

OCBC Wing Hang Bank Limited
2015 Interim Report



Contents

	Page
Unaudited Consolidated Income Statement	2
Unaudited Consolidated Statement of Comprehensive Income	3
Unaudited Consolidated Balance Sheet	4
Unaudited Consolidated Statement of Changes in Equity	5
Notes to Unaudited Interim Financial Report	7
Unaudited Supplementary Financial Information	25

Unaudited Consolidated Income Statement

(Expressed in thousands of Hong Kong dollars unless otherwise stated)

	Notes	Six months ended 30th June, 2015	Six months ended 30th June, 2014
Interest income	3(a)	3,353,257	3,222,214
Interest expense	3(b)	(1,557,652)	(1,468,892)
Net interest income		1,795,605	1,753,322
Other operating income	3(c)	554,043	423,919
Operating income		2,349,648	2,177,241
Operating expenses	3(f)	(1,122,506)	(1,053,156)
Operating profit before impairment losses and allowances		1,227,142	1,124,085
Impairment losses and allowances		(77,813)	(31,227)
Operating profit after impairment losses and allowances		1,149,329	1,092,858
Net gains/(losses) on revaluation of properties and disposal of tangible fixed assets	4(a)	6,573	(536)
Net losses from trading and financial instruments designated at fair value through profit or loss	3(d)	(37,599)	(66,497)
Net gains on disposal of available-for-sale financial assets	4(b)	68,229	49,240
Share of net gains of associated companies		40,603	26,166
Profit before taxation		1,227,135	1,101,231
Taxation	5	(196,804)	(168,452)
Profit for the period attributable to equity shareholders of the Bank		1,030,331	932,779

The notes on pages 7 to 24 form part of the unaudited interim financial report.

Unaudited Consolidated Statement of Comprehensive Income

(Expressed in thousands of Hong Kong dollars unless otherwise stated)

	Notes	Six months ended 30th June, 2015	Six months ended 30th June, 2014
Profit for the period		1,030,331	932,779
Other comprehensive income for the period (after tax and reclassification adjustments)			
Items that will not be reclassified to profit or loss			
– Surplus on revaluation of bank premises	9	123,901	204,513
– Deferred taxes		(4,298)	(21,554)
		119,603	182,959
Items that will be reclassified subsequently to profit or loss			
– Exchange adjustments on translation of financial report of subsidiaries		1,366	(28,490)
		1,366	(28,490)
– Available-for-sale financial assets			
– Fair value changes to equity			
– on debt securities		47,033	74,840
– on equity securities		123,462	(8,179)
– Transfer to consolidated income statement			
– gains on disposal	4(b)	(54,945)	(38,210)
– Deferred taxes		(18,090)	(6,901)
		97,460	21,550
		98,826	(6,940)
Other comprehensive income for the period, net of tax		218,429	176,019
Total comprehensive income for the period attributable to equity shareholders of the Bank		1,248,760	1,108,798

The notes on pages 7 to 24 form part of the unaudited interim financial report.

Unaudited Consolidated Balance Sheet

(Expressed in thousands of Hong Kong dollars unless otherwise stated)

	Notes	30th June, 2015	31st December, 2014
ASSETS			
Cash and balances with banks, central banks and other financial institutions	6	6,515,948	7,583,054
Placements with banks, central banks and other financial institutions	7	9,764,706	19,645,875
Amounts due from ultimate holding company and fellow subsidiaries		14,996,824	7,031,024
Trading assets		2,292,722	1,916,608
Financial assets designated at fair value through profit or loss		7,861,274	7,094,386
Advances to customers and other accounts	8(a)	160,593,078	159,450,435
Available-for-sale financial assets		34,410,296	26,209,405
Investments in associated companies		315,914	311,974
Tangible fixed assets	9		
– Investment properties		175,700	169,000
– Other properties, plants and equipment		4,598,441	4,543,407
Goodwill		1,306,430	1,306,430
Current tax recoverable		–	24,223
Deferred tax assets		22,576	22,617
Total assets		242,853,909	235,308,438
EQUITY AND LIABILITIES			
Deposits and balances of banks, central banks and other financial institutions	10	1,702,840	2,312,768
Amounts due to ultimate holding company and fellow subsidiaries		5,286,932	1,909,896
Deposits from customers	11	198,811,567	195,255,992
Certificates of deposit issued	12	3,817,659	5,167,145
Trading liabilities		618,073	568,789
Current tax payable		231,859	109,352
Deferred tax liabilities		223,447	208,794
Other accounts and provisions	13	4,219,021	3,098,629
Subordinated liabilities	14	3,281,321	3,269,087
Total liabilities		218,192,719	211,900,452
Share capital and other statutory capital reserves		1,740,750	1,740,750
Reserves	15	22,920,440	21,667,236
Total equity		24,661,190	23,407,986
Total equity and liabilities		242,853,909	235,308,438

The notes on pages 7 to 24 form part of the unaudited interim financial report.

Unaudited Consolidated Statement of Changes in Equity

(Expressed in thousands of Hong Kong dollars unless otherwise stated)

Six months ended 30th June, 2015					
	At 1st January	Share of changes in associated companies	Transfer to/ (from) reserve	Total comprehensive income for the period	At 30th June
Share capital	1,740,750	–	–	–	1,740,750
Capital reserve	311,643	–	–	–	311,643
Statutory reserve	396,382	–	–	–	396,382
General reserve	2,262,755	–	–	1,366	2,264,121
Bank premises revaluation reserve	2,484,728	–	(25,779)	119,603	2,578,552
Investment revaluation reserve	275,992	4,444	–	97,460	377,896
Unappropriated profits	15,935,736	–	25,779	1,030,331	16,991,846
Total equity	23,407,986	4,444	–	1,248,760	24,661,190

Six months ended 31st December, 2014					
	At 30th June	Share of changes in associated companies	Transfer to/ (from) reserve	Total comprehensive income for the period	At 31st December
Share capital	1,740,750	–	–	–	1,740,750
Share premium	–	–	–	–	–
Capital redemption reserve	–	–	–	–	–
Capital reserve	299,076	–	12,567	–	311,643
Statutory reserve	314,024	–	82,358	–	396,382
General reserve	2,265,070	–	(22,000)	19,685	2,262,755
Bank premises revaluation reserve	2,295,489	–	(22,200)	211,439	2,484,728
Investment revaluation reserve	204,719	2,374	–	68,899	275,992
Unappropriated profits	15,217,409	–	(50,725)	769,052	15,935,736
Total equity	22,336,537	2,374	–	1,069,075	23,407,986

Unaudited Consolidated Statement of Changes in Equity

(Expressed in thousands of Hong Kong dollars unless otherwise stated)

Six months ended 30th June, 2014

	At 1st January	Transition to no-par value regime on 3rd March, 2014	Share issued under Share Option Scheme	Share issued under Employee Incentive Plan (Note 3(f))	Dividends approved in respect of the previous year	Share of changes in associated companies	Disposal of bank premises	Transfer to/ (from) reserve	Total comprehensive income for the period	At 30th June
Share capital	307,425	1,406,517	21,747	5,061	-	-	-	-	-	1,740,750
Share premium	1,405,748	(1,405,748)	-	-	-	-	-	-	-	-
Capital redemption reserve	769	(769)	-	-	-	-	-	-	-	-
Capital reserve	299,076	-	-	-	-	-	-	-	-	299,076
Statutory reserve	314,024	-	-	-	-	-	-	-	-	314,024
General reserve	2,293,560	-	-	-	-	-	-	-	(28,490)	2,265,070
Bank premises revaluation reserve	2,133,256	-	-	-	-	-	(1,706)	(19,020)	182,959	2,295,489
Investment revaluation reserve	183,283	-	-	-	-	(114)	-	-	21,550	204,719
Unappropriated profits	14,763,079	-	-	-	(499,175)	-	1,706	19,020	932,779	15,217,409
Total equity	21,700,220	-	21,747	5,061	(499,175)	(114)	-	-	1,108,798	22,336,537

Under the new Hong Kong Companies Ordinance (Cap. 622), which commenced operation on 3rd March, 2014, the concepts of "authorised share capital" and "par value" no longer exist. As part of the transition to the no-par value regime, the amount standing to the credit of the share premium account and the capital redemption reserve on 3rd March, 2014 have become part of the Bank's share capital, under the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622). These changes do not have an impact on the number of shares in issue or the relative entitlement of any of the members.

The notes on pages 7 to 24 form part of the unaudited interim financial report.

Notes to Unaudited Interim Financial Report

(Expressed in thousands of Hong Kong dollars unless otherwise stated)

1. GENERAL INFORMATION

OCBC Wing Hang Bank Limited ("the Bank") is a licensed bank in Hong Kong. The Bank together with its subsidiaries (collectively "the Group") provide banking, financial and other related services.

2. BASIS OF PREPARATION

The accounting policies and methods of computation used in the preparation of the 2015 interim consolidated financial report is consistent with those used and described in the Group's annual audited financial report for the year ended 31st December, 2014.

In preparing the interim consolidated financial report for 2015, the Bank has fully complied with the disclosure standards set out in the "Banking (Disclosure) Rules" and the "Guideline on the Application of the Banking (Disclosure) Rules" issued by the Hong Kong Monetary Authority ("HKMA").

Disclosures on capital and leverage required by the Banking (Disclosure) Rules will be disclosed before 30th September, 2015 under "Regulatory Disclosure" on the website of the Bank (www.ocbcwhhk.com).

The interim consolidated financial report was approved by the Board of Directors for issue on 28th August, 2015.

These interim consolidated financial report has not been audited.

3. OPERATING PROFIT

(a) Interest income

	Six months ended 30th June, 2015	Six months ended 30th June, 2014
Interest income including the following:		
– financial assets not measured at fair value through profit or loss	3,133,353	3,021,192
– interest income from impaired financial assets	10,282	4,261

(b) Interest expense

	Six months ended 30th June, 2015	Six months ended 30th June, 2014
Interest expense including the following:		
– financial liabilities not measured at fair value through profit or loss	1,340,523	1,268,978

Notes to Unaudited Interim Financial Report

3. OPERATING PROFIT *(Continued)*

(c) Other operating income

	Six months ended 30th June, 2015	Six months ended 30th June, 2014
Fees and commission		
Credit commission and fees	99,777	84,765
Credit card related fees	107,322	86,743
Trade related fees	26,540	38,899
Insurance commission	60,405	52,632
Stockbroking fees	105,628	55,866
Trust fees	38	38
Wealth management fees	35,363	14,406
Other fees and commission income	48,862	47,962
Less: Fees and commission expenses	(56,369)	(44,429)
	427,566	336,882
Gains arising from dealing in foreign currencies (note 3(e))	106,862	70,762
Gains on other dealing activities (note 3(e))	759	638
Dividend income from unlisted available-for-sale financial assets	6,895	6,007
Dividend income from listed available-for-sale financial assets	434	448
Dividend income from listed trading investments	47	64
Rental income from investment properties less direct outgoings of HK\$120,000 (30th June, 2014: HK\$25,000)	2,062	2,263
Others	9,418	6,855
	554,043	423,919
of which:		
Net fees and commission, other than amounts included in determining the effective interest rate, arising from financial instruments that are not held for trading nor designated at fair value through profit or loss		
– fees and commission income	136,892	132,775
– fees and commission expenses	(2)	(3)
	136,890	132,772

3. OPERATING PROFIT *(Continued)*

(d) Net losses from trading and financial instruments designated at fair value through profit or loss

	Six months ended 30th June, 2015	Six months ended 30th June, 2014
Net realised and unrealised losses on trading financial instruments (note 3(e))	(42,238)	(28,555)
Net realised and unrealised gain/(losses) on financial instruments designated at fair value through profit or loss:		
– unrealised losses on subordinated liabilities	(13,511)	(106,847)
– realised and unrealised gains on other financial instruments	18,150	68,905
	4,639	(37,942)
	(37,599)	(66,497)

(e) Net trading gains

	Six months ended 30th June, 2015	Six months ended 30th June, 2014
Gains arising from dealing in foreign currencies (note 3(c))	106,862	70,762
Gains on other dealing activities (note 3(c))	759	638
Net realised and unrealised losses on trading financial instruments (note 3(d))	(42,238)	(28,555)
	65,383	42,845

Notes to Unaudited Interim Financial Report

3. OPERATING PROFIT *(Continued)*

(f) Operating expenses

	Six months ended 30th June, 2015	Six months ended 30th June, 2014
Staff costs		
Salaries and other staff costs	681,468	620,137
Retirement benefit costs	38,230	36,685
Employee Incentive Plan ("EIP") – fair value of awards	–	4,566
EIP – bonus	–	2,533
	719,698	663,921
Premises and equipment expenses, excluding depreciation	149,829	141,611
Depreciation (notes 9)	100,569	101,663
Others	152,410	145,961
	1,122,506	1,053,156

4. (a) Net gains/(losses) on revaluation of properties and disposal of tangible fixed assets

	Six months ended 30th June, 2015	Six months ended 30th June, 2014
Unrealised revaluation gains of investment properties (note 9)	6,700	1,300
Net losses on disposal of tangible fixed assets	(127)	(1,836)
	6,573	(536)

(b) Net gains on disposal of available-for-sale financial assets

	Six months ended 30th June, 2015	Six months ended 30th June, 2014
Net unrealised gains transferred from investment revaluation reserve upon disposal	54,945	38,210
Net gains on disposal of available-for-sale financial assets	13,284	11,030
	68,229	49,240

5. TAXATION

Taxation in the consolidated income statement represents:

	Six months ended 30th June, 2015	Six months ended 30th June, 2014
Current tax – Provision for Hong Kong profits tax	145,285	119,632
Current tax – Provision for tax outside Hong Kong	59,211	46,599
Deferred taxation	(7,692)	2,221
	196,804	168,452

6. CASH AND BALANCES WITH BANKS, CENTRAL BANKS AND OTHER FINANCIAL INSTITUTIONS

	30th June, 2015	31st December, 2014
Cash balances	838,456	834,030
Balances with central banks	4,403,231	5,807,663
Balances with banks	1,274,261	941,361
	6,515,948	7,583,054

7. PLACEMENTS WITH BANKS, CENTRAL BANKS AND OTHER FINANCIAL INSTITUTIONS

	30th June, 2015	31st December, 2014
Remaining maturity		
– Within 1 month	3,534,318	10,386,288
– Over 1 month but within 1 year	6,230,388	9,259,587
	9,764,706	19,645,875

Notes to Unaudited Interim Financial Report

8. ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS

(a) Advances to customers and other accounts

	30th June, 2015	31st December, 2014
Gross advances to customers	153,475,222	150,839,476
Individual impairment allowances for impaired loans and advances (note 8(d))	(221,989)	(205,516)
Collective impairment allowances for loans and advances (note 8(d))	(228,991)	(217,867)
Net advances to customers	153,024,242	150,416,093
Gross trade bills	4,630,391	6,641,918
Individual impairment allowances for impaired trade bills (note 8(d))	–	(398)
Collective impairment allowances for trade bills (note 8(d))	(47)	(38)
Net trade bills	4,630,344	6,641,482
Reverse repurchase agreements	8,185	–
Customer liability under acceptances	305,130	388,325
Interest receivable	644,432	619,384
Amount receivable for sale of debt securities	252,225	–
Other accounts	1,728,520	1,385,151
	160,593,078	159,450,435

8. ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS *(Continued)*

(b) Advances to customers analysed by industry sectors

The information concerning advances to customers by industry sectors is prepared by classifying the advances according to the usage of the advances and is stated gross of any impairment allowances.

	30th June, 2015		31st December, 2014	
	Gross advances to customers	% of gross advances covered by collateral	Gross advances to customers	% of gross advances covered by collateral
Advances for use in Hong Kong				
Industrial, commercial and financial				
– Property development	2,426,783	45.1	2,465,839	47.3
– Property investment	18,928,060	99.7	19,645,482	99.5
– Financial concerns	3,746,833	14.5	3,225,909	15.8
– Stockbrokers	3,782,702	48.2	1,918,234	29.8
– Wholesale and retail trade	6,969,144	72.1	5,971,781	72.8
– Manufacturing	3,379,676	51.2	2,778,803	56.1
– Transport and transport equipment	9,017,550	89.9	9,649,121	85.1
– Information technology	82,248	33.0	97,824	1.0
– Share financing	298,867	98.9	277,385	97.9
– Recreational activities	47,894	–	50,080	–
– Others	5,050,405	71.2	4,070,248	65.4
Individuals				
– Advances for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes	2,240,407	100.0	2,364,957	100.0
– Advances for the purchase of other residential properties	32,015,729	100.0	30,014,249	100.0
– Credit card advances	303,145	0.8	292,409	0.4
– Others	9,363,968	74.8	8,940,990	70.3
	97,653,411	84.3	91,763,311	84.5
Trade finance	7,030,063	73.4	8,027,252	78.1
Advances for use outside Hong Kong				
– Mainland China	26,457,881	59.9	28,954,954	59.8
– Macau	21,084,607	89.0	20,816,317	91.5
– Others	1,249,260	61.2	1,277,642	61.4
	48,791,748	72.5	51,048,913	72.8
	153,475,222	80.1	150,839,476	80.2

Notes to Unaudited Interim Financial Report

8. ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS *(Continued)*

(c) Impaired advances to customers

The gross impaired advances to customers, market value of collateral held with respect to such advances and individual impairment allowances are as follows:

	30th June, 2015	31st December, 2014
Gross impaired advances to customers	681,610	551,976
Gross impaired advances to customers as a percentage of total advances to customers	0.44%	0.37%
Market value of collateral held with respect to impaired advances to customers	475,444	400,817
Individual impairment allowances	221,989	205,516

Impaired advances to customers are individually assessed loans with objective evidence of impairment on an individual basis. Individually assessed impairment allowances were made after taking into account the net present value of future recoverable amounts in respect of such loans and advances, and the collateral held mainly comprised properties and vehicles.

There are no impaired advances to banks nor individual impairment allowances made on advances to banks as at 30th June, 2015 and 31st December, 2014.

(d) Impairment allowances for loans and advances

	Six months ended 30th June, 2015		
	Individual	Collective	Total
At 1st January	205,914	217,905	423,819
Additions	90,316	11,133	101,449
Releases	(23,636)	–	(23,636)
Net charges to consolidated income statement	66,680	11,133	77,813
Unwind of discount of loan impairment losses	(9,034)	–	(9,034)
Recoveries of advances written off in prior years	14,556	–	14,556
Amounts written off	(56,127)	–	(56,127)
At 30th June	221,989	229,038	451,027
Representing impairment allowances for:			
Trade bills (note 8(a))	–	47	47
Advances to customers (note 8(a))	221,989	228,991	450,980
	221,989	229,038	451,027

8. ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS *(Continued)*

(d) Impairment allowances for loans and advances (Continued)

	Year ended 31st December, 2014		
	Individual	Collective	Total
At 1st January	58,699	223,666	282,365
Additions	262,663	–	262,663
Releases	(47,366)	(5,761)	(53,127)
Net charges/(releases) to consolidated income statement	215,297	(5,761)	209,536
Unwind of discount of loan impairment losses	(2,234)	–	(2,234)
Recoveries of advances written off in prior years	34,417	–	34,417
Amounts written off	(100,265)	–	(100,265)
At 31st December	205,914	217,905	423,819
Representing impairment allowances for:			
Trade bills (note 8(a))	398	38	436
Advances to customers (note 8(a))	205,516	217,867	423,383
	205,914	217,905	423,819

(e) Repossessed assets

At 30th June, 2015, repossessed assets obtained as securities for impaired advances to customers totalled HK\$3,587,000 (31st December, 2014: HK\$45,196,000).

Notes to Unaudited Interim Financial Report

9. TANGIBLE FIXED ASSETS

	Six months ended 30th June, 2015				
	Investment properties	Bank premises	Equipment	Bank premises and equipment	Total
Cost or valuation					
At 1st January	169,000	4,562,686	1,169,293	5,731,979	5,900,979
Additions	–	14	32,535	32,549	32,549
Disposals	–	–	(41,878)	(41,878)	(41,878)
Surplus on revaluation					
– credited to bank premises revaluation reserve	–	123,901	–	123,901	123,901
– credited to consolidated income statement (note 4(a))	6,700	–	–	–	6,700
Elimination of accumulated depreciation on revalued bank premises	–	(36,835)	–	(36,835)	(36,835)
Exchange adjustment	–	19	1,464	1,483	1,483
At 30th June	175,700	4,649,785	1,161,414	5,811,199	5,986,899
The analysis of cost or valuation of the above assets is as follows:					
At cost	–	1,346,981	1,161,414	2,508,395	2,508,395
At valuation 2015	175,700	3,302,804	–	3,302,804	3,478,504
	175,700	4,649,785	1,161,414	5,811,199	5,986,899
Accumulated depreciation					
At 1st January	–	261,195	927,377	1,188,572	1,188,572
Charge for the period (note 3(f))	–	52,933	47,636	100,569	100,569
Written back on disposals	–	–	(39,363)	(39,363)	(39,363)
Elimination of accumulated depreciation on revalued bank premises	–	(36,835)	–	(36,835)	(36,835)
Exchange adjustment	–	365	(550)	(185)	(185)
At 30th June	–	277,658	935,100	1,212,758	1,212,758
Net book value					
At 30th June	175,700	4,372,127	226,314	4,598,441	4,774,141

9. TANGIBLE FIXED ASSETS (Continued)

Year ended 31st December, 2014					
	Investment properties	Bank premises	Equipment	Bank premises and equipment	Total
Cost or valuation					
At 1st January	163,100	4,193,135	1,157,413	5,350,548	5,513,648
Additions	–	41	57,012	57,053	57,053
Disposals	–	(3,433)	(44,859)	(48,292)	(48,292)
Surplus on revaluation					
– credited to bank premises revaluation reserve	–	436,464	–	436,464	436,464
– credited to consolidated income statement	5,900	–	–	–	5,900
Elimination of accumulated depreciation on revalued bank premises	–	(63,323)	–	(63,323)	(63,323)
Exchange adjustment	–	(198)	(273)	(471)	(471)
At 31st December	169,000	4,562,686	1,169,293	5,731,979	5,900,979
The analysis of cost or valuation of the above assets is as follows:					
At cost	–	1,346,957	1,169,293	2,516,250	2,516,250
At valuation 2014	169,000	3,215,729	–	3,215,729	3,384,729
	169,000	4,562,686	1,169,293	5,731,979	5,900,979
Accumulated depreciation					
At 1st January	–	227,549	859,573	1,087,122	1,087,122
Charge for the year	–	96,359	109,702	206,061	206,061
Written back on disposals	–	(6)	(37,830)	(37,836)	(37,836)
Elimination of accumulated depreciation on revalued bank premises	–	(63,323)	–	(63,323)	(63,323)
Exchange adjustment	–	616	(4,068)	(3,452)	(3,452)
At 31st December	–	261,195	927,377	1,188,572	1,188,572
Net book value					
At 31st December	169,000	4,301,491	241,916	4,543,407	4,712,407

Notes to Unaudited Interim Financial Report

10. DEPOSITS AND BALANCES OF BANKS, CENTRAL BANKS AND OTHER FINANCIAL INSTITUTIONS

	30th June, 2015	31st December, 2014
Deposits from central banks	12,035	605,174
Deposits from banks	1,690,805	1,707,594
	1,702,840	2,312,768

11. DEPOSITS FROM CUSTOMERS

	30th June, 2015	31st December, 2014
Demand deposits and current accounts	28,427,937	26,747,435
Savings deposits	29,122,998	27,450,798
Time, call and notice deposits	141,260,632	141,057,759
	198,811,567	195,255,992

12. CERTIFICATES OF DEPOSIT ISSUED

	30th June, 2015	31st December, 2014
Certificates of deposit issued at amortised cost	3,817,659	5,167,145
	3,817,659	5,167,145

13. OTHER ACCOUNTS AND PROVISIONS

	30th June, 2015	31st December, 2014
Acceptances outstanding	305,130	388,325
Interest payable	1,117,350	1,079,714
Amount payable for purchase of debt securities	858,277	55
Other payables	1,938,264	1,630,535
	4,219,021	3,098,629

14. SUBORDINATED LIABILITIES

	30th June, 2015	31st December, 2014
US\$400 million 6.00% step-up perpetual subordinated notes, designated at fair value through profit or loss (note (a))	3,281,321	3,269,087
	3,281,321	3,269,087

- (a) On 19th April, 2007, the Bank issued step-up perpetual subordinated notes which is included in tier 2 capital and subject to phase out, with a face value of HK\$3,125,520,000 (US\$400,000,000). The notes bear interest at a fixed rate of 6.00% per annum until 19th April, 2017 and are floating at LIBOR plus 1.85% per annum thereafter if the notes are not early redeemed at the option of the Bank. Despite the Bank has the option to defer making payment of interest on the subordinated notes, interest payable on each interest payment date will be made by the Bank provided that the Bank has generated sufficient positive distributable profits during the 12 months preceding the interest payment date. The notes are listed on the Singapore Exchange Securities Trading Limited.

15. RESERVES

The Group's unappropriated profits as at 30th June, 2015 included a regulatory reserve of HK\$1,858,384,000 (31st December, 2014: HK\$1,833,550,000). The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of losses which the Group will or may incur on advances to customers in addition to impairment losses recognised. Movements in the reserve are earmarked directly through unappropriated profits and in consultation with the HKMA.

16. CONTINGENT LIABILITIES AND COMMITMENTS TO EXTEND CREDIT

Contingent liabilities and commitments arises from forward asset purchases, amounts owing on partly paid-up shares and securities, forward deposits placed, asset sales or other transactions with recourse, as well as credit-related instruments which include letters of credit, guarantees and commitments to extend credit. The risk involved in these credit-related instruments is essentially the same as the credit risk involved in extending loan facilities to customers. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. Since a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the contractual amounts is not representative of future cash flows.

The risk weights used in the computation of credit risk weighted amounts range from 0% to 100%.

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

	30th June, 2015	31st December, 2014
Direct credit substitutes	1,370,912	1,446,415
Transaction-related contingencies	110,484	127,544
Trade-related contingencies	592,227	687,530
Other commitments:		
With an original maturity of not more than one year	1,049,384	1,503,900
With an original maturity over one year	1,741,796	1,626,342
Which are unconditionally cancellable	34,881,282	38,084,858
	39,746,085	43,476,589
Credit risk weighted amounts	2,418,300	2,444,655

17. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices.

Derivative financial instruments arise from forward, swap and option transactions undertaken by the Group and the Bank in the foreign exchange, interest rate and equity markets.

Derivative financial instruments are also used to manage the Group's own exposures to market risk as part of its asset and liability management process. The principal derivatives instruments used by the Group are interest and foreign exchange rate related contracts, which are primarily over-the-counter ("OTC") derivatives. The Group also participates in exchange traded derivatives. Most of the Group's derivatives positions have been entered into to meet customer demand and to hedge these and other trading positions. For accounting purposes, derivatives are classified as held for trading.

The notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet date and do not represent amounts at risk.

The following table is a summary of the notional amounts of each significant type of derivatives.

30th June, 2015			
	Managed in conjunction with financial instruments designated at fair value through profit or loss	Others, including held for trading	Total
Exchange rate contracts			
Forwards	–	33,997,027	33,997,027
Options purchased	–	27,232,457	27,232,457
Options written	–	26,874,825	26,874,825
Interest rate contracts			
Swaps	7,597,352	21,977,953	29,575,305
Equity contracts			
Options purchased	–	722,421	722,421
Options written	–	715,982	715,982
	7,597,352	111,520,665	119,118,017

17. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

31st December, 2014			
	Managed in conjunction with financial instruments designated at fair value through profit or loss	Others, including held for trading	Total
Exchange rate contracts			
Forwards	–	19,321,201	19,321,201
Options purchased	–	14,754,680	14,754,680
Options written	–	14,712,577	14,712,577
Interest rate contracts			
Swaps	8,205,213	20,856,122	29,061,335
Equity contracts			
Options purchased	–	556,946	556,946
Options written	–	555,889	555,889
	8,205,213	70,757,415	78,962,628

The trading transactions include the Group's positions arising from the execution of trade orders from customers or transactions undertaken to hedge these positions.

The fair values of derivative financial instruments are as follows:

	30th June, 2015		31st December, 2014	
	Assets	Liabilities	Assets	Liabilities
Exchange rate contracts	234,364	299,170	222,583	237,821
Interest rate contracts	366,808	302,308	428,827	316,160
Equity contracts	16,859	16,595	14,812	14,808
	618,031	618,073	666,222	568,789

The credit risk weighted amounts are as follows:

	30th June, 2015	31st December, 2014
Exchange rate contracts	1,334,928	671,525
Interest rate contracts	172,069	201,774
Equity contracts	73,455	57,187
	1,580,452	930,486

The risk weights used in the computation of credit risk weighted average amounts range from 0% to 100%. These amounts do not take into account the effects of bilateral netting arrangements.

18. LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk of inability to fund an increase in assets or meet obligations as they fall due. An institution's obligations, and the funding sources used to meet them, depend significantly on its business mix, balance sheet structure, and the cash flow profiles of its on- and off-balance sheet obligation. The Group's primary objective of liquidity risk management is to manage the liquidity risk exposures under both normal and stressed conditions. The Group has established liquidity management policies for ensuring adequate liquidity is maintained at all times. The Group maintained an average liquidity maintenance ratio of 36.2% for the six months ended 30th June, 2015 (30th June, 2014: an average liquidity ratio of 37.5%), which is well above the statutory requirement of 25%. The ratio as of 30th June, 2015 is compiled in accordance with the Banking (Liquidity) Rules effective from 1st January, 2015, whereas the ratio as of 30th June, 2014 was compiled in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance as in force immediately before 1st January, 2015. Accordingly, the ratios of the two periods are not directly comparable.

Roles and responsibilities in the Group's liquidity risk management structure are mainly distributed across different committees and hierarchical levels: Board of Directors, Risk Management Committee, Asset and Liability Management Committee ("ALMCO"), Investment Strategy Committee, Treasury Division, Financial Management Division, Risk Management Division and Retail Banking Division.

Liquidity is managed day-to-day by the Treasurer under the direction of ALMCO. ALMCO, which comprises personnel from senior management, treasury function, risk management, financial management and other business areas that could affect liquidity risk, is responsible for overseeing the liquidity risk management, in particular implementation of appropriate liquidity policies and procedures, identifying, measuring and monitoring liquidity risk, and control over the liquidity risk management process. The Board of Directors approves the liquidity risk strategy and policies, maintaining continued awareness of the overall liquidity risk profile, and ensuring liquidity risk is adequately managed and controlled by senior management within the established risk management framework.

Customer deposits form an important part of funding source of the Group. The Retail Banking Division is responsible for maintaining customer deposits as well as advising the funding need of loans to the Treasury Division. The head of Retail Banking Division updates information to the ALMCO members on any material customers' deposits balance movement and strategy to tap deposits.

To cater for funding requirements during ordinary course of business, sufficient liquid assets are held and also access to the interbank market is maintained. In addition, adequate standby facilities are maintained in order to meet any unexpected and material cash outflow. The Group also performs regular stress tests which include an institution-specific crisis scenario, a general market wide crisis scenario and a combined scenario, on its liquidity position to ensure adequate liquidity is maintained at all times.

Treasury Division acts in accordance with the Liquidity Portfolio Framework and Debt Securities Investment Framework to address the issue of liquidity cushion. The objectives of the Liquidity Portfolio Framework are to ensure that the Group can meet its obligations when they fall due in normal circumstances and an adequate stock of high quality liquid assets in the portfolio could provide a safety cushion in the event of a funding crisis.

Due to the close proximity of three operating regions Hong Kong, China and Macau, the Group adopts a centralised approach to manage liquidity and funding for both domestic and overseas subsidiaries. At the next granular level, such as branches and sub-branches, the overseas subsidiaries take responsibility for managing their funding arrangement in relation to the use and application of funds. Financial Management Division provides a consolidated picture to the Group's management.

18. LIQUIDITY RISK MANAGEMENT *(Continued)*

The identification of liquidity risk depends first and foremost on its ability to accurately measure net funding requirements along different time horizons of its cash-flow projections. Setting up liquidity risk tolerance, including the quality and mixture of liquid asset holdings, maturity or currency mismatches and concentration of funding as well as stress testing is the next step to facilitate liquidity risk control in the liquidity management structure.

In commensurate with the Group's business size, structure and complexity, the Group sets up target for the critical liquidity risk indicators for monitoring and controlling the liquidity risk exposures.

The Group adopts a range of liquidity metrics to manage its liquidity position, namely liquidity maintenance ratio, medium term funding ratio, maturity mismatch target, loan to deposit ratio and etc. Those liquidity indicators are subject to the ALMCO's review on a regular basis against the target.

The maintenance of liquidity maintenance ratio can serve the purpose to address the short term liquidity stability. Medium term funding ratio gives a clear picture on the Group's medium term funding. A medium funding ratio is a percentage of liabilities plus shareholders' equity to total assets excluding land and building and investments in associates or subsidiaries, both with a contractual maturity of more than one year.

The Group bases on the projection of future cash flows under normal and stressed conditions over different time horizons to identify potential funding mismatches and compared against the liquidity metrics. Moreover, the risk is further analysed by currencies and entities for senior management's review.

Stress tests for liquidity risk management are designed to assess the Group's ability to generate sufficient liquidity from both sides of assets and liabilities to meet funding needs under adverse conditions. The scenarios cover crisis under institution specific, general market wide and combined basis. Assumptions are subject to regular review by the ALMCO to ensure the effectiveness of stress testing process. Stress tests are performed regularly at individual major entity level. The impact is further analysed on consolidated group wide level.

The Group has formulated a contingency plan setting out strategies for dealing with a liquidity crisis and the procedures for making up cash-flow deficits in emergency situations. The plan is updated and reviewed at least annually by ALMCO to ensure that it remains robust over time. Any revision will be further approved by the Board of Directors. Apart from the liquidity limits and ratios agreed with the HKMA, the Group will promptly inform the HKMA of any indicators of serious liquidity problems, which may trigger contingency funding plan.

Notes to Unaudited Interim Financial Report

19. CURRENCY RISK

The Group's foreign exchange positions, which arise from foreign exchange dealing, commercial banking operations and structural foreign currency exposures arising from capital investment in subsidiaries and branches outside Hong Kong, mainly in US dollar, Macau Patacas and Renminbi, are managed by ALMCO. All foreign exchange positions are managed by the ALMCO within limits approved by the Board of Directors.

The Group's net positions or net structural positions in foreign currencies are disclosed below where each currency constitutes 10% or more of the respective total net position or total net structural position in all foreign currencies.

The net option position is calculated on the basis of delta-weighted positions of all foreign exchange options contracts. The net structural position includes the Bank's overseas branch, banking subsidiaries and other subsidiaries substantially involved in foreign exchange trading and include structural assets or liabilities as follow:

- investments in overseas subsidiaries and related companies; and
- subordinated liabilities.

	30th June, 2015			31st December, 2014		
(In millions of HK\$ equivalent)	US\$	Chinese Renminbi	Total	US\$	Chinese Renminbi	Total
Spot assets	57,441	35,858	114,599	42,879	42,529	100,717
Spot liabilities	(41,882)	(37,845)	(105,963)	(35,460)	(43,260)	(96,138)
Forward purchases	10,159	8,356	24,619	5,791	5,868	15,360
Forward sales	(23,655)	(2,454)	(27,303)	(13,454)	(2,131)	(17,161)
Net option positions	(1,285)	(3,805)	(5,086)	580	(2,705)	(2,111)
Net long positions	778	110	866	336	301	667

	30th June, 2015				31st December, 2014			
(In millions of HK\$ equivalent)	Macau Patacas	Chinese Renminbi	US\$	Total	Macau Patacas	Chinese Renminbi	US\$	Total
Net structural positions	1,233	2,572	498	4,303	1,043	2,529	498	4,070

Unaudited Supplementary Financial Information

(Expressed in thousands of Hong Kong dollars unless otherwise stated)

(A) CAPITAL AND LIQUIDITY RATIO

(i) Capital ratio

	30th June, 2015	31st December, 2014
Total capital ratio	15.9%	15.3%
Tier 1 capital ratio	12.4%	11.7%
Common Equity Tier 1 capital ratio	12.4%	11.7%

The calculation of the regulatory capital and capital charges are in accordance with the Banking (Capital) Rules ("the Capital Rules"). The capital ratios are computed on a consolidated basis including the Bank and certain of its subsidiaries as specified by the HKMA for its regulatory purposes, and are in accordance with the Banking (Capital) Rules.

In calculating the capital ratio of the Group at 30th June, 2015 and 31st December, 2014, the following subsidiaries are excluded from the regulatory scope of consolidation which are mainly securities and insurance companies that are authorised and supervised by a regulator and are subject to supervisory arrangements regarding the maintenance of adequate capital to support business activities comparable to those prescribed for authorised institutions under the Capital Rules and the Banking Ordinance:

Subsidiaries	Principal activities	30th June, 2015		31st December, 2014	
		Total assets	Total equity	Total assets	Total equity
CF Limited	Dormant/ to be liquidated	–	–	–	–
Chekiang First Bank (Nominees) Limited	Nominee Services	10	10	10	10
Chekiang First Bank (Trustees) Limited	Trustee Services	3,952	3,942	3,959	3,938
Chekiang First Limited	Dormant	1	1	1	1
Chekiang First Securities Company Limited	Dormant	6,594	6,536	6,582	6,524
Honfirst Investment Limited	Futures Trading	16,488	16,425	16,422	16,359
OCBC Wing Hang (Nominees) Limited	Nominee Services	10	10	10	10
OCBC Wing Hang (Trustee) Limited	Trustee Services	3,625	3,610	3,622	3,568
OCBC Wing Hang Insurance Agency Limited	Insurance Agency	47,969	33,364	38,513	26,140
OCBC Wing Hang Insurance Brokers Limited	Insurance Broker	30,949	17,103	20,744	13,034
OCBC Wing Hang Shares Brokerage Company Limited	Securities Dealing	925,847	274,441	606,468	251,960

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

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

Unaudited Supplementary Financial Information

(A) CAPITAL AND LIQUIDITY RATIO *(Continued)*

(ii) Average liquidity maintenance ratio and liquidity ratio

	Six months ended 30th June, 2015	Six months ended 30th June, 2014
Average liquidity maintenance ratio	36.2%	–
Average liquidity ratio	–	37.5%

The average liquidity maintenance ratio and liquidity ratio for the six months includes the liquidity positions of the Bank and certain of its financial subsidiaries, which is the basis of computation agreed with the Hong Kong Monetary Authority ("HKMA"). The ratio as of 30th June, 2015 is compiled in accordance with the Banking (Liquidity) Rule effective from 1st January, 2015, whereas the ratio as of 30th June, 2014 was compiled in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance as in force immediately before 1st January, 2015. Accordingly, the ratios of the two periods are not directly comparable.

(B) ADVANCES TO CUSTOMERS ANALYSED BY GEOGRAPHICAL AREA

The geographical information is classified by the geographical location of the counterparties after taking into account any risk transfer. In general, such transfer of risk takes place if the claims are guaranteed by a party in a geographical location which is different from that of the borrower or if the claims are on an overseas branch of a bank whose head office is located in another geographical location.

	30th June, 2015				
	Gross advances to customers	Impaired advances to customers	Overdue advances to customers for over three months	Individual impairment allowances	Collective impairment allowances
Hong Kong	112,858,557	175,180	115,280	44,800	116,637
Macau	20,501,988	25,330	27,230	22,718	8,850
Mainland China	18,810,788	477,007	437,709	154,199	97,836
Others	1,303,889	4,093	10,574	272	5,668
	153,475,222	681,610	590,793	221,989	228,991

	31st December, 2014				
	Gross advances to customers	Impaired advances to customers	Overdue advances to customers for over three months	Individual impairment allowances	Collective impairment allowances
Hong Kong	108,296,095	172,068	96,104	37,079	105,153
Macau	19,709,825	25,430	33,053	22,739	8,411
Mainland China	21,846,991	350,880	284,666	145,641	98,811
Others	986,565	3,598	14,949	57	5,492
	150,839,476	551,976	428,772	205,516	217,867

(C) FURTHER ANALYSIS OF ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS

The following information concerning the further analysis of advances to customers by industry sectors is prepared by classifying the advances according to the usage of the advances in respect of industry sectors which constitute not less than 10% of gross advances to customers.

30th June, 2015

	Gross advances to customers	Impaired advances to customers	Overdue advances to customers for over three months	Individual impairment allowances	Collective impairment allowances
Property investment	18,928,060	–	–	–	14,373
Advances for the purchase of other residential properties	32,015,729	290	290	–	33,053
Advances for use outside Hong Kong					
– Mainland China	26,457,881	535,727	501,796	166,187	128,162
– Macau	21,084,607	25,330	27,230	22,718	7,937

31st December, 2014

	Gross advances to customers	Impaired advances to customers	Overdue advances to customers for over three months	Individual impairment allowances	Collective impairment allowances
Property investment	19,645,482	3,964	–	–	13,804
Advances for the purchase of other residential properties	30,014,249	712	320	–	29,098
Advances for use outside Hong Kong					
– Mainland China	28,954,954	403,465	328,891	152,246	128,122
– Macau	20,816,317	25,430	33,053	22,739	7,868

Unaudited Supplementary Financial Information

(D) OVERDUE AND RESCHEDULED ASSETS

(i) Overdue and rescheduled advances to customers

	30th June, 2015		31st December, 2014	
	Amount	% of total advances to customers	Amount	% of total advances to customers
Gross advances to customers which have been overdue with respect to either principal or interest for periods of:				
– 6 months or less but over 3 months	131,989	0.09	118,186	0.08
– 1 year or less but over 6 months	205,969	0.13	47,722	0.03
– Over 1 year	252,835	0.16	262,864	0.17
	590,793	0.38	428,772	0.28
Covered portion of overdue advances	456,817		312,810	
Uncovered portion of overdue advances	133,976		115,962	
	590,793		428,772	
Current market values of collateral held against covered portion of overdue advances	1,174,999		1,244,930	
Individual impairment allowances made on overdue advances	201,675		157,206	

Collateral held with respect to overdue advances to customers is mainly properties and vehicles.

	30th June, 2015		31st December, 2014	
	Amount	% of total advances to customers	Amount	% of total advances to customers
Rescheduled advances to customers	9,854	0.01	14,761	0.01

There were no advances to banks which are overdue nor rescheduled as at 30th June, 2015 and 31st December, 2014.

(D) OVERDUE AND RESCHEDULED ASSETS *(Continued)*

(ii) *Other overdue assets*

	30th June, 2015	31st December, 2014
Trade bills which have been overdue with respect to either principal or interest for periods of:		
– Over 1 year	–	398
	–	398

There are no overdue debt securities included in “Financial assets designated at fair value through profit or loss” and “Available-for-sale financial assets” as at 30th June, 2015 and 31st December, 2014.

Included in “Other assets” as at 30th June, 2015 and 31st December, 2014, there are no receivables which are overdue.

Unaudited Supplementary Financial Information

(E) NON-BANK MAINLAND CHINA EXPOSURES

The analysis on non-bank Mainland China exposures includes exposures of the Bank and certain of its subsidiaries on the basis agreed with the HKMA.

(In millions of HK\$ equivalent)	30th June, 2015		
	On-balance sheet exposures	Off-balance sheet exposures	Total exposures
(i) Central government, central government-owned entities and their subsidiaries and Joint Ventures ("JVs")	9,334	260	9,594
(ii) Local government, local government-owned entities and their subsidiaries and JVs	2,204	–	2,204
(iii) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	17,259	8,387	25,646
(iv) Other entities of central government not reported in item (i) above	726	104	830
(v) Other entities of local government not reported in item (ii) above	1,384	–	1,384
(vi) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in the Mainland China	4,953	459	5,412
(vii) Other counterparties where the exposures are considered by the Group to be non-bank Mainland China exposures	5,292	39	5,331
Total	41,152	9,249	50,401
Total assets after provisions	219,470		
On-balance sheet exposures as % of total assets	18.75%		

(E) NON-BANK MAINLAND CHINA EXPOSURES *(Continued)*

31st December 2014			
<i>(In millions of HK\$ equivalent)</i>	On-balance sheet exposures	Off-balance sheet exposures	Total exposures
(i) Central government, central government-owned entities and their subsidiaries and JVs	8,399	85	8,484
(ii) Local government, local government-owned entities and their subsidiaries and JVs	1,807	–	1,807
(iii) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	17,607	10,019	27,626
(iv) Other entities of central government not reported in item (i) above	1,095	140	1,235
(v) Other entities of local government not reported in item (ii) above	1,261	–	1,261
(vi) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in the Mainland China	3,078	186	3,264
(vii) Other counterparties where the exposures are considered by the Group to be non-bank Mainland China exposures	4,403	–	4,403
Total	37,650	10,430	48,080
Total assets after provisions	214,314		
On-balance sheet exposures as % of total assets	17.57%		

Unaudited Supplementary Financial Information

(F) INTERNATIONAL CLAIMS

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

30th June, 2015					
			Non-bank private sector		
	Banks	Official sector	Non-bank financial institutions	Non-financial private sector	Total
Offshore centres, of which:					
– Hong Kong	9,537	4,452	19,116	97,364	130,469
– Macau	51	814	50	20,825	21,740
– Singapore	14,798	75	224	833	15,930
Developing Asia-Pacific, of which:					
– Mainland China	24,437	4,831	1,395	28,439	59,102
	48,823	10,172	20,785	147,461	227,241
31st December, 2014					
			Non-bank private sector		
	Banks	Official sector	Non-bank financial institutions	Non-financial private sector	Total
Offshore centres, of which:					
– Hong Kong	2,579	6,756	17,014	95,793	122,142
– Macau	51	691	34	20,020	20,796
– Singapore	7,066	–	190	695	7,951
Developing Asia-Pacific, of which:					
– Mainland China	25,913	6,660	1,380	29,495	63,448
	35,609	14,107	18,618	146,003	214,337

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



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