



**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 2016**

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## INTERIM RESULTS AND FINANCIAL REVIEW

The Board of Directors (the “Board”) of Industrial and Commercial Bank of China (Asia) Limited (the “Bank” or “ICBC (Asia)”) is pleased to present the interim financial disclosure statements of the Bank and its subsidiaries (the “Group”) for the six months ended 30 June 2016. 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 2016, and the consolidated statement of financial position as at 30 June 2016 of the Group, all of which are unaudited but has been reviewed by KPMG, in accordance with Hong Kong Standard 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 equity holders of the Bank for the six months ended 30 June 2016 was HK\$3,542 million. This represents a 14.97% increase over the same period last year (first half of 2015: HK\$3,081 million). Basic earnings per share for the six months ended 30 June 2016 were HK\$1.37 (first half of 2015: HK\$ 1.49). Return on average assets and return on average equity were 0.98% and 9.87% respectively (first half of 2015: 0.97% and 11.73% respectively).

### Interim Dividend

The Board has not recommended the payment of interim dividend for the six months ended 30 June 2016 (2015 interim dividend: Nil).

### Financial Review

In the first half of 2016, the Group achieved satisfactory results. Consolidated profit attributable to equity holders was HK\$3,542 million, representing an increase of HK\$461 million or 14.97% over HK\$3,081 million achieved for the corresponding period in 2015.

Net interest income increased HK\$662 million or 17.28% to HK\$4,498 million. Net fee and commission income increased HK\$189 million or 20.71% to HK\$1,103 million.

Non-interest income increased HK\$301 million or 22.08% to HK\$1,664 million from HK\$1,363 million for the corresponding period in 2015. The ratio of non-interest income to total operating income was 27.01%, up 0.79 percentage points compared with 26.22% for the corresponding period in 2015.

Operating expenses increased by HK\$231 million or 18.84% to HK\$1,457 million, compared with HK\$1,226 million for the corresponding period in 2015. The cost to income ratio was 23.65%, up 0.06 percentage points compared with the corresponding period in 2015.

The impairment losses on loans and advances for the period were HK\$493 million, out of which HK\$385 million was made as additional provision for individual assessment and HK\$108 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\$788,110 million as at 30 June 2016, representing an increase of HK\$54,559 million or 7.44% over the financial position as at 31 December 2015.

Customer deposits amounted to HK\$450,507 million as at 30 June 2016 representing an increase of HK\$51,976 million or 13.04%, compared to HK\$398,531 million as at 31 December 2015. Loans and advances also increased by HK\$22,050 million or 5.72% to HK\$407,784 million as at 30 June 2016, compared to HK\$385,734 million as at 31 December 2015.

Total securities investment amounted to HK\$162,175 million as at 30 June 2016, which represents an increase of HK\$2,731 million or 1.71% compared to HK\$159,444 million as at 31 December 2015.

Total certificates of deposit issued decreased by HK\$11,100 million or 16.29% to HK\$57,045 million as at 30 June 2016, compared to HK\$68,145 million as at 31 December 2015.

### Capital and Liquidity Management

The Group's capital adequacy ratio decreased to 16.28% as at 30 June 2016 from 16.74% as at 31 December 2015. In the first half of 2016, the average liquidity coverage ratio amounted to 115.68% (first half of 2015: 94.37%).

### Asset Quality

Impaired loans and advances increased by HK\$890 million to HK\$3,414 million as at 30 June 2016, compared with HK\$2,524 million as at 31 December 2015. The impaired loan ratio was 0.83% as at 30 June 2016 (31 December 2015: 0.65%).

As at 30 June 2016, the cumulative loan impairment allowances amounted to HK\$3,674 million (31 December 2015: HK\$3,222 million), which included HK\$1,848 million (31 December 2015: HK\$1,486 million) of individual impairment allowance and HK\$1,826 million (31 December 2015: HK\$1,736 million) of collective impairment allowance.

Hong Kong, 23 August 2016

**CONSOLIDATED INCOME STATEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2016  
(UNAUDITED)**

	Notes	Six months ended		Change %
		30 Jun 2016 HK\$'000	(Restated) 30 Jun 2015 HK\$'000	
Interest income	(6)	<b>9,131,069</b>	8,619,347	6%
Interest expense	(6)	<b>(4,632,690)</b>	<b>(4,783,704)</b>	-3%
<b>Net interest income</b>	(6)	<b>4,498,379</b>	3,835,643	17%
Fee and commission income	(7)	<b>1,241,882</b>	1,088,204	14%
Fee and commission expense	(7)	<b>(139,370)</b>	<b>(174,836)</b>	-20%
<b>Net fee and commission income</b>	(7)	<b>1,102,512</b>	913,368	21%
Net trading income	(8)	<b>553,138</b>	414,306	34%
Net gain on financial assets and liabilities designated at fair value through profit or loss	(9)	-	1,372	-100%
Dividend income from financial investments	(10)	<b>2,908</b>	3,860	-25%
Other operating income	(11)	<b>5,739</b>	<b>30,406</b>	-81%
<b>Operating income</b>		<b>6,162,676</b>	5,198,955	19%
Operating expenses	(12)	<b>(1,457,473)</b>	<b>(1,226,461)</b>	19%
<b>Operating profit before impairment losses</b>		<b>4,705,203</b>	3,972,494	18%
Charge for impairment losses on loans and advances	(13)	<b>(492,666)</b>	<b>(770,382)</b>	-36%
Write back of impairment losses on available-for-sale financial investments		<b>21,397</b>	-	100%
<b>Operating profit after impairment losses</b>		<b>4,233,934</b>	3,202,112	32%
Net loss from property, plant and equipment		<b>(691)</b>	<b>(813)</b>	-15%
Net gain on disposal of available-for-sale financial investments		<b>137,248</b>	637,365	-78%
Net gain on disposal of held-to-maturity financial investments		<b>2,417</b>	-	100%
<b>Operating profit</b>		<b>4,372,908</b>	3,838,664	14%
Share of profit of an associate		<b>10,906</b>	<b>8,826</b>	24%
<b>Profit before tax</b>		<b>4,383,814</b>	3,847,490	14%
Income tax expense	(14)	<b>(841,861)</b>	<b>(766,647)</b>	10%
<b>Profit for the period and attributable to equity holders</b>		<b>3,541,953</b>	<b>3,080,843</b>	15%
<b>Earnings per share – Basic and diluted</b>	(16)	<b>HK\$1.37</b>	<b>HK\$1.49</b>	-8%

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE SIX MONTHS ENDED 30 JUNE 2016  
(UNAUDITED)**

	<u>Six months ended</u>		Change %
	<u>30 Jun 2016</u> HK\$'000	<u>30 Jun 2015</u> HK\$'000	
Profit for the period	<u>3,541,953</u>	<u>3,080,843</u>	15%
Item that will not be reclassified to income statement:			
Revaluation surplus on bank premises	4,306	4,042	7%
Income tax effect	<u>(711)</u>	<u>(667)</u>	7%
	<u>3,595</u>	<u>3,375</u>	7%
Items that may be reclassified subsequently to income statement:			
Change of fair value of hedging instruments under cash flow hedges	(175,637)	749	N/A
Income tax effect	<u>28,980</u>	<u>(123)</u>	N/A
	<u>(146,657)</u>	<u>626</u>	N/A
Change in fair value reserve of available-for-sale financial investments	706,593	(324,553)	N/A
Income tax effect	<u>(188,393)</u>	<u>(5,803)</u>	N/A
	<u>518,200</u>	<u>(330,356)</u>	N/A
Exchange differences arising from translation of results of a foreign subsidiary	<u>(236,652)</u>	<u>(25,504)</u>	828%
Other comprehensive income for the period, net of tax	<u>138,486</u>	<u>(351,859)</u>	N/A
Total comprehensive income for the period, net of tax	<u>3,680,439</u>	<u>2,728,984</u>	35%
Attributable to:			
Equity holders of the Bank	<u>3,680,439</u>	<u>2,728,984</u>	35%

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2016  
(UNAUDITED)**

	Notes	Unaudited 30 Jun 2016 HK\$'000	Audited 31 Dec 2015 HK\$'000	Change %	Unaudited 30 Jun 2015 HK\$'000	Change %
<b>Assets</b>						
Cash and balances with banks and other financial institutions	(17)	<b>164,841,175</b>	138,070,069	19%	133,563,038	23%
Placements with banks and other financial institutions	(18)	<b>25,593,395</b>	27,005,813	-5%	28,213,181	-9%
Financial assets held for trading	(19)	<b>1,148,335</b>	165,717	593%	3,234,052	-64%
Derivative financial instruments	(20)	<b>12,667,426</b>	11,384,264	11%	6,232,778	103%
Advances and other accounts	(21)	<b>407,783,808</b>	385,734,115	6%	392,139,870	4%
Financial investments:		<b>161,027,048</b>	159,278,210	1%	136,940,265	18%
– Available-for-sale	(22)	<b>87,856,091</b>	80,580,998	9%	71,262,537	23%
– Held-to-maturity	(23)	<b>73,170,957</b>	78,697,212	-7%	65,677,728	11%
Interest in associates		<b>295,784</b>	284,878	4%	274,443	8%
Goodwill and other intangible assets		<b>1,031,930</b>	1,045,213	-1%	1,048,188	-2%
Investment properties	(24)	<b>80,919</b>	80,919	0%	69,977	16%
Property, plant and equipment	(25)	<b>941,129</b>	946,278	-1%	897,886	5%
Current income tax assets		<b>-</b>	182,757	-100%	-	0%
Deferred income tax assets	(29)	<b>66,071</b>	58,011	14%	-	100%
Other assets	(26)	<b>12,633,088</b>	9,314,781	36%	9,503,930	33%
<b>Total assets</b>		<b><u>788,110,108</u></b>	<u>733,551,025</u>	7%	<u>712,117,608</u>	11%
<b>Liabilities</b>						
Deposits from banks and other financial institutions	(27)	<b>162,221,012</b>	155,829,954	4%	145,502,089	11%
Derivative financial instruments	(20)	<b>12,586,462</b>	11,015,476	14%	5,871,603	114%
Deposits from customers	(28)	<b>450,507,201</b>	398,531,211	13%	417,672,426	8%
Certificates of deposit issued		<b>57,044,521</b>	68,144,882	-16%	50,039,870	14%
Debt securities in issue measured at amortised cost		<b>3,188,451</b>	6,930,191	-54%	3,339,856	-5%
Current income tax liabilities		<b>509,018</b>	206,491	147%	610,063	-17%
Deferred income tax liabilities	(29)	<b>178,456</b>	9,107	1860%	85,645	108%
Subordinated debts measured at amortised cost	(30)	<b>13,353,500</b>	13,375,445	0%	22,246,660	-40%
Other liabilities	(31)	<b>14,503,590</b>	9,170,810	58%	12,495,836	16%
<b>Total liabilities</b>		<b><u>714,092,211</u></b>	<u>663,213,567</u>	8%	<u>657,864,048</u>	9%
<b>Equity</b>						
Share capital	(32)	<b>36,379,331</b>	36,379,331	0%	23,591,832	54%
Retained earnings		<b>33,471,889</b>	30,002,738	12%	26,596,754	26%
Other reserves		<b>4,166,677</b>	3,955,389	5%	4,064,974	3%
<b>Total equity</b>		<b><u>74,017,897</u></b>	<u>70,337,458</u>	5%	<u>54,253,560</u>	36%
<b>Total equity and liabilities</b>		<b><u>788,110,108</u></b>	<u>733,551,025</u>	7%	<u>712,117,608</u>	11%

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

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



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

	Bank		Investment revaluation reserve	Cash flow hedge reserve	Exchange reserve	General reserve	Retained earnings	Total
	Share capital	premises revaluation reserve						
	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	23,591,832	553,427	334,880	165,955	389,574	2,621,138	26,596,754	54,253,560

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED 30 JUNE 2016  
(UNAUDITED)**

	Six months ended	
	30 Jun 2016 HK\$'000	30 Jun 2015 HK\$'000
Net cash flows generated from/(used in) operating activities	36,695,194	(7,193,161)
Net cash flows used in investing activities	(43,078)	(43,024)
Net cash flows used in financing activities	<u>(3,945,993)</u>	<u>(9,299,467)</u>
Net increase/(decrease) in cash and cash equivalents	32,706,123	(16,535,652)
Cash and cash equivalents at 1 January	147,153,421	158,985,884
Effects of foreign exchange differences	<u>(231,023)</u>	<u>274</u>
Cash and cash equivalents at 30 June	<u>179,628,521</u>	<u>142,450,506</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 comprise the following balances with original maturity of three months or less:

	30 Jun 2016 HK\$'000	30 Jun 2015 HK\$'000
Cash and balances with banks and other financial institutions	41,437,900	62,131,157
Placements with banks and other financial institutions	<u>138,190,621</u>	<u>80,319,349</u>
	<u>179,628,521</u>	<u>142,450,506</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 2015 except for the adoption of the following HKFRSs and HKASs issued up to 30 June 2016 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 2015.

The preparation of unaudited interim financial disclosure statements requires management to exercise its judgment and make estimates and assumptions in the process of applying the Group’s accounting policies and reporting amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. The significant judgments made by management were the same as those applied to the annual financial statements for the year ended 31 December 2015.

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

The Group has delivered the financial statements for the year ended 31 December 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance. The Group’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Companies Ordinance.

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 2.2 Basis of consolidation

The unaudited interim financial disclosure statements include the accounts of the Bank and all its subsidiaries, a controlled unit trust and attributable share of results and reserves of its 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 unit trust, 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

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

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

- Annual Improvements to HKFRSs 2012-2014 Cycle
- Amendments to HKAS 1, Presentation of financial statements: Disclosure initiative
- Amendments to HKAS 16, Property, plant and equipment and HKAS 38, Intangible assets “Clarification of acceptable methods of depreciation and amortisation”

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

#### Annual Improvements to HKFRSs 2012-2014 Cycle

This cycle of annual improvements contains amendments to four standards. Among them, HKAS 34, Interim financial reporting, has been amended to clarify that if an entity discloses the information required by the standard outside the interim financial statements by a cross-reference to the information in another statement of the interim financial report, then users of the interim financial statements should have access to the information incorporated by the cross-reference on the same terms and at the same time. The amendments do not have an impact on the Group’s interim financial disclosure statements as the Group does not present the relevant required disclosures outside the interim financial disclosure statements.

**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS****3.1 Impact of new/revised Hong Kong Financial Reporting Standards (“HKFRSs”) and Hong Kong Accounting Standards (“HKASs”) (continued)****Amendments to HKAS 1, Presentation of financial statements: Disclosure initiative**

The amendments to HKAS 1 introduce narrow-scope changes to various presentation requirements. The amendments do not have a material impact on the presentation and disclosure of the Group’s interim financial disclosure statements.

**Amendments to HKAS 16, Property, plant and equipment and HKAS 38, Intangible assets “Clarification of acceptable methods of depreciation and amortisation”**

The amendments introduce a rebuttable presumption to HKAS 38 that the use of revenue-based amortisation methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are ‘highly correlated’, or when the intangible asset is expressed as a measure of revenue. The amendments also prohibit the use of revenue based depreciation methods for property, plant and equipment under HKAS 16. The amendments do not have a material impact on the presentation and disclosure of the Group’s interim financial disclosure statements.

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

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

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 4 Financial risk management

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

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

At 30 June 2016	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Assets</b>								
Cash and balances with banks and other financial institutions	41,437,900	123,403,275	-	-	-	-	-	164,841,175
Placements with banks and other financial institutions	-	-	17,696,016	7,897,379	-	-	-	25,593,395
Financial assets held for trading								
– equity securities	-	-	-	-	-	-	57,237	57,237
– other debt securities	-	802,658	-	-	-	288,440	-	1,091,098
Derivative financial instruments	944,687	2,355,844	1,621,808	4,988,954	1,939,873	816,260	-	12,667,426
Advances and other accounts	17,168,281	15,539,140	12,814,223	88,011,043	166,965,226	107,285,895	-	407,783,808
Available-for-sale financial investments								
– treasury bills	-	-	1,552,364	3,884,247	4,293,131	-	-	9,729,742
– equity securities	-	-	-	-	-	-	149,991	149,991
– certificates of deposit held	-	-	-	-	487,488	-	-	487,488
– other debt securities	-	1,004,507	-	4,543,240	27,777,551	24,116,531	8,140	57,449,969
– wealth management product	-	4,182,971	3,380,445	12,475,485	-	-	-	20,038,901
Held-to-maturity financial investments								
– treasury bills	-	776,050	5,939,854	6,823,418	1,165,391	-	-	14,704,713
– certificates of deposit held	-	-	-	4,620,447	-	-	-	4,620,447
– other debt securities	-	427,955	287,499	11,907,576	32,091,988	9,130,779	-	53,845,797
Interest in an associate	-	-	-	-	-	-	295,784	295,784
Goodwill and other intangible assets	-	-	-	-	-	-	1,031,930	1,031,930
Investment properties	-	-	-	-	-	-	80,919	80,919
Property, plant and equipment	-	-	-	-	-	-	941,129	941,129
Other assets, including current and deferred income tax assets	2,783,616	5,157,690	636,793	3,085,193	643,836	355,869	36,162	12,699,159
<b>Total assets</b>	<b>62,334,484</b>	<b>153,650,090</b>	<b>43,929,002</b>	<b>148,236,982</b>	<b>235,364,484</b>	<b>141,993,774</b>	<b>2,601,292</b>	<b>788,110,108</b>
<b>Liabilities</b>								
Deposits from banks and other financial institutions	21,066,516	118,381,834	16,293,656	6,327,234	151,772	-	-	162,221,012
Derivative financial instruments	790,518	2,348,914	1,632,728	5,100,939	1,918,242	795,121	-	12,586,462
Deposits from customers	125,642,525	93,652,423	61,495,642	129,624,873	40,071,133	20,605	-	450,507,201
Certificates of deposit issued	-	10,861,930	11,227,677	33,056,653	1,898,261	-	-	57,044,521
Debt securities in issue at amortised cost	-	1,059,925	920,831	210,150	997,545	-	-	3,188,451
Subordinated debts measured at amortised cost	-	-	-	-	3,865,737	9,487,763	-	13,353,500
Other liabilities, including current and deferred income tax liabilities	855,620	7,627,243	960,515	5,258,767	469,864	224	18,831	15,191,064
<b>Total liabilities</b>	<b>148,355,179</b>	<b>233,932,269</b>	<b>92,531,049</b>	<b>179,578,616</b>	<b>49,372,554</b>	<b>10,303,713</b>	<b>18,831</b>	<b>714,092,211</b>
<b>Net liquidity gap</b>	<b>(86,020,695)</b>	<b>(80,282,179)</b>	<b>(48,602,047)</b>	<b>(31,341,634)</b>	<b>185,991,930</b>	<b>131,690,061</b>	<b>2,582,461</b>	<b>74,017,897</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 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	48,025,280	90,044,789	–	–	–	–	–	138,070,069
Placements with banks and other financial institutions	–	–	15,655,218	11,350,595	–	–	–	27,005,813
Financial assets held for trading	–	–	–	–	–	–	165,717	165,717
– equity securities	–	–	–	–	–	–	–	–
– other debt securities	–	–	–	–	–	–	–	–
Derivative financial instruments	103,590	1,719,451	1,266,065	5,503,035	2,043,621	748,502	–	11,384,264
Advances and other accounts	8,755,043	13,700,281	43,707,677	100,301,236	139,233,083	80,036,795	–	385,734,115
Available-for-sale financial investments	–	2,712,582	–	2,706,738	2,281,495	–	–	7,700,815
– treasury bills	–	–	–	–	–	–	150,533	150,533
– equity securities	–	–	–	–	–	–	–	–
– certificates of deposit held	–	470,287	–	773,388	479,287	–	–	1,722,962
– other debt securities	–	1,929,536	917,857	4,030,749	23,703,964	7,483,815	8,140	38,074,061
– Wealth management product	–	1,995,723	3,401,219	27,535,685	–	–	–	32,932,627
Held-to-maturity financial investments	–	3,437,297	5,821,387	12,036,032	–	–	–	21,294,716
– treasury bills	–	–	–	–	–	–	–	–
– certificates of deposit held	–	–	–	–	–	–	–	–
– other debt securities	–	229,384	1,820,294	4,951,380	41,489,994	8,911,444	–	57,402,496
Interest in an associate	–	–	–	–	–	–	284,878	284,878
Goodwill and other intangible assets	–	–	–	–	–	–	1,045,213	1,045,213
Investment properties	–	–	–	–	–	–	80,919	80,919
Property, plant and equipment	–	–	–	–	–	–	946,278	946,278
Other assets, including current and deferred income tax assets	17,061	2,547,118	5,609,203	738,619	590,570	2,617	50,361	9,555,549
<b>Total assets</b>	<b>56,900,974</b>	<b>118,786,448</b>	<b>78,198,920</b>	<b>169,927,457</b>	<b>209,822,014</b>	<b>97,183,173</b>	<b>2,732,039</b>	<b>733,551,025</b>
<b>Liabilities</b>								
Deposits from banks and other financial institutions	24,614,188	81,459,239	35,294,422	8,269,375	6,192,730	–	–	155,829,954
Derivative financial instruments	4,019	1,775,148	1,208,175	5,522,327	1,828,358	677,449	–	11,015,476
Deposits from customers	127,109,361	89,991,899	77,131,401	72,457,734	31,840,816	–	–	398,531,211
Certificates of deposit issued	–	22,466,795	21,059,219	23,583,839	1,035,029	–	–	68,144,882
Debt securities in issue at amortised cost	–	–	2,798,700	2,938,642	1,192,849	–	–	6,930,191
Subordinated debts measured at amortised cost	–	–	–	–	3,859,630	9,515,815	–	13,375,445
Other liabilities, including current and deferred income tax liabilities	112,662	1,224,726	5,448,646	1,563,403	245,865	21	791,085	9,386,408
<b>Total liabilities</b>	<b>151,840,230</b>	<b>196,917,807</b>	<b>142,940,563</b>	<b>114,335,320</b>	<b>46,195,277</b>	<b>10,193,285</b>	<b>791,085</b>	<b>663,213,567</b>
<b>Net liquidity gap</b>	<b>(94,939,256)</b>	<b>(78,131,359)</b>	<b>(64,741,643)</b>	<b>55,592,137</b>	<b>163,626,737</b>	<b>86,989,888</b>	<b>1,940,954</b>	<b>70,337,458</b>

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 4 Financial risk management (continued)

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

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

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

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

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

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

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

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

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

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.



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

<b>30 June 2016</b>	<b>Level 1 HK\$'000</b>	<b>Level 2 HK\$'000</b>	<b>Level 3 HK\$'000</b>	<b>Total HK\$'000</b>
<b>Recurring fair value measurements</b>				
<b>Financial assets</b>				
Derivative financial instruments				
Forward foreign exchange contracts	–	8,072,267	–	8,072,267
Structured foreign exchange contracts	–	114,140	–	114,140
Currency swaps	–	2,651,383	–	2,651,383
FX options	–	450,229	–	450,229
Interest rate swaps	–	1,376,561	–	1,376,561
Interest rate futures	–	2,569	–	2,569
Commodity forward	–	–	–	–
Equity options	–	277	–	277
	–	<u>12,667,426</u>	–	<u>12,667,426</u>
Financial assets held for trading				
Debt securities	–	1,091,098	–	1,091,098
Equities	–	57,237	–	57,237
	–	<u>1,148,335</u>	–	<u>1,148,335</u>
Available-for-sale financial investments				
Debt securities	53,700,701	13,853,507	105,151	67,659,359
Equities	50,369	–	99,315	149,684
Wealth management products	–	12,301,083	–	12,301,083
	<u>53,751,070</u>	<u>26,154,590</u>	<u>204,466</u>	<u>80,110,126</u>
Total financial assets	<u>53,751,070</u>	<u>39,970,351</u>	<u>204,466</u>	<u>93,925,887</u>
<b>Financial liabilities</b>				
Derivative financial instruments				
Forward foreign exchange contracts	–	7,983,585	–	7,983,585
Structured foreign exchange contracts	–	116,131	–	116,131
Currency swaps	–	2,516,322	–	2,516,322
FX options	–	492,045	–	492,045
Interest rate swaps	–	1,278,457	–	1,278,457
Quanto swaps	–	–	–	–
Interest rate futures	–	10,175	–	10,175
Commodity forward	–	–	–	–
Equity swap	–	189,470	–	189,470
Equity options	–	277	–	277
	–	<u>12,586,462</u>	–	<u>12,586,462</u>
Total financial liabilities	–	<u>12,586,462</u>	–	<u>12,586,462</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 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	–	6,239,711	–	6,239,711
Structured foreign exchange contracts	–	258,142	–	258,142
Currency swaps	–	3,191,811	–	3,191,811
FX options	–	706,662	–	706,662
Interest rate swaps	–	769,116	–	769,116
Interest rate futures	–	3,019	–	3,019
Commodity forward	–	215,797	–	215,797
Equity options	–	6	–	6
	–	<u>11,384,264</u>	–	<u>11,384,264</u>
Financial assets held for trading				
Debt securities	–	–	–	–
Equities	–	165,717	–	165,717
	–	<u>165,717</u>	–	<u>165,717</u>
Available-for-sale financial investments				
Debt securities	37,730,641	9,669,408	89,649	47,489,698
Equities	53,509	–	97,017	150,526
Wealth management products	–	23,910,610	–	23,910,610
	<u>37,784,150</u>	<u>33,580,018</u>	<u>186,666</u>	<u>71,550,834</u>
Total financial assets	<u>37,784,150</u>	<u>45,129,999</u>	<u>186,666</u>	<u>83,100,815</u>
<b>Financial liabilities</b>				
Derivative financial instruments				
Forward foreign exchange contracts	–	6,362,658	–	6,362,658
Structured foreign exchange contracts	–	259,787	–	259,787
Currency swaps	–	3,093,438	–	3,093,438
FX options	–	637,961	–	637,961
Interest rate swaps	–	443,014	–	443,014
Quanto swaps	–	–	–	–
Interest rate futures	–	2,815	–	2,815
Commodity forward	–	215,797	–	215,797
Equity swap	–	–	–	–
Equity options	–	6	–	6
	–	<u>11,015,476</u>	–	<u>11,015,476</u>
Total financial liabilities	–	<u>11,015,476</u>	–	<u>11,015,476</u>

**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**
**4 Financial risk management (continued)**
**4.2 Fair values of financial assets and liabilities (continued)**
*Movements in Level 3 financial instruments measured at fair value*

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

	At 1 January 2016 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 2016 HK\$'000
<b>Financial assets</b>					
Available-for-sale financial investments					
Debt securities	89,649	–	–	15,502	105,151
Equities	97,017	–	–	2,298	99,315
Total Level 3 financial assets	<u>186,666</u>	<u>–</u>	<u>–</u>	<u>17,800</u>	<u>204,466</u>

	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 31 December 2015 HK\$'000
<b>Financial assets</b>					
Available-for-sale financial investments					
Debt securities	8,602	–	79,102	1,945	89,649
Equities	81,333	13,163	–	2,521	97,017
Total Level 3 financial assets	<u>89,935</u>	<u>13,163</u>	<u>79,102</u>	<u>4,466</u>	<u>186,666</u>

During the half year ended 30 June 2016, 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 2016</b>	30 Jun 2015
	<b>HK\$'000</b>	HK\$'000
Available-for-sale financial investments		
Debt securities	<b>325,447</b>	–

The above financial assets were transferred from Level 1 to Level 2 as they ceased to be actively traded during the half year ended 30 June 2016 and fair values were consequently obtained using valuation techniques using observable market inputs.

	<b>Transfers from Level 2 to Level 1</b>	
	<b>30 Jun 2016</b>	30 Jun 2015
	<b>HK\$'000</b>	HK\$'000
Available-for-sale financial investments		
Debt securities	<b>800,499</b>	–

The above financial assets were transferred from Level 2 to Level 1 as they have been actively traded during the half year ended 30 June 2016 and fair values were no longer obtained using valuation techniques by using observable market inputs.

Transfers between levels of the fair values 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 2016

	HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
<b>Recurring fair value measurement</b>				
Bank premises and properties	650,596	–	–	650,596
Investment properties	80,919	–	–	80,919

Fair value at 31 December 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	653,564	–	–	653,564
Investment properties	80,919	–	–	80,919

During the half year ended 30 June 2016 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 2016. 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 valuation on investment properties and bank premises and properties of the Bank's subsidiary were carried out by an independent professionally qualified valuer in the Mainland China, Shenzhen GuoZhongLian Asset and Real Estate Appraisal Consulting Co., Ltd. The valuers are with recent experience in the location and category of property being valued. The Group's management has discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 4 Financial risk management (continued)

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

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

	Valuation techniques	Unobservable input	Range
<i>Investment properties</i>			
– Hong Kong	Investment method	Market Yield	2.85%
– Mainland China	Discount cash flow	Risk adjusted discount rate	6%
		Expected market rental growth	5%
		Expected occupancy rate	95% to 97%
<i>Bank premises and properties</i>			
– Hong Kong	Direct comparison approach	Premium/(discount) on characteristic of the properties	9.25% to 18.19%
– Mainland China method 1	Discount cash flow	Risk adjusted discount rate	4.5%
		Expected market rental growth	2%
		Expected occupancy rate	95% to 97%
– Mainland China method 2	Direct comparison approach	Market value discount rate	5%

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

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

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

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

**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**
**4 Financial risk management (continued)**
**4.3 Fair values of non-financial assets and liabilities (continued)**
*Information about Level 3 fair value measurements (continued)*

- ii) using direct comparison approach to value properties in their respective existing states and uses on the market basis assuming sale with immediate vacant possession and by making reference to comparable sales evidence. The valuations take into account the characteristic of the properties which included the location, size, shape, view, floor level, year of completion and 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 2016	653,564
Addition for the period	–
Exchange rate and other adjustments	482
Depreciation charge for the period	(7,786)
Surplus on revaluation	<u>4,336</u>
At 30 June 2016	<u>650,596</u>
<b>Investment properties:</b>	<b>HK\$'000</b>
At 1 January 2016	80,919
Fair value adjustment	–
Exchange adjustment	<u>–</u>
At 30 June 2016	<u>80,919</u>
<b>Bank premises and properties:</b>	<b>HK\$'000</b>
At 1 January 2015	620,252
Addition for the year	–
Exchange rate and other adjustments	(1,603)
Depreciation charge for the year	(13,545)
Surplus on revaluation	<u>48,460</u>
At 31 December 2015	<u>653,564</u>
<b>Investment properties:</b>	<b>HK\$'000</b>
At 1 January 2015	69,977
Fair value adjustment	13,002
Exchange adjustment	<u>(2,060)</u>
At 31 December 2015	<u>80,919</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 2016	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	663,723	1,380,326	636,187	711,516	314,029	1,028,615	(236,017)	4,498,379
Fee and commission income	209,946	459,146	308,618	2	137,618	86,757	39,795	1,241,882
Fee and commission expense	(7,290)	(11,276)	(117,865)	–	–	(2,934)	(5)	(139,370)
Net fee and commission income	202,656	447,870	190,753	2	137,618	83,823	39,790	1,102,512
Net trading income/(expense)	67,077	149,732	51,616	(2,865)	23,803	10,717	253,058	553,138
Net gain on financial assets and liabilities designated at fair value through profit or loss	–	–	–	–	–	–	–	–
Dividend income from financial investments	–	–	–	–	–	–	2,908	2,908
Other operating income	–	1,288	135	–	81	2,784	1,451	5,739
Operating income	933,456	1,979,216	878,691	708,653	475,531	1,125,939	61,190	6,162,676
Operating expenses	(98,247)	(295,088)	(593,101)	(160,969)	(87,874)	(251,529)	29,335	(1,457,473)
Operating profit before impairment losses (Charge for)/write back of impairment losses on loans and advances	835,209	1,684,128	285,590	547,684	387,657	874,410	90,525	4,705,203
Write back of impairment losses on available-for-sale financial investments	(293,279)	8,275	(4,842)	–	(6,862)	(196,024)	66	(492,666)
Operating profit after impairment losses	541,930	1,692,403	280,748	569,081	380,795	678,386	90,591	4,233,934
Net loss from property, plant and equipment	–	(2)	(83)	–	–	–	(606)	(691)
Net gain on disposal of available-for-sale financial investments	–	–	–	48,875	–	13,297	75,076	137,248
Net gain on disposal of held-to-maturity financial investments	–	–	–	2,417	–	–	–	2,417
Operating profit	541,930	1,692,401	280,665	620,373	380,795	691,683	165,061	4,372,908
Share of profits of an associate	–	–	–	–	–	–	10,906	10,906
Profit before tax	541,930	1,692,401	280,665	620,373	380,795	691,683	175,967	4,383,814
Segment assets	99,827,937	153,123,145	48,513,556	86,581,617	23,870,049	149,499,676	225,288,725	786,704,705
Interest in an associate	–	–	–	–	–	–	295,784	295,784
Unallocated assets	–	–	–	–	–	–	1,109,619	1,109,619
Total assets	99,827,937	153,123,145	48,513,556	86,581,617	23,870,049	149,499,676	226,694,128	788,110,108
Segment liabilities	99,022,220	151,705,424	48,850,626	83,509,875	39,176,513	138,497,844	204,506,466	765,268,968
Unallocated liabilities	–	–	–	–	–	–	(51,176,757)	(51,176,757)
Total liabilities	99,022,220	151,705,424	48,850,626	83,509,875	39,176,513	138,497,844	153,329,709	714,092,211
Capital expenditure	13	403	20,349	131	14	5,059	20,527	46,496
Depreciation and amortisation charges	79	332	21,832	3,161	795	12,856	24,282	63,337

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 5 Segment reporting (continued)

#### 5.1 Class of business (continued)

	(Restated)							
	Corporate and investment banking	Commercial banking	Retail banking	Global markets and trading	Institutional banking	Chinese Mercantile Bank	Unallocated	Total
30 June 2015	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	16,446	1,088,204
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	16,446	913,368
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	1,606	30,406
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 (Charge for)/write back of impairment losses on loans and advances	900,843	1,489,514	304,205	595,943	388,959	703,640	(410,610)	3,972,494
	(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)
Net (loss)/gain on disposal of available-for-sale financial investments	–	–	–	(501)	–	(2,140)	640,006	637,365
Net gain on disposal of held-to-maturity financial investments	–	–	–	–	–	–	–	–
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)

5.2 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 2016

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

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

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

6 Net interest income

	30 Jun 2016 HK\$'000	30 Jun 2015 HK\$'000
Interest income on:		
Cash and balances with banks and other financial institutions	356,670	998,765
Placements with banks and other financial institutions	178,970	240,240
Advances and other accounts	6,341,427	5,817,914
Financial investments – available-for-sale	1,329,194	889,052
Financial investments – held-to-maturity	<u>924,808</u>	<u>673,376</u>
	<u>9,131,069</u>	<u>8,619,347</u>
Interest expense on:		
Deposits from banks and other financial institutions	729,055	918,891
Deposits from customers	2,923,746	2,810,230
Certificates of deposit issued	560,658	357,508
Debt securities in issue measured at amortised cost	40,411	171,705
Subordinated debts measured at amortised cost	330,773	530,454
Others	<u>48,047</u>	<u>(5,084)</u>
	<u>4,632,690</u>	<u>4,783,704</u>
Net interest income	<u>4,498,379</u>	<u>3,835,643</u>

Included in the above is interest income accrued on impaired financial assets of HK\$20,006,110 (First half of 2015: HK\$14,332,000), including unwinding of discounts on loan impairment losses of HK\$13,490,546 (First half of 2015: HK\$5,997,000).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

7 Net fee and commission income

	30 Jun 2016	(Restated) 30 Jun 2015
	HK\$'000	HK\$'000
Loans, overdrafts and guarantees	694,490	512,081
Securities and brokerage	107,309	140,912
Trade finance	68,726	120,844
Credit card	139,860	131,297
Remittance	39,577	33,337
Insurance	59,156	32,809
Other retail and commercial banking services	18,921	20,302
Securities arrangement fee	17,132	9,616
Others	<u>96,711</u>	<u>87,006</u>
Fee and commission income	<b>1,241,882</b>	1,088,204
Fee and commission expense	<u>(139,370)</u>	<u>(174,836)</u>
Net fee and commission income	<b><u>1,102,512</u></b>	<b><u>913,368</u></b>
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	<b>763,216</b>	632,925
Net fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	<b>13,541</b>	11,645
Of which:		
Fee and commission income by product line constituting not less than 10% of the total amount of fee and commission income, as follows:		
– syndication loan	<b>304,245</b>	227,096
– term loan	<b>287,036</b>	194,537
– credit card	<b>139,860</b>	131,297

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

8 Net trading income

	30 Jun 2016 HK\$'000	30 Jun 2015 HK\$'000
Equity investments	(1,593)	39,238
Debt securities – Financial assets held for trading	8,506	29,739
– Available-for-sale financial investments	(2,899)	(2,473)
Derivatives	(41,086)	(77,290)
Foreign exchange	<u>589,596</u>	<u>425,133</u>
	<b>552,524</b>	414,347
Gain/(loss) from hedging activities		
Fair value hedges		
– Net gain/(loss) on hedged items attributable to the hedged risk	20,338	(7,228)
– Net (loss)/gain on hedging instruments	<u>(19,724)</u>	<u>7,187</u>
	<u>614</u>	<u>(41)</u>
Total net trading income	<u><b>553,138</b></u>	<u>414,306</u>

There is no gain or loss on financial liabilities measured at amortised cost included in total net trading income for first half of 2016 (First half of 2015: Nil).

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

	30 Jun 2016 HK\$'000	30 Jun 2015 HK\$'000
Financial assets designated at fair value through profit or loss	–	1,372
Financial liabilities designated at fair value through profit or loss	<u>–</u>	<u>–</u>
Total net gain on financial assets and liabilities designated at fair value through profit or loss	<u><u>–</u></u>	<u><u>1,372</u></u>

10 Dividend income from financial investments

	30 Jun 2016 HK\$'000	30 Jun 2015 HK\$'000
Dividend income from listed financial assets held for trading	–	802
Dividend income from listed available-for-sale financial investments	158	208
Dividend income from unlisted available-for-sale financial investments	<u>2,750</u>	<u>2,850</u>
Total dividend income from financial investments	<u><b>2,908</b></u>	<u>3,860</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

11 Other operating income

	30 Jun 2016 HK\$'000	(Restated) 30 Jun 2015 HK\$'000
Rental income from investment properties	1,403	1,724
Less: Direct operating expenses arising from investment properties that generated rental income during the period	(46)	(34)
Others	<u>4,382</u>	<u>28,716</u>
Total other operating income	<u><u>5,739</u></u>	<u><u>30,406</u></u>

12 Operating expenses

	30 Jun 2016 HK\$'000	30 Jun 2015 HK\$'000
Staff costs		
– Salaries and other costs	727,846	535,062
– Retirement benefit costs	<u>37,358</u>	<u>31,727</u>
	<u>765,204</u>	<u>566,789</u>
Premises and equipment expenses, excluding depreciation and amortisation		
– Rental of premises	214,622	224,121
– Others	<u>77,869</u>	<u>41,864</u>
	<u>292,491</u>	<u>265,985</u>
Depreciation and amortisation expenses	63,337	68,935
Auditors' remuneration	2,340	2,517
General administration expenses	40,949	44,243
Business promotion expenses	54,218	63,529
Communication expenses	42,366	40,838
Other operating expenses	<u>196,568</u>	<u>173,625</u>
Total operating expenses	<u><u>1,457,473</u></u>	<u><u>1,226,461</u></u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

13 Charge for impairment losses on loans and advances

	30 Jun 2016 HK\$'000	30 Jun 2015 HK\$'000
Charge for impairment losses on loans and advances		
Individually assessed		
– New allowances	440,588	659,861
– Releases	(54,201)	(35,687)
– Recoveries	(1,859)	(2,457)
Net charge for impairment losses on individually assessed loans and advances	<u>384,528</u>	<u>621,717</u>
Collectively assessed		
– New allowances	<u>108,138</u>	<u>148,665</u>
Net charge for impairment losses on collectively assessed loans and advances	<u>108,138</u>	<u>148,665</u>
Net charge to the income statement	<u><u>492,666</u></u>	<u><u>770,382</u></u>

14 Taxation

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 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:

	30 Jun 2016 HK\$'000	30 Jun 2015 HK\$'000
Current tax – Provision for Hong Kong profits tax for the period	597,572	528,071
– Provision for overseas tax for the period	220,162	236,785
Under provision in respect of prior years	23,955	9,605
Deferred taxation	<u>172</u>	<u>(7,814)</u>
	<u><u>841,861</u></u>	<u><u>766,647</u></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 2016</b>	30 Jun 2015
	<b>HK\$'000</b>	HK\$'000
Profit before tax	<b>4,383,814</b>	3,847,490
Calculated at a tax rate of 16.5% (2015: 16.5%)	<b>723,329</b>	634,836
Effect of different tax rates in other countries	<b>95,354</b>	121,917
Income not subject to tax	<b>(4,792)</b>	(3,005)
Expenses not deductible for tax purposes	<b>5,814</b>	4,750
Adjustments in respect of current tax of previous periods	<b>23,955</b>	9,605
Share of tax of an associate	<b>(1,799)</b>	(1,456)
	<u><b>841,861</b></u>	<u>766,647</u>
Tax charge	<u><b>841,861</b></u>	<u>766,647</u>

15 Interim dividend

At a meeting held on 23 August 2016, the Board has not recommended the payment of interim dividend for the six months ended 30 June 2016 (First half of 2015: 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 Group by the weighted average number of ordinary shares in issue during the period.

	<b>30 Jun 2016</b>	30 Jun 2015
Profit attributable to equity holders (HK\$'000)	<b>3,541,953</b>	3,080,843
Weighted average number of ordinary shares in issue (thousands)	<b>2,577,000</b>	2,064,748
Basic earnings per share	<b>HK\$1.37</b>	HK\$1.49

Diluted earnings per share for the periods ended 30 June 2016 and 30 June 2015 were the same as basic earnings per share, as the Group had no potential dilutive ordinary shares in issue during those periods.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

17 Cash and balances with banks and other financial institutions

	30 Jun 2016 HK\$'000	31 Dec 2015 HK\$'000
Cash on hand	446,727	490,400
Balances with central banks	25,396,409	28,735,015
Balances with other banks and financial institutions	15,594,764	18,799,865
Placements with banks and other financial institutions maturing within one month	<u>123,403,275</u>	<u>90,044,789</u>
	<u>164,841,175</u>	<u>138,070,069</u>

18 Placements with banks and other financial institutions

	30 Jun 2016 HK\$'000	31 Dec 2015 HK\$'000
Placements with banks and other financial institutions maturing between one and twelve months	<u>25,593,395</u>	<u>27,005,813</u>

The above figures include reverse repurchase transactions. In respect of reverse repurchase transactions, there was no collateral held by the Group which were permitted to be sold or repledged as at 30 June 2016 (31 December 2015: Nil). No collateral has been actually sold or repledged by the Group as at 30 June 2016 and 31 December 2015. The transactions are conducted on terms that are usual and customary to standard lending activities.

19 Financial assets held for trading

	30 Jun 2016 HK\$'000	31 Dec 2015 HK\$'000
Debt securities, at fair value:		
Unlisted	<u>1,091,098</u>	—
	<u>1,091,098</u>	—
Equity securities, at fair value:		
Unlisted	<u>57,237</u>	<u>165,717</u>
	<u>57,237</u>	<u>165,717</u>
Total financial assets held for trading	<u>1,148,335</u>	<u>165,717</u>
Financial assets held for trading are analysed by category of issuer as follows:		
Banks and other financial institutions	<u>1,091,098</u>	—
Corporate entities	<u>57,237</u>	<u>165,717</u>
	<u>1,148,335</u>	<u>165,717</u>

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

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

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

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

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

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

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

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

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

20 Derivative financial instruments (continued)

The following tables summarise the contractual/notional amounts of each significant type of derivative financial instrument as at 30 June 2016 and 31 December 2015:

As at 30 June 2016	Contractual/ notional amount HK\$'000	Fair value assets HK\$'000	Fair value liabilities HK\$'000
1) Derivatives held for trading			
a) Foreign exchange derivatives			
– Currency forwards	835,724,216	10,723,650	(10,499,907)
– OTC currency options purchased	39,559,039	450,229	–
– OTC currency options written	41,391,781	–	(492,045)
– Structured foreign exchange instruments	599,524	114,140	(116,131)
Total foreign exchange derivatives		<u>11,288,019</u>	<u>(11,108,083)</u>
b) Interest rate derivatives			
– Interest rate swaps	78,987,691	1,051,209	(918,172)
– Interest rate futures	18,519,360	2,569	(10,175)
– Quanto swaps	–	–	–
Total interest rate derivatives		<u>1,053,778</u>	<u>(928,347)</u>
c) Equity derivatives			
– Equity options	75,713	277	(277)
– Equity swaps	2,322,398	–	(189,470)
Total equity derivatives		<u>277</u>	<u>(189,747)</u>
Total derivative assets/(liabilities) held for trading		<u>12,342,074</u>	<u>(12,226,177)</u>
2) Derivatives held for hedging			
a) Derivatives designated as fair value hedges			
– Interest rate swaps	2,042,130	1,289	(58,681)
		<u>1,289</u>	<u>(58,681)</u>
b) Derivatives designated as cash flow hedges			
– Interest rate swaps	16,475,732	324,063	(301,604)
Total derivative assets/(liabilities) held for hedging		<u>325,352</u>	<u>(360,285)</u>
Total recognised derivative assets/(liabilities)		<u>12,667,426</u>	<u>(12,586,462)</u>

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

As at 31 December 2015	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	700,877,000	9,431,522	(9,456,096)
– OTC currency options purchased	48,857,523	706,662	–
– OTC currency options written	50,344,091	–	(637,961)
– Structured foreign exchange instruments	1,047,404	<u>258,142</u>	<u>(259,787)</u>
Total foreign exchange derivatives		<u>10,396,326</u>	<u>(10,353,844)</u>
b) Interest rate derivatives			
– Interest rate swaps	80,764,207	533,711	(367,316)
– Interest rate futures	8,010,710	3,019	(2,815)
– Quanto Swap	3,685,430	–	–
Total interest rate derivatives		<u>536,730</u>	<u>(370,131)</u>
c) Equity derivatives			
– Equity options	2,025	6	(6)
– Equity swaps	2,374,117	<u>215,797</u>	<u>(215,797)</u>
Total equity derivatives		<u>215,803</u>	<u>(215,803)</u>
Total derivative assets/(liabilities) held for trading		<u>11,148,859</u>	<u>(10,939,778)</u>
2) Derivatives held for hedging			
a) Derivatives designated as fair value hedges			
– Interest rate swaps	708,971	–	(37,752)
		–	(37,752)
b) Derivatives designated as cash flow hedges			
– Interest rate swaps	15,048,024	<u>235,405</u>	<u>(37,946)</u>
Total derivative assets/(liabilities) held for hedging		<u>235,405</u>	<u>(75,698)</u>
Total recognised derivative assets/(liabilities)		<u>11,384,264</u>	<u>(11,015,476)</u>

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

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

20 Derivative financial instruments (continued)

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

Fair value hedges are used by the Group to protect it against changes in the fair value of financial assets due to movements in market interest rates. The financial instruments hedged for interest rate risk mainly include available-for-sale debt securities. The Bank uses interest rate swaps 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 2016 HK\$'000	30 Jun 2015 HK\$'000
Gain/(loss) arising from fair value hedge, net:		
– Hedging instruments	(19,724)	7,187
– Hedged items attributable to the hedged risk	<u>20,338</u>	<u>(7,228)</u>
	<u>614</u>	<u>(41)</u>

Cash flow hedge consists of interest rate swaps and cross-currency 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 (2015: Nil).

Below is a schedule indicating as at 30 June 2016 and 31 December 2015, 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 2016</b>				
Cash inflows (assets)	29	53	38	–
Cash outflows (liabilities)	<u>(78)</u>	<u>(91)</u>	<u>(92)</u>	<u>(8)</u>
Net cash flows	(49)	(38)	(54)	(8)
<b>31 December 2015</b>				
Cash inflows (assets)	19	33	31	–
Cash outflows (liabilities)	<u>(44)</u>	<u>(60)</u>	<u>(58)</u>	<u>(8)</u>
Net cash flows	(25)	(27)	(27)	(8)

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

During the period, realised gain amounting to HK\$44,995,000 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 2015: Realised gain of HK\$46,456,000).

There were no transactions for which cash flow hedge accounting had to be ceased in the first half of 2016 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 2016		31 Dec 2015	
	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000
Contingent liabilities and commitments	–	15,591,722	–	21,811,120
Exchange rate contracts				
– Forwards	7,609,910	3,198,925	5,948,315	2,646,605
– Swaps	2,655,495	3,226,067	3,214,659	3,778,318
– Options	165,766	232,593	377,752	381,877
– Structured FX	114,140	710,914	258,142	1,735,310
	<u>10,545,311</u>	<u>7,368,499</u>	<u>9,798,868</u>	<u>8,542,110</u>
Interest rate contracts				
– Swaps	1,351,630	132,605	769,117	905,294
– Futures	1,590	21,764	1,366	9,698
	<u>1,353,220</u>	<u>154,369</u>	<u>770,483</u>	<u>914,992</u>
Equity contracts				
– Options	277	510	6	13
– Swaps	–	185,792	215,797	405,726
	<u>277</u>	<u>186,302</u>	<u>215,803</u>	<u>405,739</u>
Debt securities or other commodities				
– US Treasury Futures Product	979	34,112	1,653	81,946
	<u>979</u>	<u>34,112</u>	<u>1,653</u>	<u>81,946</u>
	<u>11,899,787</u>	<u>23,335,004</u>	<u>10,786,807</u>	<u>31,755,907</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

21 Advances and other accounts

21.1 Loans and advances to customers, banks and trade bills

	30 Jun 2016 HK\$'000	31 Dec 2015 HK\$'000
Advances to customers	369,756,520	339,141,041
Advances to banks	1,874,084	5,885,328
Trade bills	<u>38,857,781</u>	<u>42,908,998</u>
Gross loans and advances to customers, banks and trade bills	410,488,385	387,935,367
Accrued interest	<u>969,901</u>	<u>1,020,839</u>
	<b>411,458,286</b>	388,956,206
Less: impairment allowances		
– Individually assessed	(1,848,417)	(1,486,171)
– Collectively assessed	<u>(1,826,061)</u>	<u>(1,735,920)</u>
	<b><u>407,783,808</u></b>	<b><u>385,734,115</u></b>
	30 Jun 2016 HK\$'000	31 Dec 2015 HK\$'000
Gross impaired loans and advances	3,414,349	2,523,872
Impairment allowances made in respect of such loans	1,848,417	1,486,171
Gross impaired loans and advances as a percentage of total gross loans and advances	0.83%	0.65%
Market value of collateral	<u>479,331</u>	<u>673,686</u>

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

The impaired loan ratio of advances to customers was 0.92% as at 30 June 2016 (31 December 2015: 0.74%).

There were no impaired advances to banks and trade bills as at 30 June 2016 and 31 December 2015; nor were there any individual impairment allowances made for them on these two dates.



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

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

	Gross advances HK\$'000	% of advances to customers	Market value of collateral HK\$'000	Amount of secured balance HK\$'000	Amount of unsecured balance HK\$'000	Individual impairment allowance HK\$'000
<b>As at 30 Jun 2016</b>						
Six months or less but over three months	356,094	0.1	128,410	78,202	277,892	98,350
One year or less but over six months	1,023,414	0.3	153,291	95,865	927,549	609,594
Over one year	1,658,378	0.4	347,554	233,423	1,424,955	1,071,939
	<u>3,037,886</u>	<u>0.8</u>	<u>629,255</u>	<u>407,490</u>	<u>2,630,396</u>	<u>1,779,883</u>
<b>As at 31 Dec 2015</b>						
Six months or less but over three months	64,922	0.0	3,922	1,514	63,408	25,489
One year or less but over six months	1,304,410	0.4	727,695	89,558	1,214,852	856,017
Over one year	379,893	0.1	249,352	124,654	255,239	259,479
	<u>1,749,225</u>	<u>0.5</u>	<u>980,969</u>	<u>215,726</u>	<u>1,533,499</u>	<u>1,140,985</u>

The criteria for eligible collateral are as follows:

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

The eligible collaterals are mainly properties, deposits and shares.

There were no advances to banks (excluding trade bills and receivables) which were overdue for over 3 months as at 30 June 2016 and 31 December 2015.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

21 Advances and other accounts (continued)

21.3 Other overdue assets

	30 Jun 2016 Accrued interest HK\$'000	30 Jun 2016 Other assets HK\$'000	31 Dec 2015 Accrued interest HK\$'000	31 Dec 2015 Other assets HK\$'000
Six months or less but over three months	478	-	4	-
One year or less but over six months	4,700	-	5,153	-
Over one year	<u>32,479</u>	<u>-</u>	<u>19,417</u>	<u>-</u>
	<u>37,657</u>	<u>-</u>	<u>24,574</u>	<u>-</u>

Other assets refer to trade bills and receivables.

21.4 Rescheduled advances

	30 Jun 2016 HK\$'000	% of advances to customers	31 Dec 2015 HK\$'000	% of advances to customers
Rescheduled advances (excluding overdue loans over three months)	<u>8,860</u>	<u>-</u>	<u>9,338</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 21.2 above.

There were no advances to banks which were overdue; nor were there any rescheduled advances to banks as at 30 June 2016 and 31 December 2015.

21.5 Repossessed assets

At 30 June 2016, the Group has no repossessed assets (31 December 2015: Nil). These are properties which the Group has acquired access to or control of (e.g., through legal actions or voluntary actions by the borrowers concerned) for releasing in full or in part the obligations of the borrowers.

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

In respect of reverse repurchase transactions, the fair value of collateral held by the Group which were permitted to be sold or repledged amounted to be nil as at 30 June 2016 (31 December 2015: Nil). No collateral has been actually sold or repledged by the Group as at 30 June 2016 and 31 December 2015. The transactions are conducted on terms that are usual and customary to standard lending activities.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

22 Available-for-sale financial investments

	30 Jun 2016 HK\$'000	31 Dec 2015 HK\$'000
Debt securities:		
Listed in Hong Kong	18,992,694	15,860,587
Listed outside Hong Kong	31,017,534	17,184,999
Unlisted	<u>17,656,971</u>	<u>14,452,252</u>
	<u>67,667,199</u>	<u>47,497,838</u>
Equity securities:		
Listed outside Hong Kong	50,369	53,510
Unlisted	<u>99,622</u>	<u>97,023</u>
	<u>149,991</u>	<u>150,533</u>
Wealth Management Products		
Unlisted	<u>20,038,901</u>	<u>32,932,627</u>
Total available-for-sale financial investments	<u>87,856,091</u>	<u>80,580,998</u>
Market value of listed securities	<u>50,060,597</u>	<u>33,099,096</u>
Debt securities after taking into account of impairment losses are comprised of the following items:		
Treasury bill	9,729,742	7,700,815
Certificates of deposit held	487,488	1,722,962
Other debt securities	<u>57,449,969</u>	<u>38,074,061</u>
	<u>67,667,199</u>	<u>47,497,838</u>
Available-for-sale financial investments are analysed by category of issuer as follows:		
Central governments and central banks	13,583,562	8,203,550
Public sector entities	526,316	532,645
Banks and other financial institutions	46,485,665	47,606,656
Corporate entities	<u>27,260,548</u>	<u>24,238,147</u>
	<u>87,856,091</u>	<u>80,580,998</u>

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

	30 Jun 2016 HK\$'000	31 Dec 2015 HK\$'000
At 1 January	122,578	84,462
Charge for the period/year	(21,400)	(13,560)
Transfer from held-to-maturity investment	–	51,731
Exchange difference	<u>(6,768)</u>	<u>(55)</u>
At 30 June/31 December	<u>94,410</u>	<u>122,578</u>

There was no collective impairment allowance made against the available-for-sale financial investments as at 30 June 2016 (31 December 2015: Nil).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

23 Held-to-maturity financial investments

	30 Jun 2016 HK\$'000	31 Dec 2015 HK\$'000
Debt securities:		
– Listed in Hong Kong	27,128,559	25,912,515
– Listed outside Hong Kong	16,480,372	17,403,148
– Unlisted	<u>29,562,026</u>	<u>35,381,549</u>
	<b>73,170,957</b>	78,697,212
Less: impairment losses	<u>–</u>	<u>–</u>
Total held-to-maturity financial investments	<u><b>73,170,957</b></u>	<u>78,697,212</u>
Market value of listed securities	<u><b>42,741,186</b></u>	<u>43,394,046</u>
Debt securities after taking into account of impairment losses are comprised of the following items:		
Treasury bills	14,704,713	21,294,716
Certificates of deposits held	4,620,447	–
Other debt securities	<u>53,845,797</u>	<u>57,402,496</u>
	<u><b>73,170,957</b></u>	<u>78,697,212</u>
Held-to-maturity financial investments are analysed by category of issuer as follows:		
Central governments and central banks	24,851,571	33,853,767
Public sector entities	326,535	331,455
Banks and other financial institutions	21,931,940	19,245,173
Corporate entities	<u>26,060,911</u>	<u>25,266,817</u>
	<u><b>73,170,957</b></u>	<u>78,697,212</u>

There was no individual and collective impairment allowance made against the held-to-maturity financial investments as at 30 June 2016 (31 December 2015: Nil).

24 Investment properties

	30 Jun 2016 HK\$'000	31 Dec 2015 HK\$'000
Carrying amount at 1 January	80,919	69,977
Additions	–	–
Transfer out to bank premises	–	–
Disposals	–	–
Net revaluation gain	–	13,002
Exchange difference	<u>–</u>	<u>(2,060)</u>
Carrying amount at 30 June/31 December	<u><b>80,919</b></u>	<u>80,919</u>

**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**
**25 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 2015 and 1 January 2016:				
Cost or valuation	890,286	371,516	405,047	1,666,849
Accumulated depreciation and impairment	<u>(236,722)</u>	<u>(212,178)</u>	<u>(271,671)</u>	<u>(720,571)</u>
Net book value at 31 December 2015 and 1 January 2016	<u>653,564</u>	<u>159,338</u>	<u>133,376</u>	<u>946,278</u>
Additions	–	20,705	23,428	44,133
Disposals	–	–	(1,201)	(1,201)
Revaluation	4,336	–	–	4,336
Depreciation provided during the period	(7,786)	(16,253)	(23,713)	(47,752)
Exchange rate and other adjustments	<u>482</u>	<u>758</u>	<u>(5,905)</u>	<u>(4,665)</u>
Net book value at 30 June 2016	<u>650,596</u>	<u>164,548</u>	<u>125,985</u>	<u>941,129</u>
At 30 June 2016:				
Cost or valuation	814,936	391,000	408,733	1,614,669
Accumulated depreciation and impairment	<u>(164,340)</u>	<u>(226,452)</u>	<u>(282,748)</u>	<u>(673,540)</u>
Net book value at 30 June 2016	<u>650,596</u>	<u>164,548</u>	<u>125,985</u>	<u>941,129</u>
The analysis of cost or valuation of the above assets is as follows:				
At 30 June 2016:				
At cost	–	391,000	408,733	799,733
At valuation	<u>650,596</u>	<u>–</u>	<u>–</u>	<u>650,596</u>
	<u>650,596</u>	<u>391,000</u>	<u>408,733</u>	<u>1,450,329</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

25 Property, plant and equipment (continued)

	Bank premises and properties HK\$'000	Leasehold improvements HK\$'000	Furniture and equipment HK\$'000	Total HK\$'000
At 31 December 2014 and 1 January 2015:				
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 and 1 January 2015	<u>620,252</u>	<u>148,433</u>	<u>144,175</u>	<u>912,860</u>
Additions	–	47,889	42,864	90,753
Disposals	–	(4,082)	(6,331)	(10,413)
Revaluation	48,460	–	–	48,460
Depreciation provided during the year	(13,545)	(31,559)	(46,912)	(92,016)
Exchange rate and other adjustments	<u>(1,603)</u>	<u>(1,343)</u>	<u>(420)</u>	<u>(3,366)</u>
Net book value at 31 December 2015	<u>653,564</u>	<u>159,338</u>	<u>133,376</u>	<u>946,278</u>
At 31 December 2015:				
Cost or valuation	890,286	371,516	405,047	1,666,849
Accumulated depreciation and impairment	<u>(236,722)</u>	<u>(212,178)</u>	<u>(271,671)</u>	<u>(720,571)</u>
Net book value at 31 December 2015	<u>653,564</u>	<u>159,338</u>	<u>133,376</u>	<u>946,278</u>
The analysis of cost or valuation of the above assets is as follows:				
At 31 December 2015:				
At cost	–	371,516	405,047	776,563
At valuation	<u>653,564</u>	<u>–</u>	<u>–</u>	<u>653,564</u>
	<u>653,564</u>	<u>371,516</u>	<u>405,047</u>	<u>1,430,127</u>

**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**
**26 Other assets**

	<b>30 Jun 2016</b>	31 Dec 2015
	<b>HK\$'000</b>	HK\$'000
Interest receivable	<b>2,100,411</b>	2,312,846
Prepayments	<b>185,683</b>	147,634
Settlement accounts	<b>6,029,919</b>	3,291,242
Margin deposit paid	<b>2,465,078</b>	2,161,711
Factoring	<b>246,509</b>	668,376
Others	<b>1,605,488</b>	732,972
	<b><u>12,633,088</u></b>	<u>9,314,781</u>

**27 Deposits from banks and other financial institutions**

	<b>30 Jun 2016</b>	31 Dec 2015
	<b>HK\$'000</b>	HK\$'000
Deposits from banks and other financial institutions	<b><u>162,221,012</u></b>	<u>155,829,954</u>

In respect of repurchase transactions, the fair value of collateral which were permitted to be sold or repledged from the Group was HK\$12,807,774,000 as at 30 June 2016 (2015: HK\$8,572,188,000). The transactions are conducted on terms that are usual and customary to standard lending activities.

**28 Deposits from customers**

	<b>30 Jun 2016</b>	31 Dec 2015
	<b>HK\$'000</b>	HK\$'000
Demand deposits and current accounts	<b>47,337,612</b>	44,977,109
Savings deposits	<b>77,113,302</b>	80,582,493
Time, call and notice deposits	<b><u>326,056,287</u></b>	<u>272,971,609</u>
	<b><u>450,507,201</u></b>	<u>398,531,211</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

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% (2015: 16.5%).

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

	<b>30 Jun 2016</b>	31 Dec 2015
	<b>HK\$'000</b>	HK\$'000
At 1 January	<b>48,904</b>	(81,011)
Credited to income statement	(172)	53,482
(Debited)/credited to equity	<b>(160,124)</b>	20,062
Exchange and other adjustments	<b>(993)</b>	56,371
	<u><b>(112,385)</b></u>	<u>48,904</u>
At 30 June/31 December	<u><b>(112,385)</b></u>	<u>48,904</u>

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

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

	<b>30 Jun 2016</b>	31 Dec 2015
	<b>HK\$'000</b>	HK\$'000
Net deferred income tax assets recognised in the consolidated statement of financial position	<b>66,071</b>	58,011
Net deferred income tax liabilities recognised in the consolidated statement of financial position	<b>(178,456)</b>	(9,107)
	<u><b>(112,385)</b></u>	<u>48,904</u>
At 30 June/31 December	<u><b>(112,385)</b></u>	<u>48,904</u>



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

	30 Jun 2016		31 Dec 2015	
	HK\$'000	Interest rate %	HK\$'000	Interest rate %
Subordinated fixed rate notes				
– with a final maturity on 30 November 2020	3,865,737	5.125%	3,859,630	5.125%
– with a final maturity on 4 November 2021 (callable on 5 November 2016)	1,745,122	6%	1,783,401	6%
– with a final maturity on 10 October 2023 (callable on 10 October 2018)	3,862,941	4.5%	3,857,264	4.5%
– with a final maturity on 30 December 2024 (callable on 30 December 2019)	<u>3,879,700</u>	4.5%	<u>3,875,150</u>	4.5%
	<u>13,353,500</u>		<u>13,375,445</u>	

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

The Bank has not had any defaults of principal or interest or other breaches with respect to the subordinated debts during the period (2015: Nil).

**31 Other liabilities**

	30 Jun 2016	31 Dec 2015
	HK\$'000	HK\$'000
Interest payable	2,827,526	2,623,581
Salaries and welfare payable	394,323	392,678
Settlement accounts	9,054,271	2,997,238
Margin deposit received	595,979	1,163,282
Factoring	246,509	668,376
Others	<u>1,384,982</u>	<u>1,325,655</u>
	<u>14,503,590</u>	<u>9,170,810</u>

The Group has not had any defaults of principal, interest or other breaches with respect to their liabilities during the period (2015: Nil).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

32 Share capital

	Number of shares (in thousands)	Ordinary shares HK\$'000
At 1 January 2016 & 30 June 2016	<u>2,577,000</u>	<u>36,379,331</u>
At 1 January 2015	2,064,748	23,591,832
Allotment of new shares	<u>512,252</u>	<u>12,787,499</u>
At 31 December 2015	<u>2,577,000</u>	<u>36,379,331</u>

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 2016, the Group has earmarked a “Regulatory Reserve” of HK\$3,961,825,000 (31 December 2015: HK\$4,277,079,000) 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\$2,925,549,000 (31 December 2015: HK\$5,209,502,000) 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 2016	30 Jun 2015
	HK\$'000	HK\$'000
Interest income	249,432	166,431
Interest expense	494,447	555,142
Other operating income <sup>1,2</sup>	(40,554)	(19,442)
Other operating expenses <sup>3,4</sup>	15,670	66,764
	<b>30 Jun 2016</b>	31 Dec 2015
	<b>HK\$'000</b>	HK\$'000
Amounts due from	11,383,993	96,619,831
Amounts due to	114,021,840	139,051,316

1. In accordance with the collaboration agreement dated 3 July 2001 and the supplemental collaboration agreements dated 4 February 2005 and 13 February 2008, management fee income was received from the Hong Kong Branch of ICBC (the "Branch") for the provision of services such as accounting and budgeting, internal audit, marketing and back office settlement and clearing. In accordance with the collaboration agreement dated 21 December 2012, management fee income was received from the ultimate holding company for the provision of management, administrative and marketing services of its credit card business.
2. In accordance with the custodian and trustee services agreement dated 4 September 2007 and the supplemental custodian and trustee services agreements dated 16 May 2008 and 31 December 2009, services fees were paid by the ultimate holding company to the Bank for providing custodian, settlement and clearing services in relation to the investments outside the PRC in certain investment products by the customers of the ultimate holding company in connection with the Qualified Domestic Institutional Investor Scheme of the PRC.
3. In accordance with the service level agreement with the Bank dated 21 February 2002 (as amended and supplemented by supplemental agreements), and the service levels agreement with subsidiary of the Bank dated 19 March 2008, service fee expense was paid to the ultimate holding company for the provision of data processing services to the Bank and its subsidiary.
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 fixed rate notes, which were both fully subscribed by the ultimate holding company and its branches. As at 30 June 2016, the Bank has issued certificates of deposit with a nominal value of USD2,000,000,000 and CNY450,000,000 to the ultimate holding company (First half of 2015: certificates of deposit with a nominal value of USD400,000,000 and CNY300,000,000).

As at 30 June 2016, the Bank has committed facilities to the ultimate holding company in the amount of RMB700,000,000 (2015: RMB700,000,000). The Bank also received conglomerate guarantee on loan from the ultimate holding company in the amount of HK\$15,132,462,000 (2015: HK\$26,845,715,000).

*i. Undertaking from the ultimate holding company*

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

Simultaneously on 3 July 2001, the ultimate holding company and the Bank entered into a guarantee agreement whereby the ultimate holding company agreed to guarantee to the extent of HK\$9,000,000,000, being the payment obligations of certain customers whose “large exposures” were transferred to the Bank pursuant to the business transfer agreement and to indemnify the Bank in respect of any losses incurred if any obligation of such customers becomes unenforceable. There are no on-balance sheet large exposures of the Bank covered by this guarantee as at 30 June 2016 (First half of 2015: 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\$13,754,092,000 (First half of 2015: HK\$36,363,063,000). For both the first half of 2016 and 2015, there was no sub-participation in loans of the Branch by the Bank. The total fee attributable to the above transactions of approximately HK\$10,922,000 (First half of 2015: HK\$38,343,000) was paid by the Bank to the Branch. These transactions were priced based either on the terms of the underlying loan agreement, if applicable, or prevailing market rates if such comparable rates were available, or on terms that were no less favorable than those available to other independent loan members.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

34 Related-party transactions (continued)

34.2 Fellow subsidiaries

	Six months ended	
	30 Jun 2016	30 Jun 2015
	HK\$'000	HK\$'000
Interest income	78,141	24,263
Interest expense	13,614	28,881
Other operating income	(8,178)	516
	<b>30 Jun 2016</b>	31 Dec 2015
	<b>HK\$'000</b>	HK\$'000
Amounts due from	4,546,865	4,386,689
Amounts due to	19,154,299	3,599,514

34.3 Associates

	Six months ended	
	30 Jun 2016	30 Jun 2015
	HK\$'000	HK\$'000
Interest income	949	1,257
Interest expense	126	91
	<b>30 Jun 2016</b>	31 Dec 2015
	<b>HK\$'000</b>	HK\$'000
Amounts due from	55,527	83,700
Amounts due to	115,206	78,402

## 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 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 2016</b>	30 Jun 2015
	<b>HK\$'000</b>	HK\$'000
Interest income	<b>503,991</b>	424,962
Interest expense	<b>91,402</b>	76,590
Operating income	<b>881</b>	(3,305)
	<b>30 Jun 2016</b>	31 Dec 2015
	<b>HK\$'000</b>	HK\$'000
Amounts due from	<b>57,422,368</b>	36,821,577
Amounts due to	<b>10,056,661</b>	8,797,801

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 2016</b>	30 Jun 2015
	<b>HK\$'000</b>	HK\$'000
Employee benefits	<b>10,951</b>	9,197

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.

	<b>Six months ended</b>	
	<b>30 Jun 2016</b>	30 Jun 2015
	<b>HK\$'000</b>	HK\$'000
Interest income	–	–
Interest expense	<b>185</b>	119
	<b>30 Jun 2016</b>	31 Dec 2015
	<b>HK\$'000</b>	HK\$'000
Loans and advances	–	–
Deposits	<b>44,387</b>	40,483

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 where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets.

*Repurchase transactions and securities lending transactions*

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

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 35 Transferred financial assets (continued)

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

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

	30 Jun 2016		31 Dec 2015	
	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	8,357,542	7,247,757	12,281,927	5,373,562
Securities lending agreements	13,032,550	12,519,891	10,153,913	9,802,420

#### *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 2016, the Group retained obligation on those PRC discounted bills transferred but not matured with a carrying amount of HK\$37,165,726 (31 December 2015: HK\$164,517,889).

### 36 Off-balance sheet exposures

#### 36.1 Contingent liabilities and commitments

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

	30 Jun 2016 Contractual amount HK\$'000	30 Jun 2016 Credit risk weighted amount HK\$'000	31 Dec 2015 Contractual amount HK\$'000	31 Dec 2015 Credit risk weighted amount HK\$'000
Direct credit substitutes	20,020,990	4,683,602	11,445,502	4,338,315
Transaction-related contingencies	158,228	69,445	158,368	72,597
Trade-related contingencies	9,454,735	1,745,646	10,856,416	1,756,149
Forward deposits placed	768,203	153,641	1,294,667	258,933
Other commitments with an original maturity of:				
– Unconditionally cancellable	184,214,383	–	170,266,617	–
– With original maturity of less than one year	817,250	163,450	968,579	193,716
– With original maturity of over one year	37,553,383	17,345,787	30,973,329	15,191,410
	<u>252,987,172</u>	<u>24,161,571</u>	<u>225,963,478</u>	<u>21,811,120</u>



NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

36 Off-balance sheet exposures (continued)

36.2 Capital commitments

Capital commitments for property, plant and equipment outstanding as at 30 June 2016 and 31 December 2015 not provided for in the financial statements are as follows:

	<b>30 Jun 2016</b>	31 Dec 2015
	<b>HK\$'000</b>	HK\$'000
Expenditure contracted, but not provided for	<b>33,920</b>	31,075
Expenditure authorized, but not contracted for	<b>8,900</b>	14,690
	<u><b>42,820</b></u>	<u>45,765</u>

36.3 Operating lease commitments

The Group had future aggregate minimum lease payments under non-cancellable operating leases as at 30 June 2016 and 31 December 2015 as follows:

	<b>30 Jun 2016</b>	31 Dec 2015
	<b>HK\$'000</b>	HK\$'000
Land and buildings		
– Not later than one year	<b>388,598</b>	414,644
– Later than one year and not later than five years	<b>529,151</b>	598,239
– More than five years	–	–
	<u><b>917,749</b></u>	<u>1,012,883</u>

36.4 Operating lease arrangements

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

At 30 June 2016, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>30 Jun 2016</b>	31 Dec 2015
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>3,091</b>	3,100
In the second to fifth years, inclusive	<b>4,764</b>	6,305
After five years	–	–
	<u><b>7,855</b></u>	<u>9,405</u>

During the period, the Group had no unrecognised contingent rentals receivable (2015: 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 are as follows

	Gross amounts of recognized financial assets HK\$'000	Gross amounts offset in the balance sheet HK\$'000	Net amounts presented in the balance sheet HK\$'000	Amounts not set off in the balance sheet		
				Financial instruments HK\$'000	Cash collateral received HK\$'000	Net amount HK\$'000
At 30 Jun 2016						
Derivative financial assets	10,756,882	–	10,756,882	(7,296,525)	–	3,460,357
Other assets	365,262	–	365,262	(311,309)	–	53,953
	11,122,144	–	11,122,144	(7,607,834)	–	3,514,310

	Gross amounts of recognized financial liabilities HK\$'000	Gross amounts offset in the balance sheet HK\$'000	Net amounts presented in the balance sheet HK\$'000	Amounts not set off in the balance sheet		
				Financial instruments HK\$'000	Cash collateral pledged HK\$'000	Net amount HK\$'000
At 30 Jun 2016						
Derivative financial liabilities	9,745,882	–	9,745,882	(7,296,525)	(2,284,164)	165,193
Other liabilities	461,940	–	461,940	(311,309)	–	150,631
	10,207,822	–	10,207,822	(7,607,834)	(2,284,164)	315,824

	Gross amounts of recognized financial assets HK\$'000	Gross amounts offset in the balance sheet HK\$'000	Net amounts presented in the balance sheet HK\$'000	Amounts not set off in the balance sheet		
				Financial instruments HK\$'000	Cash collateral received HK\$'000	Net amount HK\$'000
At 31 Dec 2015						
Derivative financial assets	8,650,080	–	8,650,080	(5,341,796)	–	3,308,284
Other liabilities	210,923	–	210,923	(180,325)	–	30,598
	8,861,003	–	8,861,003	(5,522,121)	–	3,338,882

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

37 Offsetting of financial assets and financial liabilities (continued)

	Gross amounts of recognized financial liabilities HK\$'000	Gross amounts offset in the balance sheet HK\$'000	Net amounts presented in the balance sheet HK\$'000	Amounts not set off in the balance sheet		Net amount HK\$'000
				Financial instruments HK\$'000	Cash collateral pledged HK\$'000	
At 31 Dec 2015						
Derivatives						
financial liabilities	8,412,534	–	8,412,534	(5,341,796)	(2,067,708)	1,003,030
Other liabilities	340,371	–	340,371	(180,325)	–	160,046
	8,752,905	–	8,752,905	(5,522,121)	(2,067,708)	1,163,076

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.

38 Comparative amounts

During the period, management reviewed the presentation of “Management fee income” in the income statement and determined that it improves the comparability to classify the item as Fee And Commission Income rather than Other Operating Income as previously disclosed. The amount was reclassified as Fee And Commission Income in the current period and accordingly the comparative figure amounted to HK\$3,000,000 was reclassified from Other Operating Income to Fee And Commission Income to conform with the current period’s presentation.

Certain comparative amounts have been amended to conform with current period’s presentation.

## SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

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

### 1 Capital adequacy and capital base

Capital adequacy ratios were compiled in accordance with the Banking (Capital) Rules (the “Capital Rules”) issued by the HKMA. The ratios were compiled in accordance with the amended Capital Rules effective from 1st January 2013 for the implementation of the “Basel III” capital accord. In view of the Capital Rules, the Bank has adopted the “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 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 2016	
		Total assets HK\$'000	Total equity HK\$'000
ICBC (Asia) Asset Management Company Limited	Provision of asset management services	792	778
ICBC (Asia) Bullion Company Limited	Inactive	7,545	7,532
ICBC (Asia) Futures Company Limited	Provision of futures business	102,671	102,612
ICBC (Asia) Investment Management Company Limited*	Provision of asset management services	80,839	72,734
ICBC (Asia) Securities Limited	Provision of securities brokerage services	1,241,679	781,491
ICBC (Asia) Trustee Company Limited	Provision of trustee services	25,927	23,005
ICBC (Asia) Wa Pei Nominees Limited	Inactive	–	–
UB China Business Management Co. Ltd.	Inactive	–	–
Greater China Fund	Trust fund	394,008	391,903

\* Included a consolidated subsidiary in the name of 工銀亞投股權投資管理（深圳）有限公司.

As at 30 June 2016, there are no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation 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 2016</b>	31 Dec 2015
	<b>HK\$'000</b>	HK\$'000
Common Equity Tier 1 ("CET1") Capital		
CET1 capital instruments	<b>36,379,331</b>	36,379,331
Share premium arising from CET1 capital instruments	–	–
Retained earnings	<b>32,349,413</b>	28,924,450
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>3,497,764</b>	6,610,913
Disclosed reserves	<b>4,152,086</b>	3,940,798
of which: available-for-sale investment reserve	<b>776,714</b>	(235,655)
CET1 Capital before deductions	<b>72,880,830</b>	69,244,579
Deduct:		
Cumulative cash flow hedge reserves that relate to the hedging of financial instruments that are not fair valued on the balance sheet	<b>(20,568)</b>	(167,224)
Cumulative fair value gains 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>(614,380)</b>	(634,218)
Regulatory reserve for general banking risk	<b>(3,961,825)</b>	(4,277,079)
Goodwill (net of related deferred tax liability)	<b>(980,154)</b>	(980,154)
Other intangible assets (net of related deferred tax liability)	<b>(33,701)</b>	(44,978)
Deferred tax assets in excess of deferred tax liabilities	<b>(66,071)</b>	(58,011)
Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	<b>(270)</b>	(300)
Debit valuation adjustments in respect of derivative contracts	<b>(84,489)</b>	(77,717)
CET1 Capital after deductions	<b>67,119,372</b>	63,004,898
Tier 2 Capital		
Tier 2 capital instruments issued and share premium	<b>11,798,036</b>	12,210,519
of which: amount that is subject to phase out	<b>2,315,878</b>	2,698,689
Reserve attributable to fair value gains on revaluation of holdings of land and buildings	<b>276,471</b>	285,398
Regulatory reserve for general banking risks and collective provisions included in Tier 2 Capital (Limited to 1.25% of risk-weighted amount)	<b>5,787,886</b>	5,533,599
Tier 2 Capital before deductions	<b>17,862,393</b>	18,029,516
Deductions	–	–
Tier 2 Capital after deductions	<b>17,862,393</b>	18,029,516
Total capital base after deductions	<b>84,981,765</b>	81,034,414

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

1 Capital adequacy and capital base (continued)

	<b>30 Jun 2016</b>	31 Dec 2015
	<b>HK\$'000</b>	HK\$'000
<b>Risk-weighted assets</b>		
Credit risk	<b>482,808,168</b>	447,045,096
Market risk	<b>19,346,113</b>	18,421,975
Operational risk	<b>20,557,800</b>	19,381,713
Deduct: Portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 capital	–	(479,399)
Portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 capital	<u><b>(337,909)</b></u>	<u>(348,820)</u>
Total risk-weighted assets	<u><b>522,374,172</b></u>	<u>484,020,565</u>
	<b>30 Jun 2016</b>	31 Dec 2015
CET1 capital ratio	<b>12.86%</b>	13.02%
Tier 1 capital ratio	<b>12.86%</b>	13.02%
Total capital ratio	<b>16.28%</b>	16.74%
Capital conservation buffer ratio	<b>0.63%</b>	0.00%

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

Under Section 3M of the Capital Rules, the capital conservation buffer ratio for calculating the Group’s buffer level is 0.63% as at 30 June 2016.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

2 Liquidity Coverage Ratio

The Group complies with the minimum requirement of 70% of Liquidity Coverage Ratio (“LCR”) on a daily basis with effective from 1 January 2016 onwards, in accordance with the Banking (Liquidity) Rules issued by the HKMA.

	2016	2015
Average liquidity coverage ratio		
– First quarter	<b>106.60%</b>	94.05%
– Second quarter	<b>124.76%</b>	94.68%
– Third quarter	N/A	90.25%
– Fourth quarter	<u>N/A</u>	<u>96.89%</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:

30 June 2016	Gross advances to customers HK\$’000	Advances overdue for over three months HK\$’000	Impaired loans and advances HK\$’000	Individual impairment allowance HK\$’000	Collective impairment allowance HK\$’000
Hong Kong	188,748,515	578,091	940,413	286,375	601,523
Mainland China	169,906,394	2,323,336	2,323,962	1,425,740	1,125,519
Macau	828,193	–	–	–	2,407
Asia Pacific Region (excluding Hong Kong, Mainland China and Macau)	3,063,771	–	–	–	9,106
Others	7,209,647	136,459	149,974	136,302	24,062
	<u>369,756,520</u>	<u>3,037,886</u>	<u>3,414,349</u>	<u>1,848,417</u>	<u>1,762,617</u>

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

3 Segmental information (continued)

3.1 Advances to customers by geographical area (continued)

	Gross advances to customers	Advances overdue for over three months	Impaired loans and advances	Individual impairment allowance	Collective impairment allowance
31 December 2015	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	154,394,230	155,176	178,837	86,876	533,245
Mainland China	173,885,736	1,457,766	2,195,196	1,262,961	979,806
Macau	480,797	–	–	–	1,450
Asia Pacific Region (excluding Hong Kong, Mainland China and Macau)	3,468,759	–	–	–	10,896
Others	6,911,519	136,283	149,839	136,334	27,225
	<u>339,141,041</u>	<u>1,749,225</u>	<u>2,523,872</u>	<u>1,486,171</u>	<u>1,552,622</u>

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

3.2 International claims

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

30 June 2016	Banks	Official sector	Non-bank private sector		Total
			Non-bank financial institutions	Non-financial private sector	
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Developed countries	20,160	18,100	3,275	3,899	45,434
Offshore centres	31,018	31,659	18,255	212,454	293,386
Developing Europe	–	–	–	1,046	1,046
Developing Latin America and Caribbean	4	–	–	–	4
Developing Africa and Middle East	310	–	–	962	1,272
Developing Asia-Pacific	177,440	14,633	30,347	155,792	378,212
of which: China	174,847	14,633	30,347	153,704	373,531
Others	2,593	–	–	2,088	4,681
International organisations	–	–	794	–	794
	<u>228,932</u>	<u>64,392</u>	<u>52,671</u>	<u>374,153</u>	<u>720,148</u>



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

31 December 2015	Banks HK\$ million	Official sector HK\$ million	Non-bank private sector		Total HK\$ million
			Non- bank financial institutions HK\$ million	Non- financial private sector HK\$ million	
Developed countries	53,444	21,464	2,380	3,802	81,090
Offshore centres	16,098	34,250	16,275	179,302	245,925
Developing Europe	–	–	–	1,054	1,054
Developing Latin America and Caribbean	117	–	–	–	117
Developing Africa and Middle East	79	–	–	174	253
Developing Asia-Pacific	144,801	15,513	35,882	150,200	346,396
of which: China	141,056	15,369	35,882	147,139	339,446
Others	3,745	144	–	3,061	6,950
International organisations	–	–	989	–	989
	<u>214,539</u>	<u>71,227</u>	<u>55,526</u>	<u>334,532</u>	<u>675,824</u>

## SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

### 3 Segmental information (continued)

#### 3.3 Mainland activities

The analysis of non-bank Mainland China exposures is based on the categories of non-bank counterparties and the types of direct exposures defined by the HKMA under the Banking (Disclosure) Rules with reference to 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 2016</b>				
Type of counterparties				
(a) Central government, central government-owned entities and their subsidiaries and JVs	98,513,529	264,363	87,977	98,865,869
(b) Local governments, local government-owned entities and their subsidiaries and JVs	28,874,285	2,994,470	71,162	31,939,917
(c) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	95,404,653	45,826,803	112,673	141,344,129
(c)(i) Of which, PRC nationals residing in Mainland China or entities beneficially-owned by Mainland interest	64,390,901	40,522,564	110,241	105,023,706
(d) Other entities of central government not reported in item (a) above	9,099,059	233	150,128	9,249,420
(e) Other entities of local governments not reported in item (b) above	1,872,990	72,087	–	1,945,077
(f) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	24,924,706	89,585	82,142	25,096,433
(g) Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	39,917,528	1,927,666	415,135	42,260,329
	<b>298,606,750</b>	<b>51,175,207</b>	<b>919,217</b>	<b>350,701,174</b>

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

31 December 2015	On-balance sheet exposure HK\$'000	Contingent liabilities HK\$'000	FX and derivatives contract HK\$'000	Total exposures HK\$'000
Type of counterparties				
(a) Central government, central government-owned entities and their subsidiaries and JVs	91,389,058	317,683	4,118	91,710,859
(b) Local governments, local government-owned entities and their subsidiaries and JVs	30,093,855	3,707,230	698,624	34,499,709
(c) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	85,351,923	37,604,002	111,437	123,067,362
(c)(i) Of which, PRC nationals residing in Mainland China or entities beneficially-owned by Mainland interest	59,703,483	28,237,880	107,948	88,049,311
(d) Other entities of central government not reported in item (a) above	6,916,352	233	106,736	7,023,321
(e) Other entities of local governments not reported in item (b) above	1,506,466	166,523	–	1,672,989
(f) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	22,015,013	582,406	72,214	22,669,633
(g) Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	45,183,172	2,102,179	850,476	48,135,827
	<u>282,455,839</u>	<u>44,480,256</u>	<u>1,843,605</u>	<u>328,779,700</u>

## SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

### 4 Advances to customers by industry sector

	30 Jun 2016	30 Jun 2016	31 Dec 2015	31 Dec 2015
	Gross	% of	Gross	% of
	loans and	secured	loans and	secured
	advances	advances	advances	advances
	HK\$'000		HK\$'000	
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	28,376,419	29.47%	20,115,277	27.02%
– Property investment	20,327,180	59.51%	16,213,117	75.90%
– Financial concerns	9,671,003	1.64%	6,880,652	1.39%
– Stockbrokers	2,852,900	10.94%	2,619,688	13.55%
– Wholesale and retail trade	17,262,927	33.97%	19,280,434	25.52%
– Civil engineering works	1,217,376	15.72%	1,095,782	12.37%
– Manufacturing	11,036,532	17.43%	8,932,932	22.67%
– Transport and transport equipment	27,984,452	37.03%	24,113,519	42.10%
– Electricity and gas	1,538,797	–	1,200,000	–
– Information technology	4,721,097	2.28%	2,686,610	3.70%
– Recreational activities	1,005,251	76.28%	1,077,586	79.50%
– Hotels, boarding houses and catering	6,963	77.71%	4,847	69.18%
– Others	44,374,994	11.37%	40,962,107	8.67%
Individuals				
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	398,983	94.1%	411,782	93.82%
– Loans for the purchase of other residential properties	19,748,024	98.45%	18,135,472	98.37%
– Credit card advances	295,834	–	283,143	–
– Others	4,610,218	89.44%	3,833,893	86.44%
Trade finance	11,436,183	15.88%	8,389,371	19.10%
Loans for use outside Hong Kong	<u>162,891,387</u>	25.84%	<u>162,904,829</u>	26.36%
	<u><u>369,756,520</u></u>	30.57%	<u><u>339,141,041</u></u>	31.26%

**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 2016</b>	(Restated) 31 Dec 2015
	<b>HK\$'000</b>	HK\$'000
(a) Loans for use outside Hong Kong		
Individually impaired loans	<b>3,130,963</b>	2,241,149
Overdue loans and advances over three months	<b>2,709,789</b>	1,503,719
Individual impairment allowance	<b>1,782,820</b>	1,412,917
Collective impairment allowance	<b>1,112,097</b>	1,036,949
New impairment allowance charged		
to income statement	<b>445,051</b>	321,946
Impaired loans and advances written off		
during the period/year	–	60,747
	<b>30 Jun 2016</b>	31 Dec 2015
	<b>HK\$'000</b>	HK\$'000
(b) Loans for use in Hong Kong		
Industrial, commercial and financial		
Others		
Individually impaired loans	<b>2,347</b>	2,389
Overdue loans and advances over three months	<b>1,279</b>	1,806
Individual impairment allowance	<b>269</b>	249
Collective impairment allowance	<b>125,945</b>	127,615
New impairment allowance (written back from)/		
charged to income statement	<b>(1,650)</b>	112,227
Impaired loans and advances written off		
during the period/year	–	40,665

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

5 Currency concentrations

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

30 June 2016	US\$ HK\$'000	RMB HK\$'000	JPY HK\$'000	Other foreign currencies HK\$'000	Total HK\$'000
<b>Non-structural position</b>					
Spot assets	278,648,843	219,583,433	628,548	22,124,543	520,985,367
Spot liabilities	(239,628,162)	(218,787,944)	(435,768)	(20,076,675)	(478,928,549)
Forward purchases	337,535,829	169,460,850	42,472,551	116,926,324	666,395,554
Forward sales	(359,619,031)	(167,007,583)	(42,594,927)	(118,380,114)	(687,601,655)
Net option position	1,616,716	(1,405,069)	(310,022)	(38,454)	(136,829)
Net long/(short) position	<u>18,554,195</u>	<u>1,843,687</u>	<u>(239,618)</u>	<u>555,624</u>	<u>20,713,888</u>
<b>Net structural position</b>	<b>212,895</b>	<b>7,632,464</b>	<b>-</b>	<b>-</b>	<b>7,845,359</b>
<b>31 December 2015</b>					
	US\$ HK\$'000	RMB HK\$'000	JPY HK\$'000	Other foreign currencies HK\$'000	Total HK\$'000
<b>Non-structural position</b>					
Spot assets	264,167,972	224,969,733	227,343	17,341,790	506,706,838
Spot liabilities	(207,472,309)	(214,966,546)	(468,788)	(17,057,634)	(439,965,277)
Forward purchases	255,266,192	152,957,917	41,648,875	52,155,455	502,028,439
Forward sales	(287,853,166)	(154,546,348)	(41,309,850)	(52,158,402)	(535,867,766)
Net option position	4,683,011	(4,513,322)	(120,516)	(117,757)	(68,584)
Net long/(short) position	<u>28,791,700</u>	<u>3,901,434</u>	<u>(22,936)</u>	<u>163,452</u>	<u>32,833,650</u>
Net structural position	212,646	7,227,723	-	-	7,440,369

Foreign currency exposures include those arising from the trading position. The net option position is calculated on the basis of the delta-weighted position of option contracts. The net structural position of the Group is the structural positions.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

**6 Leverage Ratio**

The leverage ratio as at 30 June 2016 was compiled in accordance with the Leverage Ratio Framework issued by the HKMA.

	<b>30 Jun 2016</b>	31 Dec 2015
Leverage ratio	<u>7.72%</u>	<u>7.84%</u>

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

**7 Countercyclical Capital Buffer Ratio**

	<b>30 Jun 2016</b>	31 Dec 2015
Countercyclical Capital Buffer ratio	<u>0.38%</u>	<u>0.00%</u>

The relevant disclosures pursuant to section 24B of the Banking (Disclosure) Rules are available in the section of Regulatory Disclosures of our website [www.icbcasia.com](http://www.icbcasia.com).

There was no information disclosed relating to the countercyclical capital buffer ratio pursuant to section 45B of the Banking (Disclosure) Rules for 2015 because the applicable JCCyB ratios for Hong Kong and for jurisdiction outside Hong Kong are at 0% before 1st January, 2016 according to section 3P and section 3Q of the Capital Rules.