows:

	30 Jun 2017 HK\$'000	31 Dec 2016 HK\$'000
Expenditure contracted, but not provided for	26,094	45,854
Expenditure authorized, but not contracted for	4,509	8,900
	<u>30,603</u>	<u>54,754</u>

#### 37.3 Operating lease commitments

The Group had future aggregate minimum lease payments under non-cancellable operating leases as at 30 June 2017 and 31 December 2016 as follows:

	30 Jun 2017 HK\$'000	31 Dec 2016 HK\$'000
Land and buildings		
– Not later than one year	347,409	367,788
– Later than one year and not later than five years	548,466	578,341
– More than five years	28,710	38,665
	<u>924,585</u>	<u>984,794</u>

#### 37.4 Operating lease arrangements

The Group leases its investment properties (see Note 24) under operating lease arrangements, with leases negotiated for terms ranging from two to eight years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the prevailing market conditions.

At 30 June 2017, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 Jun 2017 HK\$'000	31 Dec 2016 HK\$'000
Within one year	2,077	2,581
In the second to fifth years, inclusive	2,522	3,364
	<u>4,599</u>	<u>5,945</u>

During the period, the Group had no unrecognised contingent rentals receivable (2016: Nil).

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 38 Offsetting of financial assets and financial liabilities

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements are as follows:

	Gross amounts of recognized financial assets HK\$'000	Gross amounts offset in the balance sheet HK\$'000	Net amounts presented in the balance sheet HK\$'000	Amounts not set off in the balance sheet		
				Financial instruments HK\$'000	Cash collateral received HK\$'000	Net amount HK\$'000
<b>At 30 June 2017</b>						
Derivatives						
financial assets	6,587,387	–	6,587,387	(4,890,020)	–	1,697,367
Other assets	423,042	–	423,042	(354,553)	–	68,489
	<u>7,010,429</u>	<u>–</u>	<u>7,010,429</u>	<u>(5,244,573)</u>	<u>–</u>	<u>1,765,856</u>
	Gross amounts of recognized financial liabilities HK\$'000	Gross amounts offset in the balance sheet HK\$'000	Net amounts presented in the balance sheet HK\$'000	Amounts not set off in the balance sheet		
				Financial instruments HK\$'000	Cash collateral received HK\$'000	Net amount HK\$'000
<b>At 30 June 2017</b>						
Derivatives						
financial liabilities	6,054,339	–	6,054,339	(4,890,020)	(2,703,405)	(1,539,086)
Other liabilities	590,157	–	590,157	(354,553)	–	235,604
	<u>6,644,496</u>	<u>–</u>	<u>6,644,496</u>	<u>(5,244,573)</u>	<u>(2,703,405)</u>	<u>(1,303,482)</u>

# NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

## 38 Offsetting of financial assets and financial liabilities (continued)

	Gross amounts of recognized financial assets HK\$'000	Gross amounts offset in the balance sheet HK\$'000	Net amounts presented in the balance sheet HK\$'000	Amounts not set off in the balance sheet		Net amount HK\$'000
				Financial instruments HK\$'000	Cash collateral received HK\$'000	
At 31 Dec 2016						
Derivatives						
financial assets	12,489,415	–	12,489,415	(6,241,044)	–	6,248,371
Other liabilities	292,434	–	292,434	(264,429)	–	28,005
	12,781,849	–	12,781,849	(6,505,473)	–	6,276,376

	Gross amounts of recognized financial liabilities HK\$'000	Gross amounts offset in the balance sheet HK\$'000	Net amounts presented in the balance sheet HK\$'000	Amounts not set off in the balance sheet		Net amount HK\$'000
				Financial instruments HK\$'000	Cash collateral received HK\$'000	
At 31 Dec 2016						
Derivatives						
financial liabilities	9,693,538	–	9,693,538	(6,241,044)	(4,061,442)	(608,948)
Other liabilities	466,317	–	466,317	(264,429)	–	201,888
	10,159,855	–	10,159,855	(6,505,473)	(4,061,442)	(407,060)

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Derivatives and reverse repurchase/repurchase agreements included in amounts not set off in the balance sheet relate to transactions where:

- the counterparty has an offsetting exposure with the Group and a master netting or similar arrangement is in place with a right of set off only in the event of default, insolvency or bankruptcy, or the offset criteria are otherwise not satisfied; and
- cash collateral received/pledged in respect of the transactions described above.

## SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

The following information is disclosed as part of the accompanying information to the interim financial disclosure statements and does not form part of the interim financial disclosure statements.

### 1 Capital adequacy and capital base

Capital adequacy ratios were compiled in accordance with the Banking (Capital) Rules (the “Capital Rules”) issued by the HKMA. The ratios were compiled in accordance with the amended Capital Rules effective from 1st January, 2013 for the implementation of the “Basel III” capital accord. In view of the Capital Rules, the Bank has adopted the “standardized (credit risk) approach” for the calculation of the risk-weighted assets for credit risk, “basic indicator approach” for the calculation of the operational risk and the “standardized (market risk) approach” for the calculation of market risk.

The basis of consolidation for financial accounting purposes is in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), as described in Note 2 to the interim financial disclosure statements. Subsidiaries included in the consolidation for regulatory purposes are specified in a notice from the HKMA in accordance with section 3C (1) of the Capital Rules.

Under the Capital Rules, the basis of consolidation in calculating the capital ratios follows that of the financial reporting with the exclusion of subsidiaries which are “regulated financial entities” (e.g., insurance and securities companies) as defined by the Capital Rules. Accordingly, the investment costs of these unconsolidated subsidiaries are deducted from the capital base. There is no capital shortfall of these unconsolidated subsidiaries.

A list of these unconsolidated subsidiaries is shown below:

	Principal activities	At 30 June 2017	
		Total assets HK\$'000	Total equity HK\$'000
ICBC (Asia) Bullion Company Limited	Inactive	7,489	7,476
ICBC (Asia) Futures Company Limited	Provision of futures business	102,595	102,574
ICBC (Asia) Investment Management Company Limited*	Provision of asset management services	90,261	82,800
ICBC (Asia) Securities Limited	Provision of securities brokerage services	1,378,191	848,398
ICBC (Asia) Trustee Company Limited	Provision of trustee services	35,970	33,839
ICBC (Asia) Wa Pei Nominees Limited	Inactive	—	—
UB China Business Management Co. Ltd.	Inactive	—	—
Greater China Fund	Trust fund	388,183	385,424

\* Included a consolidated subsidiary in the name of ICBC (Asia) Investment Management (Shenzhen) Co. Ltd.

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 but the method of consolidation differs. There are also no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation.

**SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)**
**1 Capital adequacy and capital base (continued)**

The Group operates a subsidiary in other countries and territories where capital is governed by local rules and there may be restrictions on the transfer of regulatory capital and funds between members of the Group.

	30 Jun 2017 HK\$'000	31 Dec 2016 HK\$'000
Common Equity Tier 1 ("CET1") Capital		
CET1 capital instruments	36,379,331	36,379,331
Share premium arising from CET1 capital instruments	–	–
Retained earnings	39,124,196	35,976,769
of which: unaudited profit or loss of the current financial year and profit or loss of the immediately preceding financial year pending audit completion	3,561,614	7,152,986
Disclosed reserves	3,247,578	2,606,686
of which: available-for-sale investment reserve	(512,911)	(464,182)
CET1 Capital before deductions	78,751,105	74,962,786
Deduct:		
Cumulative cash flow hedge reserves that relate to the hedging of financial instruments that are not fair valued on the balance sheet	(111,432)	(143,232)
Cumulative fair value gain or losses on liabilities of the institution that are fair-valued and result from changes in the own credit risk	–	–
Cumulative fair value gains arising from the revaluation of land and buildings	(623,001)	(650,077)
Regulatory reserve for general banking risk	(3,605,068)	(3,984,306)
Goodwill (net of related deferred tax liability)	(980,154)	(980,154)
Other intangible assets (net of related deferred tax liability)	(18,027)	(29,773)
Deferred tax assets in excess of deferred tax liabilities	(189,431)	(269,650)
Cumulative losses below depreciated cost arising from the Institution's holdings of land and building	(266)	(302)
Debit valuation adjustments in respect of derivative contracts	(55,395)	(121,184)
CET1 Capital after deductions	73,168,331	68,784,108
Add:		
Additional Tier 1 Capital after deductions	7,793,592	7,742,968
Tier 1 Capital after deductions	80,961,923	76,527,076
Common Equity Tier 2 ("CET 2") Capital		
Tier 2 capital instruments issued and share premium	9,729,170	10,051,714
of which: amount that is subject to phase out	1,941,315	2,314,446
Reserve attributable to fair value gains on revaluation of holdings of land and buildings	280,350	292,534
Regulatory reserve for general banking risks and collective provisions included in Tier 2 Capital (Limited to 1.25% of risk-weighted amount)	5,623,740	5,957,021
Tier 2 Capital before deductions	15,633,260	16,301,269
Deductions	–	–
Tier 2 Capital after deductions	15,633,260	16,301,269
Total capital base after deductions	96,595,183	92,828,345

**SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)**
**1 Capital adequacy and capital base (continued)**

	<b>30 Jun 2017</b>	31 Dec 2016
	<b>HK\$'000</b>	HK\$'000
<b>Risk-weighted assets</b>		
Credit risk	<b>541,716,548</b>	507,222,689
Market risk	<b>21,829,363</b>	17,297,138
Operational risk	<b>21,930,038</b>	21,622,813
Deduct: Portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 capital	—	—
Portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 capital	<b>(342,651)</b>	(357,543)
<b>Total risk-weighted assets</b>	<b><u>585,133,298</u></b>	<b><u>545,785,097</u></b>
	<b>30 Jun 2017</b>	31 Dec 2016
CET1 capital ratio	<b>12.50%</b>	12.60%
Tier 1 capital ratio	<b>13.84%</b>	14.02%
Total capital ratio	<b>16.51%</b>	17.01%
Capital conservation buffer ratio	<b>1.25%</b>	0.63%

To comply with the Banking (Disclosure) Rules, the Group established a new section “Regulatory Capital Disclosure” on its website to house all the information relating to the disclosure of regulatory capital instruments and the reconciliation to the Group’s published interim financial disclosure statements.

The disclosure will be published on its website ([www.icbcasia.com](http://www.icbcasia.com)) according to the Banking (Disclosure) Rules and will include the following information:

- A description of the main features and the full terms and conditions of the Group’s CET1 capital, Additional Tier 1 capital and Tier 2 capital.
- A detailed breakdown of the Group’s CET1 capital, Additional Tier 1 capital, Tier 2 capital and regulatory deductions, using the standard template as specified by the HKMA.
- A full reconciliation between the Group’s accounting and regulatory balance sheets, using the standard template as specified by the HKMA.

Under Section 3M of the Capital Rules, the capital conservation buffer ratio for calculating the Group’s buffer level is 1.25% as at 30 June 2017.

## SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

### 2 Liquidity Coverage Ratio

The Group complies with the minimum requirement of 80% of Liquidity Coverage Ratio (“LCR”) on a daily basis with effective from 1 January 2017 onwards, in accordance with the Banking (Liquidity) Rules issued by the HKMA.

	2017	2016
Average liquidity coverage ratio		
– First quarter	131.86%	105.12%
– Second quarter	136.31%	124.76%
– Third quarter	Not applicable	143.81%
– Fourth quarter	<u>Not applicable</u>	<u>141.50%</u>

Liquidity disclosures as required by section 30 and 30A of the Banking (Disclosure) Rules are available in the section of Regulatory Disclosures of our website [www.icbcasia.com](http://www.icbcasia.com).

### 3 Segmental information

#### 3.1 Advances to customers by geographical areas

The Group’s gross advances to customers by country or geographical area after taking into account any risk transfers are as follows:

30 June 2017	Gross advances to customers HK\$’000	Overdue Advances for over three months HK\$’000	Impaired loans and advances HK\$’000	Individual impairment allowances HK\$’000	Collective impairment allowances HK\$’000
Hong Kong	222,451,175	584,884	565,633	337,860	854,081
Mainland China	184,527,285	2,157,561	2,731,535	1,498,208	1,074,719
Macau	4,229,150	–	–	–	12,522
Asia Pacific Region (excluding Hong Kong, Mainland China and Macau)	5,830,975	–	–	–	21,118
Others	8,245,323	–	–	–	56,232
	<u>425,283,908</u>	<u>2,742,445</u>	<u>3,297,168</u>	<u>1,836,068</u>	<u>2,018,672</u>



**SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)**
**3 Segmental information (continued)**
**3.1 Advances to customers by geographical areas (continued)**

	Gross advances to customers HK\$'000	Overdue Advances for over three months HK\$'000	Impaired loans and advances HK\$'000	Individual impairment allowances HK\$'000	Collective impairment allowances HK\$'000
31 December 2016					
Hong Kong	195,181,125	583,318	507,610	315,763	623,060
Mainland China	185,691,014	2,119,776	2,635,627	1,512,941	1,254,667
Macau	1,295,989	–	–	–	3,888
Asia Pacific Region (excluding Hong Kong, Mainland China and Macau)	4,429,848	–	–	–	14,692
Others	6,368,382	–	–	–	26,347
	<u>392,966,358</u>	<u>2,703,094</u>	<u>3,143,237</u>	<u>1,828,704</u>	<u>1,922,654</u>

Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

**3.2 International claims**

The information on international claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any recognised risk transfer. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country. Only regions constituting 10% or more of the aggregate international claims after taking into account any recognised risk transfer are disclosed.

Analysis of the Bank's international claims by location and by type of counterparty is as follows:

	Banks HK\$ million	Official sector HK\$ million	Non-bank private sector Non-bank financial institution HK\$ million	Non-bank private sector financial private sector HK\$ million	Total HK\$ million
30 June 2017					
Developed countries	40,978	12,265	3,288	5,793	62,324
Offshore centres	37,216	29,814	13,863	248,307	329,200
Developing Europe	–	–	–	–	–
Developing Latin America and Caribbean	3	–	–	–	3
Developing Africa and Middle East	989	–	–	947	1,936
Developing Asia-Pacific	158,117	16,366	67,099	160,193	401,775
of which: China	155,894	16,366	67,099	156,614	395,973
Others	2,223	–	–	3,579	5,802
International organisations	–	3,349	–	–	3,349
	<u>237,303</u>	<u>61,794</u>	<u>84,250</u>	<u>415,240</u>	<u>798,587</u>

**SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)**
**3 Segmental information (continued)**
**3.2 International claims (continued)**

			Non-bank private sector		
			Non- bank financial institution	Non- financial private sector	Total
31 December 2016	Banks HK\$ million	Official sector HK\$ million	HK\$ million	HK\$ million	HK\$ million
Developed countries	43,121	15,869	3,399	5,780	68,169
Offshore centres	18,543	23,355	14,216	223,676	279,790
Developing Europe	1	–	–	–	1
Developing Latin America and Caribbean	6	–	–	–	6
Developing Africa and Middle East	759	–	–	944	1,703
Developing Asia-Pacific	142,497	22,002	46,581	160,620	371,700
of which: China	139,466	22,002	46,581	158,430	366,479
Others	3,031	–	–	2,190	5,221
International organisations	–	–	586	–	586
	<u>204,927</u>	<u>61,226</u>	<u>64,782</u>	<u>391,020</u>	<u>721,955</u>

**SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)**
**3 Segmental information (continued)**
**3.3 Mainland activities**

The analysis of non-bank Mainland China exposures is based on the categories of non-bank counterparties and the types of direct exposures defined by the HKMA under the Banking (Disclosure) Rules with reference to the Part 3 of the “Return of Mainland China exposures – MA(BS) 20”, which includes the Mainland China exposures extended by the Bank and its overseas subsidiary and branch.

	On-balance sheet exposure HK\$'000	Contingent liabilities HK\$'000	FX and derivatives contract HK\$'000	Total exposures HK\$'000
<b>30 June 2017</b>				
Type of counterparties				
(a) Central government central government owned entities and their subsidiaries and JVs	101,854,787	7,422,825	398,713	109,676,325
(b) Local government, local government owned entities and their subsidiaries and JVs	29,113,995	3,316,609	18,506	32,449,110
(c) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	123,920,462	45,182,384	628,498	169,731,344
(c)(i) Of which, PRC nationals residing in Mainland China or entities beneficially owned by Mainland interest	85,292,121	36,789,817	40,341	122,122,279
(d) Other entities of central government not reported in item (a) above	7,590,581	–	–	7,590,581
(e) Other entities of local government not reported in item (b) above	2,634,696	249,314	–	2,884,010
(f) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	29,329,953	–	77,121	29,407,074
(g) Other counterparties where the exposures are considered by the reporting institution to be non bank Mainland China exposures	30,615,432	4,532,637	235,533	35,383,602
	<b>325,059,906</b>	<b>60,703,769</b>	<b>1,358,371</b>	<b>387,122,046</b>

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

3 Segmental information (continued)

3.3 Mainland activities (continued)

	On-balance sheet exposure HK\$'000	Contingent liabilities HK\$'000	FX and derivatives contract HK\$'000	Total exposures HK\$'000
31 December 2016				
Type of counterparties				
(a) Central government central government owned entities and their subsidiaries and JVs	98,455,075	1,467,748	593,825	100,516,648
(b) Local government, local government owned entities and their subsidiaries and JVs	26,535,958	4,017,637	49,023	30,602,618
(c) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	107,154,011	46,634,886	709,922	154,498,819
(c)(i) Of which, PRC nationals residing in Mainland China or entities beneficially owned by Mainland interest	72,957,113	37,770,930	24,008	110,752,051
(d) Other entities of central government not reported in item (a) above	5,316,543	233	–	5,316,776
(e) Other entities of local government not reported in item (b) above	2,296,167	5,382	–	2,301,549
(f) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	27,053,236	14,338	73,353	27,140,927
(g) Other counterparties where the exposures are considered by the reporting institution to be non bank Mainland China exposures	36,126,884	2,679,661	232,737	39,039,282
	302,937,874	54,819,885	1,658,860	359,416,619

**SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)**
**4 Advances to customers by industry sector**

	<b>30 Jun 2017</b>	<b>30 Jun 2017</b>	<b>31 Dec 2016</b>	<b>31 Dec 2016</b>
	<b>Gross</b>	<b>% of</b>	<b>Gross</b>	<b>% of</b>
	<b>loans and</b>	<b>secured</b>	<b>loans and</b>	<b>secured</b>
	<b>advances</b>	<b>advances</b>	<b>advances</b>	<b>advances</b>
	<b>HK\$'000</b>		<b>HK\$'000</b>	
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	28,686,611	32.95%	33,808,808	25.33%
– Property investment	28,246,359	64.45%	21,500,034	62.56%
– Financial concerns	33,043,734	0.04%	23,657,109	0.06%
– Stockbrokers	3,347,477	15.24%	2,839,487	2.78%
– Wholesale and retail trade	18,817,268	38.74%	15,432,412	43.00%
– Civil engineering works	1,192,947	37.93%	1,031,298	33.78%
– Manufacturing	9,206,080	19.54%	11,239,818	16.66%
– Transport and transport equipment	26,244,578	42.80%	25,853,326	40.12%
– Electricity and gas	3,442,578	–	3,571,466	–
– Information technology	5,295,049	2.27%	7,542,506	1.65%
– Recreational activities	1,484,089	70.90%	1,032,107	73.71%
– Hotels, boarding houses and catering	10,109	75.94%	9,865	81.21%
– Others	30,296,049	17.74%	30,368,292	14.73%
Individuals				
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	377,673	97.55%	373,890	97.92%
– Loans for the purchase of other residential properties	25,876,772	98.58%	21,979,330	98.84%
– Credit card advances	340,997	–	345,058	–
– Others	7,859,434	89.74%	6,316,085	88.47%
Trade finance	12,382,309	22.28%	12,502,673	18.54%
Loans for use outside Hong Kong	189,133,795	31.05%	173,562,794	25.25%
	<b>425,283,908</b>	<b>35.25%</b>	<b>392,966,358</b>	<b>30.67%</b>

**SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)**
**4 Advances to customers by industry sector (continued)**

Individually impaired loans, overdue loans and advances over three months, impairment allowances and impaired loans and advances written off in respect of industry sectors that constitute 10% or more of the total advances to customers are as follows:

	<b>30 Jun 2017</b>	31 Dec 2016
	<b>HK\$'000</b>	HK\$'000
(a) Loans for use outside Hong Kong		
Individually impaired loans	<b>2,830,923</b>	2,612,164
Overdue loans and advances over three months	<b>2,400,933</b>	2,517,689
Individual impairment allowances	<b>1,705,505</b>	1,731,520
Collective impairment allowances	<b>1,240,866</b>	1,227,704
New impairment allowances charged to the income statement	<b>177,902</b>	509,358
Impaired loans and advances written off during the period/year	–	135,435

**5 Currency concentration**

Currency concentrations – the table below summarises the net foreign currency positions of the Group. The net positions in foreign currency is disclosed when the currency constitutes 10% or more of the total net position of all foreign currencies. A sensitivity analysis calculates the effect of a reasonably possible movement in a currency rate against the Hong Kong dollar, with all other variables in the income statement and equity held constant.

<b>Group</b>	<b>USD</b>	<b>CNY</b>	<b>Other foreign</b>	<b>Total</b>
<b>30 June 2017</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>currencies</b>	<b>HK\$'000</b>
			<b>HK\$'000</b>	
<b>Non-structural position</b>				
Spot assets	334,104,858	206,275,400	35,248,352	575,628,610
Spot liabilities	(289,967,957)	(192,269,338)	(38,052,257)	(520,289,552)
Forward purchases	390,032,285	231,067,090	104,932,975	726,032,350
Forward sales	(419,055,269)	(244,830,286)	(102,551,423)	(766,436,978)
Net option position	632,514	(583,818)	262,391	311,087
Net long/(short) position	<u>15,746,431</u>	<u>(340,952)</u>	<u>(159,962)</u>	<u>15,245,517</u>
<b>Net structural position</b>	<b>214,155</b>	<b>8,816,051</b>	<b>–</b>	<b>9,030,206</b>

**SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)**
**5 Currency concentration (continued)**

Group	USD	CNY	Other foreign currencies	Total
31 December 2016	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-structural position				
Spot assets	298,702,881	193,608,822	26,043,361	518,355,064
Spot liabilities	(251,069,038)	(175,411,737)	(27,556,869)	(454,037,644)
Forward purchases	279,184,991	163,614,885	79,035,160	521,835,036
Forward sales	(302,449,316)	(183,574,826)	(77,069,772)	(563,093,914)
Net option position	(482,018)	(10,289)	(114,429)	(606,736)
Net long/(short) position	<u>23,887,500</u>	<u>(1,773,145)</u>	<u>337,451</u>	<u>22,451,806</u>
Net structural position	212,764	7,911,865	–	8,124,629

Foreign currency exposures include those arising from the trading position. The net option position is calculated on the basis of the delta-weighted position of option contracts. The net structural position of the Group is the structural positions of the Bank's capital investment in overseas subsidiary Chinese Mercantile Bank.

**6 Leverage Ratio**

The leverage ratio was compiled in accordance with the Leverage Ratio Framework issued by the HKMA.

	<b>30 June 2017</b>	<b>31 Dec 2016</b>
Leverage Ratio	<u><b>8.47%</b></u>	<u><b>8.28%</b></u>

Leverage ratio disclosures as required by section 24A of the Banking (Disclosure) Rule are available in the section of Regulatory Disclosures of our website [www.icbcasia.com](http://www.icbcasia.com).

**7 Countercyclical Capital Buffer Ratio**

	<b>30 June 2017</b>	<b>31 Dec 2016</b>
Countercyclical Capital Buffer Ratio	<u><b>0.74%</b></u>	<u><b>0.38%</b></u>

The relevant disclosures pursuant to section 45B of the Banking (Disclosure) Rules are available in the section of Regulatory Disclosures of our website [www.icbcasia.com](http://www.icbcasia.com).