



**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 2015**

**TABLE OF CONTENTS**

	Page
<b>Interim Results and Financial Review</b>	2
<b>Consolidated Income Statement</b>	4
<b>Consolidated Statement of Comprehensive Income</b>	5
<b>Consolidated Statement of Financial Position</b>	6
<b>Consolidated Statement of Changes in Equity</b>	7
<b>Condensed Consolidated Statement of Cash Flows</b>	9
<b>Notes to the Interim Financial Disclosure Statements</b>	10
<b>Supplementary Financial Information</b>	59

## **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 2015. 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 2015, and the consolidated statement of financial position as at 30 June 2015 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 58 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 2015 was HK\$3,081 million. This represents a 2.70% increase over the same period last year (first half of 2014: HK\$3,000 million). Basic earnings per share for the six months ended 30 June 2015 were HK\$1.49 (first half of 2014: HK\$ 1.45). Return on average assets and return on average equity were 0.97% and 11.73% respectively (first half of 2014: 1.00% and 13.06% respectively).

### **Interim Dividend**

The Board has not recommended the payment of interim dividend for the six months ended 30 June 2015 (2014 interim dividend: Nil).

### **Financial Review**

In the first half of 2015, the Group achieved satisfactory results. Consolidated profit attributable to equity holders was HK\$3,081 million, representing an increase of HK\$81 million or 2.70% over HK\$3,000 million achieved for the corresponding period in 2014.

Net interest income decreased HK\$278 million or 6.75% to HK\$3,836 million. Net fee and commission income increased HK\$177 million or 24.21% to HK\$910 million.

Non-interest income increased HK\$273 million or 25.05% to HK\$1,363 million from HK\$1,090 million for the corresponding period in 2014. The ratio of non-interest income to total operating income was 26.22%, up 5.28 percentage points compared with 20.94% for the corresponding period in 2014.

Operating expenses decreased by HK\$36 million or 2.82% to HK\$1,226 million, compared with HK\$1,262 million for the corresponding period in 2014. The cost to income ratio was 23.59%, down 0.67 percentage points compared with the corresponding period in 2014.

The impairment losses on loans and advances for the period were HK\$770 million, out of which HK\$622 million was made as additional provision for individual assessment and HK\$148 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\$712,118 million as at 30 June 2015, representing an increase of HK\$31,499 million or 4.63% over the financial position as at 31 December 2014.

Customer deposits amounted to HK\$417,672 million as at 30 June 2015 representing a decrease of HK\$3,220 million or 0.76%, compared to HK\$420,892 million as at 31 December 2014. Loans and advances also increased by HK\$27,842 million or 7.64% to HK\$392,140 million as at 30 June 2015 compared to HK\$364,298 million as at 31 December 2014.

Total securities investment amounted to HK\$140,174 million as at 30 June 2015, which represents an increase of HK\$51,425 million or 57.94% compared to HK\$88,749 million as at 31 December 2014.

Total certificates of deposit issued increased by HK\$7,379 million or 17.3% to HK\$50,040 million as at 30 June 2015, compared to HK\$42,661 million as at 31 December 2014.

### Capital and Liquidity Management

The Group's capital adequacy ratio decreased to 15.71% as at 30 June 2015 from 16.11% as at 31 December 2014. The average liquidity coverage ratio for the first half of 2015 amounted to 94.36%.

### Asset Quality

Impaired loans and advances increased by HK\$1,020 million to HK\$2,519 million as at 30 June 2015, compared with HK\$1,499 million as at 31 December 2014. The impaired loan ratio was 0.64% as at 30 June 2015 (31 December 2014: 0.41%).

As at 30 June 2015, the cumulative loan impairment allowances amounted to HK\$2,795 million (31 December 2014: HK\$2,105 million), which included HK\$1,051 million (31 December 2014: HK\$510 million) of individual impairment allowance and HK\$1,744 million (31 December 2014: HK\$1,595 million) of collective impairment allowance.

Hong Kong, 25 August 2015

**CONSOLIDATED INCOME STATEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2015  
(UNAUDITED)**

	Notes	Six months ended		Change %
		30 Jun 2015 HK\$'000	30 Jun 2014 HK\$'000	
Interest income	(6)	<b>8,619,347</b>	8,214,853	5%
Interest expense	(6)	<b>(4,783,704)</b>	(4,101,479)	17%
<b>Net interest income</b>	(6)	<b>3,835,643</b>	4,113,374	-7%
Fee and commission income	(7)	<b>1,085,204</b>	889,213	22%
Fee and commission expense	(7)	<b>(174,836)</b>	(156,286)	12%
<b>Net fee and commission income</b>	(7)	<b>910,368</b>	732,927	24%
Net trading income	(8)	<b>414,306</b>	341,269	21%
Net gain on financial assets and liabilities designated at fair value through profit or loss	(9)	<b>1,372</b>	4,345	-68%
Dividend income from financial investments	(10)	<b>3,860</b>	4,431	-13%
Other operating income	(11)	<b>33,406</b>	6,651	402%
<b>Operating income</b>		<b>5,198,955</b>	5,202,997	0%
Operating expenses	(12)	<b>(1,226,461)</b>	(1,262,079)	-3%
<b>Operating profit before impairment losses</b>		<b>3,972,494</b>	3,940,918	1%
Charge for impairment losses on loans and advances	(13)	<b>(770,382)</b>	(274,281)	181%
<b>Operating profit after impairment losses</b>		<b>3,202,112</b>	3,666,637	-13%
Net loss from property, plant and equipment		<b>(813)</b>	(1,985)	-59%
Gain on disposal of loans and advances		-	477	-100%
Net gain on disposal of available-for-sale financial investments		<b>637,365</b>	46,972	1257%
<b>Operating profit</b>		<b>3,838,664</b>	3,712,101	3%
Share of profit of an associate		<b>8,826</b>	10,807	-18%
<b>Profit before tax</b>		<b>3,847,490</b>	3,722,908	3%
Income tax expense	(14)	<b>(766,647)</b>	(723,115)	6%
<b>Profit for the period and attributable to equity holders</b>		<b>3,080,843</b>	2,999,793	3%
<b>Earnings per share – Basic and diluted</b>	(16)	<b>HK\$1.49</b>	HK\$1.45	3%

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE SIX MONTHS ENDED 30 JUNE 2015  
(UNAUDITED)**

	<u>Six months ended</u>		Change %
	<u>30 Jun 2015</u> HK\$'000	<u>30 Jun 2014</u> HK\$'000	
Profit for the period	<u><b>3,080,843</b></u>	<u>2,999,793</u>	3%
Item that will not be reclassified to income statement:			
Revaluation surplus on bank premises	<b>4,042</b>	3,672	10%
Income tax effect	<u>(667)</u>	<u>(606)</u>	10%
	<u><b>3,375</b></u>	<u>3,066</u>	10%
Items that may be reclassified subsequently to income statement:			
Change of fair value of hedging instruments under cash flow hedges	<b>749</b>	71,805	-99%
Income tax effect	<u>(123)</u>	<u>(11,848)</u>	-99%
	<u><b>626</b></u>	<u>59,957</u>	-99%
Change in fair value reserve of available-for-sale financial investments	<b>(324,553)</b>	533,934	-
Income tax effect	<u>(5,803)</u>	<u>(46,802)</u>	-88%
	<u><b>(330,356)</b></u>	<u>487,132</u>	-
Exchange differences arising from translation of results of a foreign subsidiary	<u>(25,504)</u>	<u>(144,694)</u>	-82%
Other comprehensive income for the period, net of tax	<u><b>(351,859)</b></u>	<u>405,461</u>	-
Total comprehensive income for the period, net of tax	<u><b>2,728,984</b></u>	<u>3,405,254</u>	-20%
Attributable to:			
Equity holders of the Bank	<u><b>2,728,984</b></u>	<u>3,405,254</u>	-20%

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2015  
(UNAUDITED)**

	Notes	Unaudited 30 Jun 2015 HK\$'000	Audited 31 Dec 2014 HK\$'000	Change %	Unaudited 30 Jun 2014 HK\$'000	Change %
<b>Assets</b>						
Cash and balances with banks and other financial institutions	(17)	<b>133,563,038</b>	154,000,336	-13%	122,926,927	9%
Placements with banks and other financial institutions	(18)	<b>28,213,181</b>	53,105,030	-47%	34,372,871	-18%
Financial assets held for trading	(19)	<b>3,234,052</b>	323,257	900%	1,526,678	112%
Financial assets designated at fair value through profit or loss	(20)	–	211,429	-100%	215,139	-100%
Derivative financial instruments	(21)	<b>6,232,778</b>	6,120,758	2%	7,874,654	-21%
Advances and other accounts	(22)	<b>392,139,870</b>	364,297,815	8%	355,649,418	10%
Financial investments:		<b>136,940,265</b>	88,214,346	55%	73,215,745	87%
– Available-for-sale	(23)	<b>71,262,537</b>	58,681,195	21%	52,639,783	35%
– Held-to-maturity	(24)	<b>65,677,728</b>	29,533,151	122%	20,575,962	219%
Interest in an associate		<b>274,443</b>	265,617	3%	260,535	5%
Goodwill and other intangible assets		<b>1,048,188</b>	1,060,528	-1%	1,074,960	-2%
Investment properties	(25)	<b>69,977</b>	69,977	0%	58,524	20%
Property, plant and equipment	(26)	<b>897,886</b>	912,860	-2%	827,887	8%
Current income tax assets		–	24,913	-100%	–	0%
Other assets	(27)	<b>9,503,930</b>	12,011,761	-21%	3,781,014	151%
<b>Total assets</b>		<b><u>712,117,608</u></b>	<b><u>680,618,627</u></b>	<b>5%</b>	<b><u>601,784,352</u></b>	<b>18%</b>
<b>Liabilities</b>						
Deposits from banks and other financial institutions		<b>145,502,089</b>	114,896,270	27%	78,976,895	84%
Derivative financial instruments	(21)	<b>5,871,603</b>	5,766,196	2%	7,360,781	-20%
Deposits from customers	(28)	<b>417,672,426</b>	420,892,240	-1%	394,506,276	6%
Certificates of deposit issued		<b>50,039,870</b>	42,661,120	17%	43,801,844	14%
Debt securities in issue measured at amortised cost		<b>3,339,856</b>	11,880,937	-72%	11,554,279	-71%
Current income tax liabilities		<b>610,063</b>	113,090	439%	588,527	4%
Deferred income tax liabilities	(29)	<b>85,645</b>	81,011	6%	39,625	116%
Subordinated debts measured at amortised cost	(30)	<b>22,246,660</b>	22,250,748	0%	9,574,273	132%
Other liabilities	(31)	<b>12,495,836</b>	10,552,439	18%	7,516,855	66%
<b>Total liabilities</b>		<b><u>657,864,048</u></b>	<b><u>629,094,051</u></b>	<b>5%</b>	<b><u>553,919,355</u></b>	<b>19%</b>
<b>Equity</b>						
Share capital and other statutory capital reserves	(32)	<b>23,591,832</b>	23,591,832	0%	23,591,832	0%
Retained earnings		<b>26,596,754</b>	24,277,846	10%	21,204,152	25%
Other reserves	(33)	<b>4,064,974</b>	3,654,898	11%	3,069,013	32%
<b>Total equity</b>		<b><u>54,253,560</u></b>	<b><u>51,524,576</u></b>	<b>5%</b>	<b><u>47,864,997</u></b>	<b>13%</b>
<b>Total equity and liabilities</b>		<b><u>712,117,608</u></b>	<b><u>680,618,627</u></b>	<b>5%</b>	<b><u>601,784,352</u></b>	<b>18%</b>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED 30 JUNE 2015  
(UNAUDITED)**

Note	Bank										
	Share capital	Ordinary share		premises revaluation	Investment revaluation	Cash flow hedge		Exchange reserve	General reserve	Retained earnings	Total
		premium	reserve	reserve	reserve	reserve	reserve	reserve	reserve		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2015	23,591,832	-	550,052	665,236	165,329	415,078	1,859,203	24,277,846	51,524,576		
Profit for the period	-	-	-	-	-	-	-	3,080,843	3,080,843		
Other comprehensive income for the period:											
Change in fair value of available-for-sale financial investments	-	-	-	237,878	-	-	-	-	237,878		
Reserve realised on disposal of available-for-sale financial investments	-	-	-	(562,431)	-	-	-	-	(562,431)		
Changes in fair value of cash flow hedge	-	-	-	-	749	-	-	-	749		
Revaluation surplus on bank premises	-	-	4,042	-	-	-	-	-	4,042		
Change in deferred tax	-	-	(667)	(5,803)	(123)	-	-	-	(6,593)		
Exchange differences	-	-	-	-	-	(25,504)	-	-	(25,504)		
Total comprehensive income for the period	-	-	3,375	(330,356)	626	(25,504)	-	3,080,843	2,728,984		
Partial transfer of retained earnings to general reserve	-	-	-	-	-	-	761,935	(761,935)	-		
At 30 June 2015	<u>23,591,832</u>	<u>-</u>	<u>553,427</u>	<u>334,880</u>	<u>165,955</u>	<u>389,574</u>	<u>2,621,138</u>	<u>26,596,754</u>	<u>54,253,560</u>		



**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED 30 JUNE 2014  
(UNAUDITED)**

Note	Share capital HK\$'000	Ordinary share premium HK\$'000	Bank		Cash flow hedge reserve HK\$'000	Exchange reserve HK\$'000	General reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
			premises revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000					
At 1 January 2014	4,129,497	19,462,335	468,496	2,929	94,992	534,690	1,562,445	18,204,359	44,459,743
Profit for the period	-	-	-	-	-	-	-	2,999,793	2,999,793
Other comprehensive income for the period:									
Change in fair value of available-for-sale financial investments	-	-	-	521,631	-	-	-	-	521,631
Reserve realised on disposal of available-for-sale financial investments	-	-	-	12,303	-	-	-	-	12,303
Changes in fair value of cash flow hedge	-	-	-	-	71,805	-	-	-	71,805
Revaluation surplus on bank premises	-	-	3,672	-	-	-	-	-	3,672
Change in deferred tax	-	-	(606)	(46,802)	(11,848)	-	-	-	(59,256)
Exchange differences	-	-	-	-	-	(144,694)	-	-	(144,694)
<b>Total comprehensive income for the period</b>	-	-	3,066	487,132	59,957	(144,694)	-	2,999,793	3,405,254
Transition to no-par value regime on 3 March 2014	(32) 19,462,335	(19,462,335)	-	-	-	-	-	-	-
Partial transfer of retained earnings to general reserve	-	-	-	-	-	-	-	-	-
<b>At 30 June 2014</b>	<b>23,591,832</b>	<b>-</b>	<b>471,562</b>	<b>490,061</b>	<b>154,949</b>	<b>389,996</b>	<b>1,562,445</b>	<b>21,204,152</b>	<b>47,864,997</b>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED 30 JUNE 2015  
(UNAUDITED)**

	<b>Six months ended</b>	
	<b>30 Jun 2015</b>	30 Jun 2014
	<b>HK\$'000</b>	HK\$'000
Net cash flows used in operating activities	<b>(7,193,161)</b>	(8,541,442)
Net cash flows used in investing activities	<b>(43,024)</b>	(33,354)
Net cash flows used in financing activities	<b><u>(9,299,467)</u></b>	<u>(10,175,627)</u>
Net decrease in cash and cash equivalents	<b>(16,535,652)</b>	(18,750,423)
Cash and cash equivalents at 1 January	<b>158,985,884</b>	139,412,155
Effects of foreign exchange differences	<b><u>274</u></b>	<u>(494,011)</u>
Cash and cash equivalents at 30 June	<b><u>142,450,506</u></b>	<u>120,167,721</u>

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 comprises the following balances with original maturity of three months or less:

	<b>30 Jun 2015</b>	30 Jun 2014
	<b>HK\$'000</b>	HK\$'000
Cash and balances with banks and other financial institutions	<b>62,131,157</b>	59,671,010
Placements with banks and other financial institutions	<b><u>80,319,349</u></b>	<u>60,496,711</u>
	<b><u>142,450,506</u></b>	<u>120,167,721</u>

## 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 2014 except for the adoption of the following HKFRSs and HKASs issued up to 30 June 2015 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 2014.

The preparation of unaudited interim financial disclosure statements requires management to exercise its judgement 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 judgements made by management were the same as those applied to the annual financial statements for the year ended 31 December 2014.

### 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 associate. For regulatory reporting, the basis of consolidation is set out in Note 1 of the “Supplementary Financial Information” section.

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

- Chinese Mercantile Bank
- ICBC (Asia) Asset Management Company Limited
- 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.
- The Greater China Fund

## 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”)

The HKICPA has issued the following amendments to HKFRSs and HKASs, and one new Interpretation that are first effective for the current accounting period of the Group and the Bank.

- Annual improvements to HKFRSs (2010-2012 Cycle)
- Annual improvements to HKFRSs (2011-2013 Cycle)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

### 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 2015	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	62,131,157	71,431,881	-	-	-	-	-	133,563,038
Placements with banks and other financial institutions	-	-	19,379,366	8,833,815	-	-	-	28,213,181
Financial assets held for trading	-	-	-	-	-	-	167,561	167,561
– equity securities	-	-	-	-	-	-	167,561	167,561
– other debt securities	-	187,559	1,328,393	934,238	-	616,301	-	3,066,491
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	-	-
– other debt securities	-	-	-	-	-	-	-	-
Derivative financial instruments	1,044,590	559,053	1,108,413	2,227,840	650,825	642,057	-	6,232,778
Advances and other accounts	51,560,313	21,248,804	38,461,806	105,405,392	119,785,404	55,678,151	-	392,139,870
Available-for-sale financial investments	-	-	-	-	-	-	20,180,515	20,180,515
– equity securities	-	-	-	-	-	-	20,180,515	20,180,515
– certificates of deposit held	-	-	1,498,965	6,666,253	505,536	-	-	8,670,754
– other debt securities	-	1,458,681	3,266,850	13,638,472	19,355,618	4,683,495	8,152	42,411,268
Held-to-maturity financial investments	-	-	-	-	-	-	-	-
– treasury bills	-	1,550,426	-	12,418,618	-	-	-	13,969,044
– other debt securities	-	41,254	124,971	3,449,382	39,517,644	8,575,433	-	51,708,684
Interest in an associate	-	-	-	-	-	-	274,443	274,443
Goodwill and other intangible assets	-	-	-	-	-	-	1,048,188	1,048,188
Investment properties	-	-	-	-	-	-	69,977	69,977
Property, plant and equipment	-	-	-	-	-	-	897,886	897,886
Other assets, including current and deferred income tax assets	3,428,600	4,156,470	53,420	51,116	321,314	350,824	1,142,186	9,503,930
<b>Total assets</b>	<b>118,164,660</b>	<b>100,634,128</b>	<b>65,222,184</b>	<b>153,625,126</b>	<b>180,136,341</b>	<b>70,546,261</b>	<b>23,788,908</b>	<b>712,117,608</b>
<b>Liabilities</b>								
Deposits from banks and other financial institutions	44,951,309	67,954,153	21,976,225	8,995,185	1,625,217	-	-	145,502,089
Derivative financial instruments	950,922	624,106	1,048,863	2,266,170	662,036	319,506	-	5,871,603
Deposits from customers	126,410,180	106,549,141	71,621,820	78,732,298	32,988,845	1,370,142	-	417,672,426
Certificates of deposit issued	-	14,236,540	14,563,976	19,306,151	1,933,203	-	-	50,039,870
Debt securities in issue at amortised cost	-	799,356	617,773	1,697,690	225,037	-	-	3,339,856
Subordinated debts measured at amortised cost	-	-	-	-	-	22,246,660	-	22,246,660
Other liabilities, including current and deferred income tax liabilities	5,671,940	3,687,419	212,920	3,243,332	202,513	46	173,374	13,191,544
<b>Total liabilities</b>	<b>177,984,351</b>	<b>193,850,715</b>	<b>110,041,577</b>	<b>114,240,826</b>	<b>37,636,851</b>	<b>23,936,354</b>	<b>173,374</b>	<b>657,864,048</b>
<b>Net liquidity gap</b>	<b>(59,819,691)</b>	<b>(93,216,587)</b>	<b>(44,819,393)</b>	<b>39,384,300</b>	<b>142,499,490</b>	<b>46,609,907</b>	<b>23,615,534</b>	<b>54,253,560</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 2014	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	94,399,062	59,601,274	–	–	–	–	–	154,000,336
Placements with banks and other financial institutions	–	–	32,477,759	20,627,271	–	–	–	53,105,030
Financial assets held for trading	–	–	–	–	–	–	323,257	323,257
– equity securities	–	–	–	–	–	–	323,257	323,257
– other debt securities	–	–	–	–	–	–	–	–
Financial assets designated at fair value through profit or loss	–	–	77,998	133,431	–	–	–	211,429
– other debt securities	–	–	77,998	133,431	–	–	–	211,429
Derivative financial instruments	1,943,616	1,669,975	928,254	1,260,106	203,731	115,076	–	6,120,758
Advances and other accounts	45,520,467	19,860,651	51,464,187	102,196,692	101,558,506	43,697,312	–	364,297,815
Available-for-sale financial investments	–	–	–	–	–	–	3,350,243	3,350,243
– equity securities	–	–	–	–	–	–	3,350,243	3,350,243
– certificates of deposit held	–	387,766	749,783	9,067,522	925,466	–	–	11,130,537
– other debt securities	–	1,474,357	1,201,049	10,064,591	26,328,529	5,123,736	8,153	44,200,415
Held-to-maturity financial investments	–	–	699,730	2,463,562	–	–	–	3,163,292
– treasury bills	–	–	699,730	2,463,562	–	–	–	3,163,292
– other debt securities	–	775,532	162,485	466,043	20,413,726	4,552,073	–	26,369,859
Interest in an associate	–	–	–	–	–	–	265,617	265,617
Goodwill and other intangible assets	–	–	–	–	–	–	1,060,528	1,060,528
Investment properties	–	–	–	–	–	–	69,977	69,977
Property, plant and equipment	–	–	–	–	–	–	912,860	912,860
Other assets, including current and deferred income tax assets	3,836,448	3,788,160	460,923	1,774,077	482,101	–	1,694,965	12,036,674
<b>Total assets</b>	<b>145,699,593</b>	<b>87,557,715</b>	<b>88,222,168</b>	<b>148,053,295</b>	<b>149,912,059</b>	<b>53,488,197</b>	<b>7,685,600</b>	<b>680,618,627</b>
<b>Liabilities</b>								
Deposits from banks and other financial institutions	46,355,446	36,021,100	16,837,299	15,682,425	–	–	–	114,896,270
Derivative financial instruments	1,423,788	1,092,624	1,442,526	1,559,625	103,699	143,934	–	5,766,196
Deposits from customers	128,779,004	125,619,389	82,652,788	74,210,657	9,627,993	2,409	–	420,892,240
Certificates of deposit issued	–	7,242,444	11,867,515	21,380,178	2,170,983	–	–	42,661,120
Debt securities in issue at amortised cost	–	1,854,922	2,622,946	6,578,122	824,947	–	–	11,880,937
Subordinated debts measured at amortised cost	–	–	–	–	–	22,250,748	–	22,250,748
Other liabilities, including current and deferred income tax liabilities	4,748,647	1,991,056	1,523,751	2,278,989	141,980	–	62,117	10,746,540
<b>Total liabilities</b>	<b>181,306,885</b>	<b>173,821,535</b>	<b>116,946,825</b>	<b>121,689,996</b>	<b>12,869,602</b>	<b>22,397,091</b>	<b>62,117</b>	<b>629,094,051</b>
<b>Net liquidity gap</b>	<b>(35,607,292)</b>	<b>(86,263,820)</b>	<b>(28,724,657)</b>	<b>26,363,299</b>	<b>137,042,457</b>	<b>31,091,106</b>	<b>7,623,483</b>	<b>51,524,576</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*

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques.

OTC (i.e. non-exchange traded) derivatives classified in Level 2 are valued using valuation models. For other vanilla derivative products, such as forward exchange contracts, interest rate swaps and options, the modelling approaches used are standard across the industry. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the end of the reporting period.

For more complex derivative products classified in Level 2, inputs to valuation models are determined from observable market data wherever possible, including prices available from exchanges, dealers, brokers or providers of consensus pricing. Certain inputs may not be observable in the market directly, but can be determined from observable prices via model calibration procedures. Examples of inputs that are generally observable include foreign exchange spot and forward rates, benchmark interest rate curves and volatility surfaces for commonly traded option products.

For debt securities classified in Level 2 (where quoted market price from an active market is unavailable), fair value is determined by reference to quoted market prices for similar instruments.

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a “Day 1” profit) in “net trading income”. In cases where data which is not observable is used, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

*Determination of fair value hierarchy*

The Bank uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.2 Fair values of financial assets and liabilities (continued)

30 June 2015	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	–	4,578,712	–	4,578,712
Structured foreign exchange contracts	–	71,365	–	71,365
Currency swaps	–	704,526	–	704,526
FX options	–	128,595	–	128,595
Interest rate swaps	–	701,254	–	701,254
Interest rate futures	–	4,810	–	4,810
Commodity forward	–	42,774	–	42,774
Equity options	–	742	–	742
	–	<u>6,232,778</u>	–	<u>6,232,778</u>
Financial assets held for trading				
Debt securities	–	3,066,491	–	3,066,491
Equities	–	167,561	–	167,561
	–	<u>3,234,052</u>	–	<u>3,234,052</u>
Financial assets designated at fair value through profit or loss				
Debt securities	–	–	–	–
	–	–	–	–
Available-for-sale financial investments				
Debt securities	30,552,449	20,512,556	8,864	51,073,869
Equities	47,918	20,052,090	80,500	20,180,508
	<u>30,600,367</u>	<u>40,564,646</u>	<u>89,364</u>	<u>71,254,377</u>
Total financial assets	<u>30,600,367</u>	<u>50,031,476</u>	<u>89,364</u>	<u>80,721,207</u>
<b>Financial liabilities</b>				
Derivative financial instruments				
Forward foreign exchange contracts	–	4,498,383	–	4,498,383
Structured foreign exchange contracts	–	71,484	–	71,484
Currency swaps	–	685,388	–	685,388
FX options	–	173,114	–	173,114
Interest rate swaps	–	396,980	–	396,980
Interest rate futures	–	2,717	–	2,717
Quanto swaps	–	–	–	–
Commodity forward	–	42,795	–	42,795
Equity options	–	742	–	742
	–	<u>5,871,603</u>	–	<u>5,871,603</u>
Total financial liabilities	–	<u>5,871,603</u>	–	<u>5,871,603</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 2014	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	–	4,426,475	–	4,426,475
Structured foreign exchange contracts	–	183,489	–	183,489
Currency swaps	–	680,374	–	680,374
FX options	–	108,982	–	108,982
Interest rate swaps	–	719,236	–	719,236
Interest rate futures	–	2,059	–	2,059
Commodity forward	–	–	–	–
Equity options	–	143	–	143
	–	6,120,758	–	6,120,758
Financial assets held for trading				
Debt securities	–	–	–	–
Equities	250,578	72,679	–	323,257
	250,578	72,679	–	323,257
Financial assets designated at fair value through profit or loss				
Debt securities	211,429	–	–	211,429
	211,429	–	–	211,429
Available-for-sale financial investments				
Debt securities	31,552,378	23,761,819	8,602	55,322,799
Equities	643,800	2,625,103	81,333	3,350,236
	32,196,178	26,386,922	89,935	58,673,035
Total financial assets	32,658,185	32,580,359	89,935	65,328,479
<b>Financial liabilities</b>				
Derivative financial instruments				
Forward foreign exchange contracts	–	4,499,681	–	4,499,681
Structured foreign exchange contracts	–	184,707	–	184,707
Currency swaps	–	600,216	–	600,216
FX options	–	87,608	–	87,608
Interest rate swaps	–	391,911	–	391,911
Interest rate futures	–	1,308	–	1,308
Quanto swaps	–	622	–	622
Commodity forward	–	–	–	–
Equity options	–	143	–	143
	–	5,766,196	–	5,766,196
Total financial liabilities	–	5,766,196	–	5,766,196

## 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 2015 HK\$'000	Addition HK\$'000	Total gains/ (losses) recorded in profit or loss HK\$'000	Total gains/ (losses) recorded in equity HK\$'000	At 30 June 2015 HK\$'000
<b>Financial assets</b>					
Available-for-sale financial investments					
Debt securities	8,602	-	-	262	8,864
Equities	81,333	-	-	(833)	80,500
Total Level 3 financial assets	<u>89,935</u>	<u>-</u>	<u>-</u>	<u>(571)</u>	<u>89,364</u>

	At 1 January 2014 HK\$'000	Addition HK\$'000	Total gains/ (losses) recorded in profit or loss HK\$'000	Total gains/ (losses) recorded in equity HK\$'000	At 30 June 2014 HK\$'000
<b>Financial assets</b>					
Available-for-sale financial investments					
Debt securities	-	8,602	-	-	8,602
Equities	-	81,333	-	-	81,333
Total Level 3 financial assets	<u>-</u>	<u>89,935</u>	<u>-</u>	<u>-</u>	<u>89,935</u>

During the half year ended 30 June 2015, 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 2015</b>	30 Jun 2014
	<b>HK\$'000</b>	HK\$'000
Available-for-sale financial investments		
Debt securities	–	187,642

There was no transfer from Level 1 to Level 2 during the half year ended 30 June 2015.

	<b>Transfers from Level 2 to Level 1</b>	
	<b>30 Jun 2015</b>	30 Jun 2014
	<b>HK\$'000</b>	HK\$'000
Available-for-sale financial investments		
Debt securities	–	74,838

There was no transfer from Level 2 to Level 1 during the half year ended 30 June 2015.

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 2015

	HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
<b>Recurring fair value measurement</b>				
Bank premises and properties	610,029	–	–	610,029
Investment properties	69,977	–	–	69,977

#### Fair value at 31 December 2014

	HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
<b>Recurring fair value measurement</b>				
Bank premises and properties	620,252	–	–	620,252
Investment properties	69,977	–	–	69,977

During the half year ended 30 June 2015 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 2015. The valuations on the Bank's investment properties and bank premises and properties were carried out by an independent professionally qualified valuer, A.G. Wilkinson & Associates. The 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 Commercial – Hong Kong</i>	Investment method	Market Yield	2.85%
<i>Bank premises and properties and Investment properties Commercial – Hong Kong and Mainland China</i>	Direct comparison approach	Premium/(discount) on characteristic of the properties	5.26% to –32.02%
<i>Bank premises and properties Commercial – Mainland China</i>	Discount cash flow	Risk-adjusted discount rate	5.75%
		Expected market rental growth	2%
		Expected occupancy rate	95% to 97%

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;
- 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.

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;

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 other 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 2015	620,252
Addition for the period	2,866
Exchange rate and other adjustment	(2,547)
Depreciation charge for the period	(14,587)
Surplus on revaluation	4,045
	<u>610,029</u>
At 30 June 2015	<u>610,029</u>
<b>Investment properties:</b>	<b>HK\$'000</b>
At 1 January 2015	69,977
Fair value adjustment	—
	<u>69,977</u>
At 30 June 2015	<u>69,977</u>
<b>Bank premises and properties:</b>	<b>HK\$'000</b>
At 1 January 2014	560,129
Addition for the year	3,340
Exchange rate and other adjustment	(17,373)
Depreciation charge for the year	(34,083)
Surplus on revaluation	108,239
	<u>620,252</u>
At 31 December 2014	<u>620,252</u>
<b>Investment properties:</b>	<b>HK\$'000</b>
At 1 January 2014	58,524
Fair value adjustment	11,453
	<u>69,977</u>
At 31 December 2014	<u>69,977</u>

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 5 Segment reporting

#### 5.1 Class of business

The Group comprises seven operating segments. 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. Corporate and investment banking mainly comprises corporate banking, the provision of debt capital market and investment banking. 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 2015	Corporate and investment banking	Commercial banking	Retail banking	Global markets and trading	Institutional banking	Chinese Mercantile Bank	Unallocated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net interest income	787,871	1,254,696	546,987	660,056	292,204	889,153	(595,324)	3,835,643
Fee and commission income	196,142	347,273	346,990	3	129,110	52,240	13,446	1,085,204
Fee and commission expense	(26,332)	(15,888)	(112,595)	–	(722)	(19,299)	–	(174,836)
Net fee and commission income	169,810	331,385	234,395	3	128,388	32,941	13,446	910,368
Net trading income/(expense)	35,633	151,779	43,718	74,435	36,237	(15,520)	88,024	414,306
Net gain on financial assets and liabilities designated at fair value through profit or loss	–	–	–	1,372	–	–	–	1,372
Dividend income from financial investments	–	–	–	–	–	–	3,860	3,860
Other operating income	–	13	166	453	1	28,167	4,606	33,406
Operating income	993,314	1,737,873	825,266	736,319	456,830	934,741	(485,388)	5,198,955
Operating expenses	(92,471)	(248,359)	(521,061)	(140,376)	(67,871)	(231,101)	74,778	(1,226,461)
Operating profit before impairment losses	900,843	1,489,514	304,205	595,943	388,959	703,640	(410,610)	3,972,494
(Charge for)/write back of impairment losses on loans and advances	(615,272)	36,705	(15,342)	108	(26,364)	(149,438)	(779)	(770,382)
Operating profit after impairment losses	285,571	1,526,219	288,863	596,051	362,595	554,202	(411,389)	3,202,112
Net loss from property, plant and equipment	–	(1)	(771)	–	–	(36)	(5)	(813)
Gain on disposal of loans and advances	–	–	–	–	–	–	–	–
Net (loss)/gain on disposal of available-for-sale financial investments	–	–	–	(501)	–	(2,140)	640,006	637,365
Operating profit	285,571	1,526,218	288,092	595,550	362,595	552,026	228,612	3,838,664
Share of profits of an associate	–	–	–	–	–	–	8,826	8,826
Profit before tax	285,571	1,526,218	288,092	595,550	362,595	552,026	237,438	3,847,490
Segment assets	99,103,283	142,965,897	42,259,931	244,973,558	30,005,064	141,634,365	9,749,781	710,691,879
Interest in an associate	–	–	–	–	–	–	274,443	274,443
Unallocated assets	–	–	–	–	–	–	1,151,286	1,151,286
Total assets	99,103,283	142,965,897	42,259,931	244,973,558	30,005,064	141,634,365	11,175,510	712,117,608
Segment liabilities	98,682,363	142,686,009	59,329,035	190,824,410	70,883,006	132,602,645	4,105,450	699,112,918
Unallocated liabilities	–	–	–	–	–	–	(41,248,870)	(41,248,870)
Total liabilities	98,682,363	142,686,009	59,329,035	190,824,410	70,883,006	132,602,645	(37,143,420)	657,864,048
Capital expenditure	134	244	16,139	18	39	17,121	15,520	49,215
Depreciation and amortisation charges	104	411	18,093	2,580	793	20,174	26,780	68,935



## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 5 Segment reporting (continued)

#### 5.1 Class of business (continued)

30 June 2014	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	551,664	939,568	502,600	403,968	294,093	1,231,671	189,810	4,113,374
Fee and commission income	181,641	239,900	250,912	–	142,231	69,039	5,490	889,213
Fee and commission expense	(21,463)	(11,532)	(106,791)	–	–	(17,777)	1,277	(156,286)
Net fee and commission income	160,178	228,368	144,121	–	142,231	51,262	6,767	732,927
Net trading income/(expense)	44,361	127,679	27,383	128,209	26,121	(12,785)	301	341,269
Net gain on financial assets and liabilities designated at fair value through profit or loss	–	1,232	–	3,113	–	–	–	4,345
Dividend income from financial investments	–	–	–	–	–	–	4,431	4,431
Other operating income	–	20	183	1,104	–	1,401	3,943	6,651
Operating income	756,203	1,296,867	674,287	536,394	462,445	1,271,549	205,252	5,202,997
Operating expenses	(97,648)	(253,986)	(450,828)	(139,618)	(74,444)	(236,347)	(9,208)	(1,262,079)
Operating profit before impairment losses	658,555	1,042,881	223,459	396,776	388,001	1,035,202	196,044	3,940,918
Charge for impairment losses on loans and advances	(24,918)	(48,011)	(20,006)	(155)	(15,558)	(164,769)	(864)	(274,281)
Operating profit after impairment losses	633,637	994,870	203,453	396,621	372,443	870,433	195,180	3,666,637
Net loss from property, plant and equipment	–	–	(1,683)	–	–	–	(302)	(1,985)
Gain on disposal of loans and advances	–	477	–	–	–	–	–	477
Net gain on disposal of available-for-sale financial investments	–	–	–	46,972	–	–	–	46,972
Operating profit	633,637	995,347	201,770	443,593	372,443	870,433	194,878	3,712,101
Share of profits of an associate	–	–	–	–	–	–	10,807	10,807
Profit before tax	633,637	995,347	201,770	443,593	372,443	870,433	205,685	3,722,908
Segment assets	95,382,079	126,816,804	34,914,923	208,646,604	51,894,505	105,686,293	(35,704,257)	587,636,951
Interest in an associate	–	–	–	–	–	–	260,535	260,535
Unallocated assets	–	–	–	–	–	–	13,886,866	13,886,866
Total assets	95,382,079	126,816,804	34,914,923	208,646,604	51,894,505	105,686,293	(21,556,856)	601,784,352
Segment liabilities	97,967,079	128,828,632	52,252,003	169,322,687	81,418,245	97,932,294	(36,148,375)	591,572,565
Unallocated liabilities	–	–	–	–	–	–	(37,653,210)	(37,653,210)
Total liabilities	97,967,079	128,828,632	52,252,003	169,322,687	81,418,245	97,932,294	(73,801,585)	553,919,355
Capital expenditure	11	154	8,978	2,264	347	3,061	23,465	38,280
Depreciation and amortisation charges	87	375	16,306	2,434	781	27,640	24,981	72,604

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 2015

	Hong Kong HK\$'000	Asia Pacific (excluding Hong Kong) HK\$'000	Consolidated HK\$'000
Operating income	4,149,364	1,049,591	5,198,955
Profit before tax	3,179,388	668,102	3,847,490
Total assets	570,489,034	141,628,574	712,117,608
Total liabilities	525,267,604	132,596,444	657,864,048
Contingent liabilities and commitments	219,516,889	20,863,693	240,380,582
Capital expenditure during the period	32,094	17,121	49,215

For the six months ended 30 June 2014

	Hong Kong HK\$'000	Asia Pacific (excluding Hong Kong) HK\$'000	Consolidated HK\$'000
Operating income	3,809,521	1,393,476	5,202,997
Profit before tax	2,729,774	993,134	3,722,908
Total assets	496,101,365	105,682,987	601,784,352
Total liabilities	455,990,502	97,928,853	553,919,355
Contingent liabilities and commitments	142,829,789	65,522,747	208,352,536
Capital expenditure during the period	35,219	3,061	38,280

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

6 Net interest income

	30 Jun 2015 HK\$'000	30 Jun 2014 HK\$'000
Interest income on:		
Cash and balances with banks and other financial institutions	998,765	1,331,610
Placements with banks and other financial institutions	240,240	720,240
Advances and other accounts	5,817,914	5,043,705
Financial investments – available-for-sale	889,052	935,399
Financial investments – held-to-maturity	<u>673,376</u>	<u>183,899</u>
	<u>8,619,347</u>	<u>8,214,853</u>
Interest expense on:		
Deposits from banks and other financial institutions	918,891	556,913
Deposits from customers	2,810,230	2,691,436
Certificates of deposit issued	357,508	423,513
Debt securities measured at amortised cost	171,705	126,755
Subordinated debts measured at amortised cost	530,454	246,187
Others	<u>(5,084)</u>	<u>54,024</u>
	<u>4,783,704</u>	<u>4,098,828</u>
Financial liabilities designated at fair value through profit or loss	<u>–</u>	<u>2,651</u>
	<u>4,783,704</u>	<u>4,101,479</u>
Net interest income	<u><u>3,835,643</u></u>	<u><u>4,113,374</u></u>

Included in the above is interest income accrued on impaired financial assets of HK\$14,332,000 (First half of 2014: HK\$7,608,000), including unwinding of discounts on loan impairment losses of HK\$5,997,000 (First half of 2014: HK\$4,130,000).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

7 Net fee and commission income

	30 Jun 2015 HK\$'000	30 Jun 2014 HK\$'000
Loans, overdrafts and guarantees	512,081	363,411
Securities and brokerage	140,912	76,942
Trade finance	120,844	170,458
Credit card	131,297	117,829
Remittance	33,337	33,263
Insurance	32,809	13,636
Other retail and commercial banking services	20,302	19,960
Securities arrangement fee	9,616	39,355
Others	<u>84,006</u>	<u>54,359</u>
Fee and commission income	1,085,204	889,213
Fee and commission expense	<u>(174,836)</u>	<u>(156,286)</u>
Net fee and commission income	<u><u>910,368</u></u>	<u><u>732,927</u></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	632,925	533,868
Net fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	11,645	7,784
Of which:		
Fee and commission income by product line constituting not less than 10% of the total amount of fee and commission income:		
– syndication loan	227,096	126,146
– term loan	194,537	151,655
– securities and brokerage	140,848	76,942
– credit card	131,297	117,829

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

	<b>30 Jun 2015</b>	30 Jun 2014
	<b>HK\$'000</b>	HK\$'000
Equity investments	<b>39,238</b>	493
Debt securities – Financial assets held for trading	<b>29,739</b>	10,043
– Available-for-sale financial investments	<b>(2,473)</b>	(10,086)
Derivatives	<b>(77,290)</b>	182,837
Foreign exchange	<b>425,133</b>	152,128
	<b>414,347</b>	335,415
Gain/(loss) from hedging activities		
Fair value hedges		
– Net loss on hedged items attributable to the hedged risk	<b>(7,228)</b>	(26,417)
– Net gain on hedging instruments	<b>7,187</b>	32,271
	<b>(41)</b>	5,854
Total net trading income	<b>414,306</b>	341,269

There is no gain or loss on financial liabilities measured at amortised cost included in total net trading income for first half of 2015 (First half of 2014: Nil).

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

	<b>30 Jun 2015</b>	30 Jun 2014
	<b>HK\$'000</b>	HK\$'000
Financial assets designated at fair value through profit or loss	<b>1,372</b>	3,114
Financial liabilities designated at fair value through profit or loss	<b>–</b>	1,231
Total net gain on financial assets and liabilities designated at fair value through profit or loss	<b>1,372</b>	4,345

**10 Dividend income from financial investments**

	<b>30 Jun 2015</b>	30 Jun 2014
	<b>HK\$'000</b>	HK\$'000
Dividend income from listed financial assets held for trading	<b>802</b>	1,705
Dividend income from listed available-for-sale financial investments	<b>208</b>	–
Dividend income from unlisted available-for-sale financial investments	<b>2,850</b>	2,726
Total dividend income from financial investments	<b>3,860</b>	4,431

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

11 Other operating income

	30 Jun 2015 HK\$'000	30 Jun 2014 HK\$'000
Management fee income	3,000	3,000
Rental income from investment properties	1,724	1,725
Less: Direct operating expenses arising from investment properties that generated rental income during the period	(34)	(44)
Others	<u>28,716</u>	<u>1,970</u>
Total other operating income	<u><u>33,406</u></u>	<u><u>6,651</u></u>

12 Operating expenses

	30 Jun 2015 HK\$'000	30 Jun 2014 HK\$'000
Staff costs		
– Salaries and other costs	535,062	621,184
– Retirement benefit costs	<u>31,727</u>	<u>31,658</u>
	<u>566,789</u>	<u>652,842</u>
Premises and equipment expenses, excluding depreciation and amortisation		
– Rental of premises	224,121	193,680
– Others	<u>41,864</u>	<u>50,511</u>
	<u>265,985</u>	<u>244,191</u>
Depreciation and amortisation expenses	68,935	72,604
Auditors' remuneration	2,517	2,545
General administration expenses	44,243	32,313
Business promotion expenses	63,529	47,737
Communication expenses	40,838	40,343
Other operating expenses	<u>173,625</u>	<u>169,504</u>
Total operating expenses	<u><u>1,226,461</u></u>	<u><u>1,262,079</u></u>

**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**
**13 Charge for impairment losses on loans and advances**

	<b>30 Jun 2015</b>	30 Jun 2014
	<b>HK\$'000</b>	HK\$'000
Charge for impairment losses on loans and advances		
Individually assessed		
– New allowances	<b>659,861</b>	36,971
– Releases	<b>(35,687)</b>	(45,173)
– Recoveries	<b>(2,457)</b>	(12,461)
	<u>621,717</u>	<u>(20,663)</u>
Net charge/(write-back) for impairment losses on individually assessed loans and other accounts		
Collectively assessed		
– New allowances	<b>148,665</b>	294,944
	<u>148,665</u>	<u>294,944</u>
Net charge for impairment losses on collectively assessed loans and advances		
	<b>148,665</b>	294,944
	<u>148,665</u>	<u>294,944</u>
Net charge to the income statement	<b>770,382</b>	274,281
	<u>770,382</u>	<u>274,281</u>

**14 Taxation**

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 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, based on existing legislation, interpretations and practices in respect thereof.

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

	<b>30 Jun 2015</b>	30 Jun 2014
	<b>HK\$'000</b>	HK\$'000
Current tax – Provision for Hong Kong profits tax for the period	<b>528,071</b>	474,559
– Provision for overseas tax for the years	<b>236,785</b>	340,234
Overprovision in respect of prior years	<b>9,605</b>	(69,322)
Deferred taxation	<b>(7,814)</b>	(22,356)
	<u>766,647</u>	<u>723,115</u>

## 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:

	<b>30 Jun 2015</b>	30 Jun 2014
	<b>HK\$'000</b>	HK\$'000
Profit before tax	3,847,490	3,722,908
Calculated at a tax rate of 16.5% (2014: 16.5%)	634,836	614,280
Effect of different tax rates in other countries	121,917	176,144
Income not subject to tax	(3,005)	(2,752)
Expenses not deductible for tax purposes	4,750	6,548
Adjustments in respect of tax of previous periods	9,605	(69,322)
Share of tax of an associate	<u>(1,456)</u>	<u>(1,783)</u>
Tax charge	<u><u>766,647</u></u>	<u><u>723,115</u></u>

### 15 Interim dividend

At a meeting held on 25 August 2015, the Board has not recommended the payment of interim dividend for the six months ended 30 June 2015 (First half of 2014: Nil).

### 16 Earnings per share

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

	<b>30 Jun 2015</b>	30 Jun 2014
Profit attributable to equity holders (HK\$'000)	3,080,843	2,999,793
Weighted average number of ordinary shares in issue (thousands)	2,064,748	2,064,748
Basic earnings per share	<b>HK\$1.49</b>	HK\$1.45

Diluted earnings per share amount for the periods ended 30 June 2015 and 30 June 2014 were the same as basic earnings per share, as the Group had no potential dilutive ordinary shares in issue during those periods.

### 17 Cash and balances with banks and other financial institutions

	<b>30 Jun 2015</b>	31 Dec 2014
	<b>HK\$'000</b>	HK\$'000
Cash on hand	557,140	653,560
Balances with central banks	31,784,641	36,857,587
Balances with other banks and financial institutions	29,789,376	56,887,915
Placements with banks and other financial institutions maturing within one month	<u>71,431,881</u>	<u>59,601,274</u>
	<u><u>133,563,038</u></u>	<u><u>154,000,336</u></u>



NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

18 Placements with banks and other financial institutions

	30 Jun 2015 HK\$'000	31 Dec 2014 HK\$'000
Placements with banks and other financial institutions maturing between one and twelve months	<u>28,213,181</u>	<u>53,105,030</u>

The above figures include reverse repurchase transactions. 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 HK\$648,673,000 as at 30 June 2015 (31 December 2014: HK\$905,854,000). No collateral has been actually sold or repledged by the Group as at 30 June 2015 and 31 December 2014. The transactions are conducted on terms that are usual and customary to standard lending activities.

19 Financial assets held for trading

	30 Jun 2015 HK\$'000	31 Dec 2014 HK\$'000
Debt securities, at fair value:		
Unlisted	<u>3,066,491</u>	<u>—</u>
	<u>3,066,491</u>	<u>—</u>
Equity securities, at fair value:		
Listed in Hong Kong	—	250,578
Unlisted	<u>167,561</u>	<u>72,679</u>
	<u>167,561</u>	<u>323,257</u>
Total financial assets held for trading	<u>3,234,052</u>	<u>323,257</u>
Financial assets held for trading are analysed by category of issuer as follows:		
Banks and other financial institutions	2,214,499	238,104
Corporate entities	<u>1,019,553</u>	<u>85,153</u>
	<u>3,234,052</u>	<u>323,257</u>

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 20 Financial assets designated at fair value through profit or loss

	30 Jun 2015 HK\$'000	31 Dec 2014 HK\$'000
Debt securities, at fair value:		
Listed in Hong Kong	–	77,998
Listed outside Hong Kong	–	133,431
	<u>–</u>	<u>211,429</u>
Total financial assets designated at fair value through profit or loss	<u>–</u>	<u>211,429</u>
Financial assets designated at fair value through profit or loss are analysed by category of issuer as follows:		
Corporate entities	–	211,429
	<u>–</u>	<u>211,429</u>

### 21 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.

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

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.

The following tables summarise the contractual/notional amounts of each significant type of derivative financial instrument as at 30 June 2015 and 31 December 2014:

<b>As at 30 June 2015</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	565,701,038	5,260,744	(5,183,771)
– OTC currency options purchased	32,894,147	128,595	–
– OTC currency options written	33,482,389	–	(173,114)
– Structured foreign exchange instruments	1,198,572	71,365	(71,484)
Total foreign exchange derivatives		<u>5,460,704</u>	<u>(5,428,369)</u>
b) Interest rate derivatives			
– Interest rate swaps	80,939,610	476,800	(299,877)
– Interest rate futures	8,527,530	4,810	(2,717)
– Quanto swaps	–	–	–
Total interest rate derivatives		<u>481,610</u>	<u>(302,594)</u>
c) Equity derivatives			
– Equity options	58,518	742	(742)
Total equity derivatives		<u>742</u>	<u>(742)</u>
d) Commodity contract	1,048,344	42,774	(42,795)
Total derivative assets/(liabilities) held for trading		<u>5,985,830</u>	<u>(5,774,500)</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

21 Derivative financial instruments (continued)

As at 30 June 2015	Contractual/ notional amount HK\$'000	Fair value assets HK\$'000	Fair value liabilities HK\$'000
2) Derivatives held for hedging			
a) Derivatives designated as fair value hedges			
– Interest rate swaps	1,181,325	–	(68,638)
– Cross currency swaps	86,826	<u>22,494</u>	<u>–</u>
		<u>22,494</u>	<u>(68,638)</u>
b) Derivatives designated as cash flow hedges			
– Interest rate swaps	6,368,940	<u>224,454</u>	<u>(28,465)</u>
Total derivative assets/(liabilities) held for hedging		<u>246,948</u>	<u>(97,103)</u>
3) Derivatives not qualified as hedges for accounting purposes but which are managed in conjunction with the financial instruments designated at fair value through profit or loss			
– Interest rate swaps	–	<u>–</u>	<u>–</u>
Total derivative assets/(liabilities) not qualified as hedges		<u>–</u>	<u>–</u>
Total recognised derivative assets/(liabilities)		<u>6,232,778</u>	<u>(5,871,603)</u>

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

As at 31 December 2014	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	551,706,683	5,087,127	(5,099,897)
– OTC currency options purchased	14,760,813	108,982	–
– OTC currency options written	14,506,287	–	(87,608)
– Structured foreign exchange instruments	1,101,325	<u>183,489</u>	<u>(184,707)</u>
Total foreign exchange derivatives		<u>5,379,598</u>	<u>(5,372,212)</u>
b) Interest rate derivatives			
– Interest rate swaps	94,990,572	488,145	(276,173)
– Interest rate futures	12,226,388	2,059	(1,308)
– Quanto Swap	4,508,555	–	<u>(622)</u>
Total interest rate derivatives		<u>490,204</u>	<u>(278,103)</u>
c) Equity derivatives			
– Equity options	12,159	<u>143</u>	<u>(143)</u>
Total equity derivatives		<u>143</u>	<u>(143)</u>
d) Commodity contract	–	–	–
Total derivative assets/(liabilities) held for trading		<u>5,869,945</u>	<u>(5,650,458)</u>
2) Derivatives held for hedging			
a) Derivatives designated as fair value hedges			
– Interest rate swaps	1,230,449	–	(77,187)
– Cross currency swaps	86,860	<u>19,722</u>	–
		<u>19,722</u>	<u>(77,187)</u>
b) Derivatives designated as cash flow hedges			
– Interest rate swaps	7,146,420	<u>231,091</u>	<u>(35,778)</u>
Total derivative assets/(liabilities) held for hedging		<u>250,813</u>	<u>(112,965)</u>
3) Derivatives not qualified as hedges for accounting purposes but which are managed in conjunction with the financial instruments designated at fair value through profit or loss			
– Interest rate swaps	209,396	–	<u>(2,773)</u>
Total derivative assets/(liabilities) not qualified as hedges		<u>–</u>	<u>(2,773)</u>
Total recognised derivative assets/(liabilities)		<u>6,120,758</u>	<u>(5,766,196)</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

21 Derivative financial instruments (continued)

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.

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 and cross currency 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 2015 HK\$'000	30 Jun 2014 HK\$'000
Gain/(loss) arising from fair value hedge, net:		
– Hedging instruments	7,187	32,271
– Hedged items attributable to the hedged risk	<u>(7,228)</u>	<u>(26,417)</u>
	<u>(41)</u>	<u>5,854</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 (2014: Nil).

Below is a schedule indicating as at 30 June 2015 and 31 December 2014, 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 2015</b>				
Cash inflows (assets)	16	24	27	–
Cash outflows (liabilities)	<u>(3)</u>	<u>(6)</u>	<u>(5)</u>	<u>(1)</u>
Net cash flows	13	18	22	(1)
<b>31 December 2014</b>				
Cash inflows (assets)	15	22	27	–
Cash outflows (liabilities)	<u>(3)</u>	<u>(5)</u>	<u>(5)</u>	<u>(1)</u>
Net cash flows	12	17	22	(1)

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

During the period, realised gain amounting to HK\$46,456,000 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 2014: Realised gain of HK\$49,660,000).

There were no transactions for which cash flow hedge accounting had to be ceased in the first half of 2015 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 2015		31 Dec 2014	
	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000
Contingent liabilities and commitments	–	22,188,491	–	20,332,249
Exchange rate contracts				
– Forwards	4,433,435	1,996,178	4,262,531	2,072,665
– Swaps	708,977	1,873,547	702,665	1,739,966
– Options	55,138	100,216	56,200	54,951
– Structured FX	71,365	2,636,607	183,489	2,596,857
	<u>5,268,915</u>	<u>6,606,548</u>	<u>5,204,885</u>	<u>6,464,439</u>
Interest rate contracts				
– Swaps	701,253	821,134	719,239	933,393
– Futures	3,344	10,670	877	877
	<u>704,597</u>	<u>831,804</u>	<u>720,116</u>	<u>934,270</u>
Equity contracts				
– Options	742	500	143	102
Debt securities or other commodities				
– Commodities	–	31,068	–	–
– US Treasury Futures Product	1,465	26,271	1,182	31,040
	<u>1,465</u>	<u>57,339</u>	<u>1,182</u>	<u>31,040</u>
	<u>5,975,719</u>	<u>29,684,682</u>	<u>5,926,326</u>	<u>27,762,100</u>

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

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

22 Advances and other accounts

22.1 Loans and advances to customers, banks and trade bills

	30 Jun 2015 HK\$'000	31 Dec 2014 HK\$'000
Advances to customers	347,035,882	299,088,787
Advances to banks	12,182,321	17,630,821
Trade bills	<u>34,563,414</u>	<u>48,684,900</u>
Gross loans and advances to customers, banks and trade bills	393,781,617	365,404,508
Accrued interest	<u>1,153,071</u>	<u>998,310</u>
	<b>394,934,688</b>	<b>366,402,818</b>
Less: impairment allowances		
– Individually assessed	(1,050,842)	(510,302)
– Collectively assessed	<u>(1,743,976)</u>	<u>(1,594,701)</u>
	<u><b>392,139,870</b></u>	<u><b>364,297,815</b></u>
	<b>30 Jun 2015 HK\$'000</b>	<b>31 Dec 2014 HK\$'000</b>
Gross impaired loans and advances	2,518,710	1,498,782
Impairment allowances made in respect of such loans	1,050,842	510,302
Gross impaired loans and advances as a percentage of total gross loans and advances	0.64%	0.41%
Market value of collateral	<u><b>867,625</b></u>	<u><b>1,063,992</b></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.

Loss event refers to situations such as credit downgrade of the loan borrowers; or loan outstandings become overdue.

There were no impaired advances to banks as at 30 June 2015 and 31 December 2014; nor were there any individual impairment allowances made for them on these two dates.

The market value of the collateral is readily determinable or can be reasonably established and verified.



**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**
**22 Advances and other accounts (continued)**
**22.2 Overdue advances to customers and banks (excluding trade bills and receivables)**

The gross amount of the Group's advances to customers and banks (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 2015</b>						
Six months or less but over three months	151,302	0.0	224,744	125,559	25,743	8,101
One year or less but over six months	137,980	0.0	213,780	113,865	24,115	32,204
Over one year	317,635	0.1	16,373	11,498	306,137	301,911
	<u>606,917</u>	<u>0.1</u>	<u>454,897</u>	<u>250,922</u>	<u>355,995</u>	<u>342,216</u>
<b>As at 31 Dec 2014</b>						
Six months or less but over three months	20,927	0.0	8,536	7,342	13,585	440
One year or less but over six months	192,931	0.1	46,502	35,606	157,325	150,697
Over one year	247,736	0.1	11,426	11,202	236,534	229,213
	<u>461,594</u>	<u>0.2</u>	<u>66,464</u>	<u>54,150</u>	<u>407,444</u>	<u>380,350</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.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

22 Advances and other accounts (continued)

22.3 Other overdue assets

	30 Jun 2015 Accrued interest HK\$'000	30 Jun 2015 Other assets HK\$'000	31 Dec 2014 Accrued interest HK\$'000	31 Dec 2014 Other assets HK\$'000
Six months or less but over three months	1,408	–	29	–
One year or less but over six months	4,774	–	–	–
Over one year	<u>8,628</u>	<u>–</u>	<u>9,689</u>	<u>–</u>
	<u>14,810</u>	<u>–</u>	<u>9,718</u>	<u>–</u>

Other assets refer to trade bills and receivables.

22.4 Rescheduled advances

	30 Jun 2015 HK\$'000	% of advances to customers	31 Dec 2014 HK\$'000	% of advances to customers
Rescheduled advances (excluding overdue loans over three months)	<u>10,559</u>	<u>–</u>	<u>7,324</u>	<u>–</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 22.2 above.

There were no advances to banks which were overdue; nor were there any rescheduled advances to banks as at 30 June 2015 and 31 December 2014.

22.5 Repossessed assets

At 30 June 2015, the Group has no repossessed assets (31 December 2014: 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.

22.6 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 2015 (31 December 2014: HK\$822,511,000). No collateral has been actually sold or repledged by the Group as at 30 June 2015 and 31 December 2014. The transactions are conducted on terms that are usual and customary to standard lending activities.

**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**
**23 Available-for-sale financial investments**

	<b>30 Jun 2015</b>	31 Dec 2014
	<b>HK\$'000</b>	HK\$'000
Debt securities:		
Listed in Hong Kong	<b>12,270,002</b>	11,734,662
Listed outside Hong Kong	<b>10,661,686</b>	16,317,506
Unlisted	<b><u>28,150,334</u></b>	<u>27,278,784</u>
	<b><u>51,082,022</u></b>	<u>55,330,952</u>
Equity securities:		
Listed in Hong Kong	–	597,878
Listed outside Hong Kong	<b>47,918</b>	45,922
Unlisted	<b><u>20,132,597</u></b>	<u>2,706,443</u>
	<b><u>20,180,515</u></b>	<u>3,350,243</u>
Total available-for-sale financial investments	<b><u>71,262,537</u></b>	<u>58,681,195</u>
Market value of listed securities	<b><u>22,979,606</u></b>	<u>28,695,968</u>
Debt securities after taking into account of impairment losses are comprised of the following items:		
Treasury bill	<b>3,720,856</b>	–
Certificates of deposit held	<b>8,670,754</b>	11,130,537
Other debt securities	<b><u>38,690,412</u></b>	<u>44,200,415</u>
	<b><u>51,082,022</u></b>	<u>55,330,952</u>
Available-for-sale financial investments are analysed by category of issuer as follows:		
Central governments and central banks	<b>4,129,120</b>	6,264,817
Public sector entities	<b>637,385</b>	986,591
Banks and other financial institutions	<b>47,757,258</b>	32,316,047
Corporate entities	<b><u>18,738,774</u></b>	<u>19,113,740</u>
	<b><u>71,262,537</u></b>	<u>58,681,195</u>

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

	<b>30 Jun 2015</b>	31 Dec 2014
	<b>HK\$'000</b>	HK\$'000
At 1 January	<b>84,462</b>	77,540
Charge for the period/year	–	6,908
Exchange difference	<b><u>(34)</u></b>	<u>14</u>
At 30 June/31 December	<b><u>84,428</u></b>	<u>84,462</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

24 Held-to-maturity financial investments

	30 Jun 2015 HK\$'000	31 Dec 2014 HK\$'000
Debt securities:		
Listed in HK	24,478,623	12,920,115
Listed outside HK	18,980,171	8,262,021
Unlisted	<u>22,270,678</u>	<u>8,402,780</u>
	65,729,472	29,584,916
Less: impairment losses	<u>51,744</u>	<u>51,765</u>
Total held-to-maturity financial investments	<u>65,677,728</u>	<u>29,533,151</u>
Market value of listed securities	<u>43,673,819</u>	<u>21,292,687</u>
Debt securities after taking into account of impairment losses are comprised of the following items:		
Treasury bills	13,969,044	3,163,292
Other debt securities	<u>51,708,684</u>	<u>26,369,859</u>
	<u>65,677,728</u>	<u>29,533,151</u>
Held-to-maturity financial investments are analysed by category of issuer as follows:		
Central governments and central banks	26,846,054	8,884,621
Public sector entities	340,005	418,873
Banks and other financial institutions	15,002,859	5,545,962
Corporate entities	<u>23,488,810</u>	<u>14,683,695</u>
	<u>65,677,728</u>	<u>29,533,151</u>

There was no collective impairment allowance made against the held-to-maturity financial investments during the period (2014: Nil).

25 Investment properties

	30 Jun 2015 HK\$'000	31 Dec 2014 HK\$'000
Carrying amount at 1 January	69,977	58,524
Net revaluation gain	<u>—</u>	<u>11,453</u>
Carrying amount at 30 June/31 December	<u>69,977</u>	<u>69,977</u>

**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**
**26 Property, plant and equipment**

	<b>Bank premises and properties HK\$'000</b>	<b>Leasehold improvements HK\$'000</b>	<b>Furniture and equipment HK\$'000</b>	<b>Total HK\$'000</b>
At 31 December 2014 and 1 January 2015:				
Cost or valuation	<b>1,000,407</b>	<b>337,093</b>	<b>387,154</b>	<b>1,724,654</b>
Accumulated depreciation and impairment	<u><b>(380,155)</b></u>	<u><b>(188,660)</b></u>	<u><b>(242,979)</b></u>	<u><b>(811,794)</b></u>
Net book value at 31 December 2014 and 1 January 2015	<u><b>620,252</b></u>	<u><b>148,433</b></u>	<u><b>144,175</b></u>	<u><b>912,860</b></u>
Additions	<b>2,866</b>	<b>25,331</b>	<b>18,185</b>	<b>46,382</b>
Disposals	–	<b>(712)</b>	<b>(2,432)</b>	<b>(3,144)</b>
Revaluation	<b>4,045</b>	–	–	<b>4,045</b>
Depreciation provided during the period	<b>(14,587)</b>	<b>(15,767)</b>	<b>(23,380)</b>	<b>(53,734)</b>
Exchange rate and other adjustments	<u><b>(2,547)</b></u>	<u><b>(11)</b></u>	<u><b>(5,965)</b></u>	<u><b>(8,523)</b></u>
Net book value at 30 June 2015	<u><b>610,029</b></u>	<u><b>157,274</b></u>	<u><b>130,583</b></u>	<u><b>897,886</b></u>
At 30 June 2015:				
Cost or valuation	<b>809,214</b>	<b>361,317</b>	<b>392,647</b>	<b>1,563,178</b>
Accumulated depreciation and impairment	<u><b>(199,185)</b></u>	<u><b>(204,043)</b></u>	<u><b>(262,064)</b></u>	<u><b>(665,292)</b></u>
Net book value at 30 June 2015	<u><b>610,029</b></u>	<u><b>157,274</b></u>	<u><b>130,583</b></u>	<u><b>897,886</b></u>
The analysis of cost or valuation of the above assets is as follows:				
At 30 June 2015:				
At cost	–	<b>361,317</b>	<b>392,647</b>	<b>753,964</b>
At valuation	<u><b>610,029</b></u>	<u>–</u>	<u>–</u>	<u><b>610,029</b></u>
	<u><b>610,029</b></u>	<u><b>361,317</b></u>	<u><b>392,647</b></u>	<u><b>1,363,993</b></u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

26 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 2013 and 1 January 2014:				
Cost or valuation	773,765	308,463	353,073	1,435,301
Accumulated depreciation and impairment	<u>(213,636)</u>	<u>(164,651)</u>	<u>(211,848)</u>	<u>(590,135)</u>
Net book value at 31 December 2013 and 1 January 2014	<u>560,129</u>	<u>143,812</u>	<u>141,225</u>	<u>845,166</u>
Additions	3,340	40,683	43,987	88,010
Disposals	–	(2,596)	(625)	(3,221)
Revaluation	108,239	–	–	108,239
Depreciation provided during the year	(34,083)	(33,466)	(45,520)	(113,069)
Exchange rate and other adjustments	<u>(17,373)</u>	<u>–</u>	<u>5,108</u>	<u>(12,265)</u>
Net book value at 31 December 2014	<u>620,252</u>	<u>148,433</u>	<u>144,175</u>	<u>912,860</u>
At 31 December 2014:				
Cost or valuation	1,000,407	337,093	387,154	1,724,654
Accumulated depreciation and impairment	<u>(380,155)</u>	<u>(188,660)</u>	<u>(242,979)</u>	<u>(811,794)</u>
Net book value at 31 December 2014	<u>620,252</u>	<u>148,433</u>	<u>144,175</u>	<u>912,860</u>
The analysis of cost or valuation of the above assets is as follows:				
At 31 December 2014:				
At cost	–	337,093	387,154	724,247
At valuation	<u>620,252</u>	<u>–</u>	<u>–</u>	<u>620,252</u>
	<u>620,252</u>	<u>337,093</u>	<u>387,154</u>	<u>1,344,499</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

27 Other assets

	<b>30 Jun 2015</b>	31 Dec 2014
	<b>HK\$'000</b>	HK\$'000
Interest receivable	<b>1,604,451</b>	1,604,581
Prepayments	<b>161,009</b>	147,081
Settlement accounts	<b>5,398,605</b>	7,411,999
Margin deposit paid	<b>891,060</b>	1,965,915
Factoring	<b>591,989</b>	470,581
Others	<b>856,816</b>	411,604
	<b><u>9,503,930</u></b>	<u>12,011,761</u>

28 Deposits from customers

	<b>30 Jun 2015</b>	31 Dec 2014
	<b>HK\$'000</b>	HK\$'000
Demand deposits and current accounts	<b>30,527,534</b>	33,412,214
Savings deposits	<b>74,315,633</b>	81,715,755
Time, call and notice deposits	<b>312,829,259</b>	305,764,271
	<b><u>417,672,426</u></b>	<u>420,892,240</u>

29 Deferred income tax

Deferred income tax is calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5% (2014: 16.5%).

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

	<b>30 Jun 2015</b>	31 Dec 2014
	<b>HK\$'000</b>	HK\$'000
At 1 January	<b>(81,011)</b>	(19)
Credited to income statement	<b>7,814</b>	15,780
Debited to equity	<b>(6,593)</b>	(97,116)
Exchange and other adjustments	<b>(5,855)</b>	344
	<b><u>(85,645)</u></b>	<u>(81,011)</u>
At 30 June/31 December	<b><u>(85,645)</u></b>	<u>(81,011)</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.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

29 Deferred income tax (continued)

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

	<b>30 Jun 2015</b>	31 Dec 2014
	<b>HK\$'000</b>	HK\$'000
Net deferred income tax assets recognised in the consolidated statement of financial position	–	–
Net deferred income tax liabilities recognised in the consolidated statement of financial position	<u>(85,645)</u>	<u>(81,011)</u>
At 30 June/31 December	<u><u>(85,645)</u></u>	<u><u>(81,011)</u></u>
	<b>30 Jun 2015</b>	31 Dec 2014
	<b>HK\$'000</b>	HK\$'000
Deferred income tax assets, net		
to be recovered after more than 12 months	<b>130,382</b>	125,993
to be recovered within 12 months	<u>26,385</u>	<u>21,836</u>
	<u><b>156,767</b></u>	<u>147,829</u>
Deferred income tax liabilities, net		
to be settled after more than 12 months	<b>(201,799)</b>	(192,143)
to be settled within 12 months	<u>(40,613)</u>	<u>(36,697)</u>
	<u><b>(242,412)</b></u>	<u>(228,840)</u>
Deferred income tax liabilities, net	<u><u><b>(85,645)</b></u></u>	<u><u>(81,011)</u></u>



**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**
**30 Subordinated debts measured at amortised cost**

	30 Jun 2015		31 Dec 2014	
	HK\$'000	Interest rate	HK\$'000	Interest rate
Subordinated fixed rate notes				
– with a final maturity on 30 November 2020	<b>3,859,034</b>	<b>5.125%</b>	3,859,012	5.125%
– with a final maturity on 4 November 2021 (callable on 5 November 2016)	<b>1,867,508</b>	<b>6%</b>	1,866,153	6%
– with a final maturity on 10 October 2023 (callable on 10 October 2018)	<b>3,857,100</b>	<b>4.5%</b>	3,857,502	4.5%
– with a final maturity on 31 December 2024 (callable on 31 December 2019)	<b>12,663,018</b>	<b>4.5%</b>	12,668,081	4.5%
	<b><u>22,246,660</u></b>		<b><u>22,250,748</u></b>	

Subordinated debts were raised by the Bank for the development and expansion of business. 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 (2014: Nil).

**31 Other liabilities**

	30 Jun 2015	31 Dec 2014
	HK\$'000	HK\$'000
Interest payable	<b>2,517,384</b>	2,702,633
Salaries and welfare payable	<b>263,740</b>	393,857
Settlement accounts	<b>5,509,537</b>	5,683,879
Margin deposit received	<b>1,321,135</b>	646,221
Factoring	<b>594,866</b>	470,581
Others	<b>2,289,174</b>	655,268
	<b><u>12,495,836</u></b>	<b><u>10,552,439</u></b>

The Group have not had any defaults of principal, interest or other breaches with respect to their liabilities during the period (2014: Nil).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

32 Share capital

	Number of shares (in thousands)	Ordinary shares HK\$'000	Ordinary share premium HK\$'000
At 1 January 2015 & 30 June 2015	<u>2,064,748</u>	<u>23,591,832</u>	<u>–</u>
At 1 January 2014	2,064,748	4,129,497	19,462,335
Transition to no-par value regime on 3 March 2014	<u>–</u>	<u>19,462,335</u>	<u>(19,462,335)</u>
At 31 December 2014	<u>2,064,748</u>	<u>23,591,832</u>	<u>–</u>

The transition to the no-par value regime under the Hong Kong Companies Ordinance (Cap. 622) occurred automatically on 3 March 2014. On that date, the share premium account was subsumed into share capital in accordance with section 37 of Schedule 11 to the Ordinance. These changes did not impact on the number of shares in issue or the relative entitlement of any of the members. Since that date, all changes in share capital have been in accordance with the requirements of Parts 4 and 5 of the Ordinance.

33 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 represents 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 2015, the Group has earmarked a “Regulatory Reserve” of HK\$4,359,639,000 (31 December 2014: HK\$4,069,070,000) 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 equity holders of the Group includes a profit of HK\$2,470,987,000 (31 December 2014: HK\$4,845,609,000) which has been dealt with in the accounts of the Bank.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

34 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.

34.1 Ultimate holding company

	Six months ended	
	30 Jun 2015	30 Jun 2014
	HK\$'000	HK\$'000
Interest income	166,431	959,711
Interest expense	555,142	485,956
Other operating income <sup>1,2,3</sup>	(19,442)	36,096
Other operating expenses <sup>4</sup>	66,764	29,938
	<b>30 Jun 2015</b>	<b>31 Dec 2014</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Amounts due from	47,238,208	41,067,353
Amounts due to	144,834,103	107,279,325

1. In accordance with the collaboration agreement dated 3 July 2001 and the supplemental collaboration agreements dated 4 February 2005 and 13 February 2008 and the memorandum of Understanding dated 13 May 2011, and amendment and restatement agreement to the memorandum of Understanding dated 21 December 2012, 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 28 September 2007, 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. The Group also entered into transactions with the ultimate holding company, including the provision of financial products or services. In the opinion of management, transactions with the ultimate holding company were conducted in the ordinary course of business under normal terms and conditions and at market rates.
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

### 34 Related-party transactions (continued)

#### 34.1 Ultimate holding company (continued)

The transactions with the ultimate holding company included the issuance of certificates of deposit and subordinated floating rate notes, which were both fully subscribed by the ultimate holding company and its branches. As at 30 June 2015, the Bank has issued certificates of deposit with a nominal value of USD400,000,000 and CNY300,000,000 to the ultimate holding company (First half of 2014: certificates of deposit with a nominal value of USD500,000,000).

As at 30 Jun 2015, the Bank has committed facilities to the ultimate holding company in the amount of CNY700,000,000 (2014: CNY700,000,000). The Bank also received conglomerate guarantee on loan from the ultimate holding company in the amount of HK\$32,134,912,000 (2014: HK\$63,833,607,000).

#### *Other material transactions*

##### 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 2015 (First half of 2014: 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\$36,363,063,000 (First half of 2014: HK\$50,359,215,000). For both the first half of 2015 and 2014, there was no sub-participation in loans of the Branch by the Bank. The total fee attributable to the above transactions of approximately HK\$38,343,000 (First half of 2014: HK\$31,244,000) 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 favourable than those available to other independent loan members.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

34 Related-party transactions (continued)

34.2 Fellow subsidiaries

	Six months ended	
	30 Jun 2015	30 Jun 2014
	HK\$'000	HK\$'000
Interest income	24,263	170,397
Interest expense	28,881	19,085
Other operating income	516	3,856
	<b>30 Jun 2015</b>	31 Dec 2014
	<b>HK\$'000</b>	<b>HK\$'000</b>
Amounts due from	641,192	5,511,919
Amounts due to	4,469,968	917,869

34.3 Associates

	Six months ended	
	30 Jun 2015	30 Jun 2014
	HK\$'000	HK\$'000
Interest income	1,257	1,525
Interest expense	91	225
	<b>30 Jun 2015</b>	31 Dec 2014
	<b>HK\$'000</b>	<b>HK\$'000</b>
Amounts due from	–	106,851
Amounts due to	83,357	49,935

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 34 Related-party transactions (continued)

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

Transactions with the following state-controlled entities and government authorities of the People's Republic of China (the "PRC") 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 2015</b>	30 Jun 2014
	<b>HK\$'000</b>	HK\$'000
Interest income	424,962	420,489
Interest expense	76,590	15,429
Operating income	(3,305)	(423)
	<b>30 Jun 2015</b>	31 Dec 2014
	<b>HK\$'000</b>	HK\$'000
Amounts due from	53,304,540	61,733,803
Amounts due to	7,360,696	506,158

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.

#### 34.5 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 2015</b>	30 Jun 2014
	<b>HK\$'000</b>	HK\$'000
Employee benefits	9,197	11,080

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

34 Related-party transactions (continued)

34.6 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 2015 HK\$'000	30 Jun 2014 HK\$'000
Interest income	–	–
Interest expense	119	274
	<b>30 Jun 2015</b>	<b>31 Dec 2014</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Loans and advances	–	–
Deposits	52,222	45,718

35 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 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.

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 2015		31 Dec 2014	
	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	24,119,403	24,020,988	9,737,882	9,634,378

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

35 Transferred financial assets (continued)

*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 2015, the Group retained obligation on those PRC discounted bills transferred but not matured with a carrying amount of HK\$6,705,523,000 (31 December 2014: HK\$1,987,000,000).

36 Off-balance sheet exposures

36.1 Contingent liabilities and commitments

The following are the summaries of the contractual amounts of each significant class of contingent liabilities and commitments:

	30 Jun 2015	30 Jun 2015	31 Dec 2014	31 Dec 2014
	Contractual	Credit risk	Contractual	Credit risk
	amount	weighted	amount	weighted
	HK\$'000	amount	HK\$'000	amount
		HK\$'000		HK\$'000
Direct credit substitutes	10,963,344	4,902,151	15,873,645	9,487,570
Transaction-related contingencies	168,254	70,548	61,135	16,308
Trade-related contingencies	13,891,395	2,266,447	16,742,813	2,211,023
Forward deposits placed	20,014,633	4,002,927	5,714,524	1,142,905
Other commitments with an original maturity of:				
– Unconditionally cancellable	171,956,870	–	171,244,520	–
– With original maturity of less than one year	929,406	185,881	874,790	174,958
– With original maturity of over one year	22,456,680	10,760,537	15,318,969	7,299,485
	<u>240,380,582</u>	<u>22,188,491</u>	<u>225,830,396</u>	<u>20,332,249</u>

36.2 Capital commitments

Capital commitments for property, plant and equipment outstanding as at 30 June 2015 and 31 December 2014 not provided for in the financial statements are as follows:

	30 Jun 2015	31 Dec 2014
	HK\$'000	HK\$'000
Expenditure contracted, but not provided for	13,154	13,268
Expenditure authorized, but not contracted for	13,260	2,590
	<u>26,414</u>	<u>15,858</u>



NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

36 Off-balance sheet exposures (continued)

36.3 Operating lease commitments

The Group had future aggregate minimum lease payments under non-cancellable operating leases as at 30 June 2015 and 31 December 2014 as follows:

	<b>30 Jun 2015</b>	31 Dec 2014
	<b>HK\$'000</b>	HK\$'000
Land and buildings		
– Not later than one year	<b>405,234</b>	371,762
– Later than one year and not later than five years	<b>720,336</b>	870,990
– More than five years	–	46,411
	<u><b>1,125,570</b></u>	<u>1,289,163</u>

36.4 Operating lease arrangements

The Group leases its investment properties (see Note 25) 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 2015, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>30 Jun 2015</b>	31 Dec 2014
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>2,237</b>	2,694
In the second to fifth years, inclusive	<b>6,860</b>	7,874
After five years	–	–
	<u><b>9,097</b></u>	<u>10,568</u>

During the period, the Group had no unrecognised contingent rentals receivable (2014: Nil).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

37 Offsetting of financial assets and financial liabilities

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

	Gross amounts of recognized financial assets	Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet	Amounts not set off in the balance sheet		
				Financial instruments	Cash collateral received	Net amount
At 30 June 2015	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Derivatives						
financial assets	6,009,609	–	6,009,609	(4,466,833)	–	1,542,776
Other assets	133,872	–	133,872	(107,270)	–	26,602
	<u>6,143,481</u>	<u>–</u>	<u>6,143,481</u>	<u>(4,574,103)</u>	<u>–</u>	<u>1,569,378</u>

	Gross amounts of recognized financial liabilities	Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet	Amounts not set off in the balance sheet		
				Financial instruments	Cash collateral received	Net amount
At 30 June 2015	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Derivatives						
financial liabilities	5,672,867	–	5,672,867	(4,466,833)	(797,443)	408,591
Other liabilities	182,649	–	182,649	(107,270)	–	75,379
	<u>5,855,516</u>	<u>–</u>	<u>5,855,516</u>	<u>(4,574,103)</u>	<u>(797,443)</u>	<u>483,970</u>

**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**
**37 Offsetting of financial assets and financial liabilities (continued)**
**Amounts not set off in the balance sheet**

				Amounts not set off in the balance sheet		
	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	Financial instruments HK\$'000	Cash collateral received HK\$'000	Net amount HK\$'000
At 31 Dec 2014						
Derivatives						
financial assets	5,850,592	–	5,850,592	(3,544,718)	–	2,305,874
Other assets	129,689	–	129,689	(91,524)	–	38,165
	<u>5,980,281</u>	<u>–</u>	<u>5,980,281</u>	<u>(3,636,242)</u>	<u>–</u>	<u>2,344,039</u>

				Amounts not set off in the balance sheet		
	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	Financial instruments HK\$'000	Cash collateral received HK\$'000	Net amount HK\$'000
At 31 Dec 2014						
Derivatives						
financial liabilities	5,448,638	–	5,448,638	(3,544,718)	(1,861,182)	42,738
Other liabilities	141,031	–	141,031	(91,524)	–	49,507
	<u>5,589,669</u>	<u>–</u>	<u>5,589,669</u>	<u>(3,636,242)</u>	<u>(1,861,182)</u>	<u>92,245</u>

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 financial statements and does not form part of the financial 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 as of 30 June, 2015 were compiled in accordance with the amended Capital Rules effective from 1 January, 2013 for the implementation of the “Basel III” capital accord, whereas the ratios as of 30 June, 2015 were compiled in accordance with the “pre-amended Capital Rules” as in force immediately before 1 January, 2013. In view of the Capital Rules, the Bank has adopted the “standardised (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 “standardised (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 on the notes to the interim financial 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 2015	
		Total assets HK\$'000	Total equity HK\$'000
ICBC (Asia) Asset Management Company Limited	Provision of asset management services	796	792
ICBC (Asia) Bullion Company Limited	Inactive	7,915	7,915
ICBC (Asia) Futures Company Limited	Provision of futures business	102,625	102,625
ICBC (Asia) Investment Management Company Limited	Provision of asset management services	72,545	60,345
ICBC (Asia) Securities Limited	Provision of securities brokerage services	2,224,222	719,003
ICBC (Asia) Trustee Company Limited	Provision of trustee services	14,375	12,755
ICBC (Asia) Wa Pei Nominees Limited	Inactive	–	–
UB China Business Management Co. Ltd.	Inactive	–	–
Greater China Fund	Trust fund	507,508	399,428

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

	<b>30 Jun 2015</b>	31 Dec 2014
	<b>HK\$'000</b>	HK\$'000
Common Equity Tier 1 ("CET1") Capital		
CET1 capital instruments	<b>23,591,831</b>	4,129,496
Share premium arising from CET1 capital instruments	–	19,462,335
Retained earnings	<b>25,572,811</b>	23,372,309
of which: unaudited profit or loss of the current financial year and profit or loss of the immediately preceding financial year pending audit completion	<b>2,962,437</b>	6,244,407
Disclosed reserves	<b>4,050,383</b>	3,640,306
of which: available-for-sale investment reserve	<b>333,294</b>	(663,650)
CET1 Capital before deductions	<b>53,215,025</b>	50,604,446
Deduct:		
Cumulative cash flow hedge reserves that relate to the hedging of financial instruments that are not fair valued on the balance sheet	<b>(165,955)</b>	(165,329)
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	<b>(586,477)</b>	(583,102)
Regulatory reserve for general banking risk	<b>(4,359,639)</b>	(4,069,070)
Goodwill (net of related deferred tax liability)	<b>(980,154)</b>	(980,154)
Other intangible assets (net of related deferred tax liability)	<b>(46,577)</b>	(58,919)
Deferred tax assets in excess of deferred tax liabilities	–	–
Cumulative lossess below depreciated cost arising from the Institutions holdings of land and building	<b>(273)</b>	(27)
Debit valuation adjustments in respect of derivative contracts	<b>(38,161)</b>	(37,145)
CET1 Capital after deductions	<b>47,037,789</b>	44,710,700
Common Equity Tier 2 ("CET 2") Capital		
Tier 2 capital instruments issued and share premium	<b>21,084,588</b>	21,477,309
of which: amount that is subject to phase out	<b>2,699,386</b>	3,086,246
Reserve attributable to fair value gains on revaluation of holdings of land and buildings	<b>263,915</b>	262,396
Regulatory reserve for general banking risks and collective provisions included in Tier 2 Capital (Limited to 1.25% of risk-weighted amount)	<b>5,286,879</b>	4,896,288
TIER 2 Capital before deductions	<b>26,635,382</b>	26,635,993
Deductions	–	–
TIER 2 Capital after deductions	<b>26,635,382</b>	26,635,993
Total capital base after deductions	<b>73,673,171</b>	71,346,693

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

1 Capital adequacy and capital base (continued)

	<b>30 Jun 2015</b>	31 Dec 2014
	<b>HK\$'000</b>	HK\$'000
Risk-weighted assets		
Credit risk	<b>426,222,128</b>	394,758,163
Market risk	<b>26,015,863</b>	32,435,213
Operational risk	<b>17,928,838</b>	16,803,050
Deduct: Portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 capital	<b>(816,735)</b>	(767,482)
Portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 capital	<b>(322,562)</b>	(320,706)
	<u><b>469,027,532</b></u>	<u>442,908,238</u>
Total risk-weighted assets		
	<b>30 Jun 2015</b>	31 Dec 2014
CET1 capital ratio	<b>10.03%</b>	10.09%
Tier 1 capital ratio	<b>10.03%</b>	10.09%
Total capital ratio	<b>15.71%</b>	16.11%

To comply with the Banking (Disclosure) Rules, the Group will establish 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, 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.

**SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)**
**2 Liquidity Coverage Ratio**

The Bank complies with the minimum requirement of 60% of Liquidity Coverage Ratio (“LCR”) on a daily basis with effective from 1 January 2015 onwards, in accordance with the Banking (Liquidity) Rules issued by the HKMA.

	<b>For the quarters ended</b>	
	<b>30 Jun 2015</b>	<b>31 Mar 2015</b>
Average LCR for the period	<u><b>94.68%</b></u>	<u>94.05%</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 area**

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

<b>30 June 2015</b>	<b>Gross advances to customers</b> HK\$’000	<b>Overdue advances for over three months</b> HK\$’000	<b>Impaired loans and advances</b> HK\$’000	<b>Individual impairment allowances</b> HK\$’000	<b>Collective impairment allowances</b> HK\$’000
Hong Kong	134,695,855	170,886	383,875	108,047	637,290
Mainland China	188,355,095	334,700	1,898,093	761,830	924,450
Macau	622,701	54,608	74,213	–	4,148
Asia Pacific Region (excluding Hong Kong, Mainland China and Macau)	3,390,429	–	–	–	175,796
Others	<u>19,971,802</u>	<u>46,723</u>	<u>162,529</u>	<u>180,965</u>	<u>2,292</u>
	<u><b>347,035,882</b></u>	<u><b>606,917</b></u>	<u><b>2,518,710</b></u>	<u><b>1,050,842</b></u>	<u><b>1,743,976</b></u>
<b>31 December 2014</b>	<b>Gross advances to customers</b> HK\$’000	<b>Overdue advances for over three months</b> HK\$’000	<b>Impaired loans and advances</b> HK\$’000	<b>Individual impairment allowances</b> HK\$’000	<b>Collective impairment allowances</b> HK\$’000
Hong Kong	130,461,647	322,643	322,952	328,158	702,844
Mainland China	156,806,416	25,257	1,016,823	60,870	807,693
Macau	455,316	–	–	–	1,771
Asia Pacific Region (excluding Hong Kong, Mainland China and Macau)	1,552,234	–	–	88	30,843
Others	<u>9,813,174</u>	<u>113,694</u>	<u>159,007</u>	<u>121,186</u>	<u>51,550</u>
	<u><b>299,088,787</b></u>	<u><b>461,594</b></u>	<u><b>1,498,782</b></u>	<u><b>510,302</b></u>	<u><b>1,594,701</b></u>

**SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)**

**3 Segmental information (continued)**

**3.1 Advances to customers by geographical area (continued)**

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**

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		Total HK\$ million
			Non bank financial institution HK\$ million	Non financial private sector HK\$ million	
<b>30 June 2015</b>					
Developed countries	45,084	15,147	2,528	810	63,569
Offshore centres	37,391	11,111	18,195	171,885	238,582
Developing Europe	-	-	-	1,092	1,092
Developing Latin America and Caribbean	119	-	-	-	119
Developing Africa and Middle East	320	-	-	160	480
Developing Asia-Pacific, of which	266,063	13,863	38,326	93,292	411,544
– China	262,684	13,716	38,326	90,087	404,813
– Others	3,379	147	-	3,205	6,731
International organisations	-	-	1,009	-	1,009
	<u>348,977</u>	<u>40,121</u>	<u>60,058</u>	<u>267,239</u>	<u>716,395</u>



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

	Banks HK\$ million	Official sector HK\$ million	Non-bank private sector		Total HK\$ million
			Non bank financial institution HK\$ million	Non financial private sector HK\$ million	
31 December 2014					
Developed countries	72,933	6,751	2,256	809	82,749
Offshore centres	23,177	25,191	15,808	150,624	214,800
Developing Europe	1	–	–	37	38
Developing Latin America and Caribbean	129	–	–	–	129
Developing Africa and Middle East	169	–	–	158	327
Developing Asia-Pacific, of which	262,973	20,065	25,160	71,892	380,090
– China	259,438	19,915	24,924	70,210	374,487
– Others	3,535	150	236	1,682	5,603
International organisations	–	–	1,011	–	1,011
	<u>359,382</u>	<u>52,007</u>	<u>44,235</u>	<u>223,520</u>	<u>679,144</u>

The above analysis is disclosed on a net basis after taking into account the effect of any recognised risk transfer.

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 2015</b>				
Type of counterparties				
(a) Central government central government owned entities and their subsidiaries and JVs	94,108,183	163,191	161,195	94,432,569
(b) Local government, local government owned entities and their subsidiaries and JVs	34,308,654	4,603,163	1,684,064	40,595,881
(c) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	98,821,775	27,379,645	233,363	126,434,783
(c)(i) Of which, PRC nationals residing in Mainland China or entities beneficially owned by Mainland interest	66,179,078	17,557,318	172,703	83,909,099
(d) Other entities of central government not reported in item (a) above	4,598,681	233	–	4,598,914
(e) Other entities of central government not reported in item (b) above	2,810,175	420,493	9,860	3,240,528
(f) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	20,797,192	717,311	66,024	21,580,527
(g) Other counterparties where the exposures are considered by the reporting institution to be non bank Mainland China exposures	41,413,796	3,059,115	1,120,317	45,593,228
	<b>296,858,456</b>	<b>36,343,151</b>	<b>3,274,823</b>	<b>336,476,430</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 2014				
Type of counterparties				
(a) Central government central government owned entities and their subsidiaries and JVs	77,604,115	199,829	157,749	77,961,693
(b) Local government, local government owned entities and their subsidiaries and JVs	26,386,747	2,490,472	53,831	28,931,050
(c) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	81,805,002	33,145,855	198,628	115,149,485
(c)(i) Of which, PRC nationals residing in Mainland China or entities beneficially owned by Mainland interest	49,076,067	23,875,758	70,048	73,021,873
(d) Other entities of central government not reported in item (a) above	3,700,885	13,239	–	3,714,124
(e) Other entities of central government not reported in item (b) above	2,068,761	214,625	13,809	2,297,195
(f) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	17,408,901	751,853	73,617	18,234,371
(g) Other counterparties where the exposures are considered by the reporting institution to be non bank Mainland China exposures	<u>36,535,480</u>	<u>2,171,005</u>	<u>1,300,005</u>	<u>40,006,490</u>
	245,509,891	38,986,878	1,797,639	286,294,408

## SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

### 4 Advances to customers by industry sector

	30 Jun 2015 Gross loans and advances HK\$'000	30 Jun 2015 % of secured advances	31 Dec 2014 Gross loans and advances HK\$'000	31 Dec 2014 % of secured advances
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	11,876,830	50.11%	15,675,111	4.81%
– Property investment	16,111,769	75.80%	15,621,089	65.29%
– Financial concerns	5,286,173	0.44%	6,307,551	1.42%
– Stockbrokers	5,659,643	18.62%	2,759,409	41.49%
– Wholesale and retail trade	23,462,234	23.96%	21,046,279	20.12%
– Civil engineering works	1,301,032	11.84%	1,181,500	13.78%
– Manufacturing	6,113,993	32.28%	6,719,333	35.60%
– Transport and transport equipment	23,403,480	44.64%	21,857,373	37.28%
– Electricity and gas	–	–	147,353	–
– Information technology	12,701,443	0.61%	12,272,893	0.45%
– Recreational activities	4,987	70.72%	5,780	64%
– Hotels, boarding houses and catering	1,168,089	78.89%	965,213	71.27%
– Others	40,182,866	9.18%	28,542,100	5.08%
Individuals				
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	430,936	95.51%	443,173	95.25%
– Loans for the purchase of other residential properties	15,710,171	98.82%	13,137,668	98.84%
– Credit card advances	207,576	–	224,155	–
– Others	3,739,187	83.85%	3,568,740	79.56%
Trade finance	11,571,912	16.37%	11,627,888	16.88%
Loans for use outside Hong Kong	<u>168,103,561</u>	26.26%	<u>136,986,179</u>	28.23%
	<u>347,035,882</u>	30.90%	<u>299,088,787</u>	28.82%

**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 2015</b>	31 Dec 2014
	<b>HK\$'000</b>	HK\$'000
(a) Loans for use outside Hong Kong		
Individually impaired loans	<b>2,015,449</b>	1,027,858
Overdue loans and advances over three months	<b>422,581</b>	278,941
Individual impairment allowances	<b>930,845</b>	320,266
Collective impairment allowances	<b>1,069,991</b>	918,132
New impairment allowances charged to the income statement	<b>762,438</b>	168,986
Impaired loans and advances written off during the period/year	–	–
	<b>30 Jun 2015</b>	31 Dec 2014
	<b>HK\$'000</b>	HK\$'000
(b) Loan use in Hong Kong		
Industrial, commercial and financial		
Other		
Individually impaired loans	<b>290,696</b>	289,672
Overdue loans and advances over three months	<b>46,669</b>	15,896
Individual impairment allowances	<b>114,228</b>	79,904
Collective impairment allowances	<b>142,897</b>	91,379
New impairment allowances charged to the income statement	<b>85,842</b>	35,052
Impaired loans and advances written off during the period/year	<b>60,222</b>	–

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

Currency concentrations – the table below summarises the net foreign currency positions of the Group and the Bank. 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>RMB</b>	<b>Other foreign currencies</b>	<b>Total</b>
<b>30 June 2015</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Non-structural position</b>				
Spot assets	295,815,722	214,258,246	10,821,626	520,895,594
Spot liabilities	(238,351,925)	(206,623,139)	(12,682,494)	(457,657,558)
Forward purchases	199,408,659	126,018,511	71,532,016	396,959,186
Forward sales	(257,605,877)	(117,712,369)	(69,488,685)	(444,806,931)
Net option position	<u>4,052,061</u>	<u>(4,150,049)</u>	<u>(7,040)</u>	<u>(105,028)</u>
Net long/(short) position	<u>3,318,640</u>	<u>11,791,200</u>	<u>175,423</u>	<u>15,285,263</u>
<b>Net structural position</b>	<b>188,020</b>	<b>6,637,271</b>	<b>–</b>	<b>6,825,291</b>
<b>Group</b>				
<b>31 December 2014</b>	<b>USD</b>	<b>RMB</b>	<b>Other foreign currencies</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Non-structural position</b>				
Spot assets	269,291,184	205,729,650	9,480,886	484,501,720
Spot liabilities	(224,893,150)	(182,981,388)	(10,475,456)	(418,349,994)
Forward purchases	207,053,653	111,020,941	60,354,759	378,429,353
Forward sales	(265,600,035)	(112,408,451)	(59,077,448)	(437,085,934)
Net option position	<u>1,246,448</u>	<u>(1,278,841)</u>	<u>8,034</u>	<u>(24,359)</u>
Net long/(short) position	<u>(12,901,900)</u>	<u>20,081,911</u>	<u>290,775</u>	<u>7,470,786</u>
Net structural position	188,095	6,152,559	–	6,340,654

Foreign currency exposures include those arising from the trading position. The net option position is calculated using the delta equivalent approach. The net structural position of the Group includes the structural position of the Bank's positions of the Bank's capital investment in an overseas subsidiary, Chinese Mercantile Bank.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

**6 Leverage Ratio**

The leverage ratio as at 30 June 2015 was compiled in accordance with the Leverage Ratio Framework issued by the HKMA.

	<b>30 Jun 2015</b>
Leverage ratio	<u><u>5.93%</u></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).