



# 中信嘉華銀行有限公司 CITIC KA WAH BANK LIMITED

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

## ANNOUNCEMENT OF 2008 INTERIM RESULTS

The Board of Directors of CITIC Ka Wah Bank Limited (“the Bank”) is pleased to announce the unaudited consolidated results of the Bank and its subsidiaries (“the Group”) for the six months ended 30 June 2008 and the Group’s state of affairs as at that date together with the comparative figures. The interim financial report is prepared on a basis consistent with the accounting policies and methods adopted in the 2007 audited accounts. The interim financial report is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standards on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), whose unmodified review report is included in the interim report to be sent to shareholders.

### CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008 – Unaudited  
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2008	2007
		HK\$'000	HK\$'000
Interest income	2	2,063,077	2,346,553
Interest expense		(1,210,740)	(1,730,307)
<b>Net interest income</b>		<b>852,337</b>	<b>616,246</b>
Fee and commission income		445,996	391,680
Fee and commission expense		(9,172)	(6,521)
<b>Net fee and commission income</b>	3	<b>436,824</b>	<b>385,159</b>
Net loss and write-down on structured investment vehicles		(717,885)	–
Other net trading income		162,034	339,664
<b>Net trading (loss)/income</b>	4	<b>(555,851)</b>	<b>339,664</b>
Net expense from financial instruments designated at fair value through profit or loss	5	(64,102)	(76,805)
Net hedging loss	6	(938)	(79)
Other operating income	7	22,222	24,471
<b>Operating income</b>		<b>690,492</b>	<b>1,288,656</b>
<b>Operating expenses</b>	8	<b>(634,979)</b>	<b>(592,746)</b>
<b>Operating profit before impairment</b>		<b>55,513</b>	<b>695,910</b>
Impairment losses written back/(charged for) on loans and advances	9	9,525	(42,541)
Impairment losses written back on held-to-maturity investments		–	188
Impairment losses written back on available-for-sale securities		100	–
Impairment losses on property and equipment	20	–	(30,068)
<b>Impairment losses written back/(charged for)</b>		<b>9,625</b>	<b>(72,421)</b>
Net profit/(loss) on disposal of available-for-sale securities	10	36,909	(141)
<b>Operating profit</b>		<b>102,047</b>	<b>623,348</b>
Net (loss)/profit on disposal of property and equipment		(982)	19,536
Revaluation gain on investment properties		28,112	5,497
<b>Profit before taxation</b>		<b>129,177</b>	<b>648,381</b>
Income tax	11	(21,958)	(109,605)
<b>Profit for the period</b>		<b>107,219</b>	<b>538,776</b>
<b>Interim dividend declared during the period</b>	12	<b>–</b>	<b>–</b>

# **CONSOLIDATED BALANCE SHEET**

*As at 30 June 2008 – Unaudited*

*(Expressed in Hong Kong dollars)*

		As at 30 June 2008	As at 31 December 2007
	Note	HK\$'000	HK\$'000
<b>Assets</b>			
Cash and balances with banks, central banks and other financial institutions	13	1,290,076	1,502,875
Placements with and advances to banks, central banks and other financial institutions	14	7,065,223	12,647,588
Trade bills	15	1,128,511	1,523,200
Trading assets	16	1,709,257	3,479,009
Securities designated at fair value through profit or loss	17	405,850	531,025
Loans and advances to customers and other accounts	18	77,475,840	67,751,338
Available-for-sale securities	19	19,761,887	22,125,403
Property and equipment	20		
– Investment property		175,742	238,380
– Other property and equipment		919,817	845,856
Tax recoverable	24	165,812	71,248
Deferred tax assets	24	74,055	67,155
<b>Total assets</b>		<b>110,172,070</b>	<b>110,783,077</b>
<b>Equity and liabilities</b>			
Deposits and balances of banks and other financial institutions		5,455,204	1,539,030
Deposits from customers	21	78,820,210	84,018,313
Trading liabilities	22	925,433	879,690
Certificates of deposit issued	23	4,786,041	6,863,124
Debt securities issued	25	2,342,413	2,314,394
Current taxation	24	12,517	6,760
Deferred tax liabilities	24	1,273	–
Loan capital	26	3,924,513	3,926,390
Other liabilities	27	4,198,899	1,596,952
<b>Total liabilities</b>		<b>100,466,503</b>	<b>101,144,653</b>
<b>Equity</b>			
Share capital		5,583,341	5,583,341
Reserves	28	4,122,226	4,055,083
<b>Total equity attributable to equity shareholders of the Bank</b>		<b>9,705,567</b>	<b>9,638,424</b>
<b>Total equity and liabilities</b>		<b>110,172,070</b>	<b>110,783,077</b>

# **CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

*For the six months ended 30 June 2008 – Unaudited*

*(Expressed in Hong Kong dollars)*

		Six months ended 30 June			
		2008		2007	
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Total equity at 1 January</b>			<b>9,638,424</b>		<b>7,282,339</b>
<b>Net expense recognised directly in equity:</b>					
Exchange differences on translation of:					
– financial statements of overseas branches and subsidiaries	28		<b>15,952</b>		6,768
Release of revaluation surplus upon disposal of investment properties (transferred from other premises during the period)	28		–		6,011
Release of revaluation surplus and deferred tax liabilities upon disposal of investment properties (transferred from other premises in prior years)	28		<b>277</b>		–
Effect of decrease in tax rate on deferred tax balance at 1 January	28		<b>(784)</b>		–
Available-for-sale securities					
– changes in fair value	28	<b>(45,103)</b>		(26,466)	
– transferred from equity to deferred tax	28	<b>13,472</b>		4,600	
– transferred from equity to income statement on disposal	28	<b>(36,539)</b>		182	
			<b>(68,170)</b>		(21,684)
			<b>(52,725)</b>		(8,905)
<b>Profit for the period</b>			<b>107,219</b>		<b>538,776</b>
<b>Total recognised income and expense for the period</b>			<b>54,494</b>		<b>529,871</b>
<b>Interim dividends declared during the period</b>	12		–		–
<b>Movements in equity arising from capital transactions:</b>					
Equity-settled share-based transactions	28		<b>12,649</b>		2,694
<b>Total equity at 30 June</b>			<b>9,705,567</b>		<b>7,814,904</b>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***For the six months ended 30 June 2008 – Unaudited**(Expressed in Hong Kong dollars)*

	<b>Six months ended 30 June</b>	
	<b>2008</b>	<b>2007</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Cash (used in)/generated from operations</b>	<b>(2,776,764)</b>	<b>1,229,146</b>
<b>Income tax paid</b>	<b>(103,486)</b>	<b>(3,467)</b>
<b>Net cash (used in)/generated from operating activities</b>	<b>(2,880,250)</b>	<b>1,225,679</b>
<b>Net cash (used in)/generated from investing activities</b>	<b>(17,969)</b>	<b>3,293</b>
<b>Net cash used in financing activities</b>	<b>(214,250)</b>	<b>(296,769)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(3,112,469)</b>	<b>932,203</b>
<b>Cash and cash equivalents at 1 January</b>	<b>10,339,283</b>	<b>12,031,995</b>
<b>Cash and cash equivalents at 30 June</b>	<b>7,226,814</b>	<b>12,964,198</b>

## NOTES TO THE INTERIM FINANCIAL REPORT – UNAUDITED

(Expressed in Hong Kong dollars unless otherwise indicated)

### (1) Basis of preparation

The interim financial report together with the unaudited supplementary financial information on pages 29 to 43 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and has fully complied with the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority (“HKMA”).

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2007 annual financial statements.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year-to-date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2007 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”).

The financial information relating to the financial year ended 31 December 2007 that is included in the interim financial report as being previously reported information does not constitute the Group’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2007 are available from the Bank’s registered office. The independent auditors have expressed an unqualified opinion on those financial statements in their report dated 27 March 2008.

### (2) Interest income

	Six months ended 30 June	
	2008	2007
	HK\$’000	HK\$’000
Listed securities	199,944	231,783
Unlisted securities	222,379	189,144
Others	1,640,754	1,925,626
	<b>2,063,077</b>	<b>2,346,553</b>

All interest income and interest expenses included in the income statement refer to those interest income on financial assets or interest expenses on financial liabilities that are not at fair value through profit or loss for the six months ended 30 June 2008 and 2007.

Included in the above is interest income accrued on impaired financial assets of HK\$1,570,000 (six months ended 30 June 2007: HK\$16,436,000), which includes interest income on unwinding of discount on loan impairment losses of HK\$1,084,000 (six months ended 30 June 2007: HK\$906,000) for the six months ended 30 June 2008.

**(3) Net fee and commission income**

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Fee and commission income:		
Bills commission	39,648	29,848
Cards related income	15,606	17,473
General banking services	28,183	24,605
Insurance	64,802	55,825
Investment and structured investment products	113,508	111,537
Loans, overdrafts and facilities fee	183,733	151,960
Others	516	432
	<b>445,996</b>	391,680
Fee and commission expense	<b>(9,172)</b>	(6,521)
	<b>436,824</b>	385,159
Of which:		
Net fee and commission income (other than the amounts included in determining the effective interest rate) relating to financial assets and liabilities not at fair value through profit or loss:		
– Fee and commission income	199,339	169,433
– Fee and commission expense	<b>(3,692)</b>	(2,106)
	<b>195,647</b>	167,327

**(4) Net trading (loss)/income**

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Net loss and write-down on structured investment vehicles	<b>(717,885)</b>	–
Other net trading income:		
Gains less losses from dealing in foreign currencies	90,365	62,917
Gains less losses from trading securities	<b>(25,099)</b>	151,842
Gains less losses from other dealing activities	90,261	22,913
Interest income on trading assets		
– Listed	30	12,746
– Unlisted	6,477	73,545
Dividend income from unlisted trading securities	–	15,701
	<b>162,034</b>	339,664
	<b>(555,851)</b>	339,664

The Group recorded a net loss and write-down on structured investment vehicles of approximately HK\$717,885,000 during the period, which represented the changes in fair value of the investments.

(5) Net expense from financial instruments designated at fair value through profit or loss

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Net loss	(22,882)	(20,180)
Interest income		
– Listed	2,485	14,622
– Unlisted	8,400	6,078
Interest expense	(52,105)	(77,325)
	<u>(64,102)</u>	<u>(76,805)</u>

(6) Net hedging loss

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Fair value hedge loss	<u>(938)</u>	<u>(79)</u>

(7) Other operating income

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Dividend income from available-for-sale securities		
– Unlisted	3,060	2,960
Rental income from investment properties less direct outgoings of HK\$41,000 (six months ended 30 June 2007: HK\$Nil)	2,997	2,390
Others	<u>16,165</u>	<u>19,121</u>
	<u>22,222</u>	<u>24,471</u>

(8) Operating expenses

		Six months ended 30 June	
		2008	2007
		HK\$'000	HK\$'000
(a)	<b>Staff costs</b>		
	Salaries and other staff costs	356,260	342,784
	Retirement costs	22,271	19,895
	Share-based payment expenses		
	– Equity-settled share-based payment expenses ( <i>note 28</i> )	12,649	2,694
	– Cash-settled share-based payment expenses	4,997	8,690
		396,177	374,063
(b)	<b>Depreciation</b>		
	Depreciation of property and equipment		
	– Assets held for use under operating leases	906	7,618
	– Other assets	35,925	39,329
		36,831	46,947
(c)	<b>Other operating expenses</b>		
	Property and equipment expenses, excluding depreciation		
	– Rental of property	42,606	37,588
	– Others	39,120	33,659
	Auditors' remuneration	2,138	2,382
	Advertising	18,083	14,952
	Communication, printing and stationery	32,274	28,697
	Legal and professional fee	13,812	6,084
	Others	53,938	48,374
		201,971	171,736
<b>Total operating expenses</b>		<b>634,979</b>	<b>592,746</b>

Included in other operating expenses are minimum lease payment under operating leases of HK\$2,290,000 (six months ended 30 June 2007: HK\$982,000) for hire of equipment and HK\$40,230,000 (six months ended 30 June 2007: HK\$35,207,000) for hire of other assets (including property rentals).



(9) Impairment losses written back/(charged for) on loans and advances

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Individual assessment charged for		
– Additions	(83,565)	(58,216)
– Releases	6,189	2,019
– Recoveries	44,612	21,298
	(32,764)	(34,899)
Collective assessment written back/(charged for)	42,289	(7,642)
	9,525	(42,541)

(10) Net profit/(loss) on disposal of available-for-sale securities

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Net revaluation gain/(loss) transferred from reserves (note 28)	36,539	(182)
Net profit arising in current period	370	41
	36,909	(141)

(11) Income tax in the consolidated income statement

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
<b>Current tax – Hong Kong Profits Tax</b>		
Provision for the period	2,934	107,070
Over-provision in respect of prior years	(584)	–
	2,350	107,070
<b>Current tax – Overseas</b>		
Provision for the period	11,688	3,888
Under-provision in respect of prior years	582	–
	12,270	3,888
<b>Deferred tax</b>		
Origination and reversal of temporary differences (note 24(b))	4,234	(1,353)
Effect of decrease in tax rate on deferred tax balance at 1 January (note 24(b))	3,104	–
	7,338	(1,353)
	21,958	109,605

The provision of Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 June 2007: 17.5%) of the estimated assessable profits for the period. Taxation for branches and subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant countries.

**(12) Dividends**

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Interim dividend declared and paid	—	—

**(13) Cash and balances with banks, central banks and other financial institutions**

	As at 30 June 2008	As at 31 December 2007
	HK\$'000	HK\$'000
Cash in hand	152,587	159,200
Balances with banks	1,027,335	1,251,023
Balances with central banks	89,418	76,579
Balances with other financial institutions	20,736	16,073
	<b>1,290,076</b>	<b>1,502,875</b>

**(14) Placements with and advances to banks, central banks and other financial institutions**

	As at 30 June 2008	As at 31 December 2007
	HK\$'000	HK\$'000
Placement with banks	1,769,917	9,893,443
Advances to banks	5,276,587	2,511,607
Items in the course of collection from other banks	18,719	242,538
	<b>7,065,223</b>	<b>12,647,588</b>
Maturing		
– Within one month	1,859,273	9,552,993
– Between one month and one year	1,796,921	582,988
– After one year	3,409,029	2,511,607
	<b>7,065,223</b>	<b>12,647,588</b>

**(15) Trade bills**

	As at 30 June 2008	As at 31 December 2007
	HK\$'000	HK\$'000
Gross trade bills	1,128,552	1,523,243
Impairment allowances		
– Collectively assessed	(41)	(43)
	<b>1,128,511</b>	<b>1,523,200</b>

**(16) Trading assets**

	<b>As at 30 June 2008</b>	<b>As at 31 December 2007</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Debt securities	<b>671,560</b>	1,335,609
Equity securities	<b>3,572</b>	5,612
Investment funds	<b>8,831</b>	1,238,246
Trading securities	<b>683,963</b>	2,579,467
Positive fair values of derivatives ( <i>note 31(b)</i> )	<b>1,025,294</b>	899,542
	<b>1,709,257</b>	3,479,009
<b>Issued by:</b>		
Sovereigns	<b>901</b>	898
Public sector entities	<b>3,308</b>	2,355
Banks and other financial institutions	<b>667,351</b>	628,054
Corporate entities	<b>12,403</b>	1,948,160
	<b>683,963</b>	2,579,467
<b>Analysed by place of listing:</b>		
Listed in Hong Kong	<b>1,604</b>	1,095
Listed outside Hong Kong	<b>3,572</b>	200,165
	<b>5,176</b>	201,260
Unlisted	<b>678,787</b>	2,378,207
	<b>683,963</b>	2,579,467

(17) Securities designated at fair value through profit or loss

	As at 30 June 2008	As at 31 December 2007
	HK\$'000	HK\$'000
Debt securities	<b>405,850</b>	531,025
<b>Issued by:</b>		
Banks and other financial institutions	142,522	134,422
Corporate entities	<b>263,328</b>	396,603
	<b>405,850</b>	531,025
<b>Analysed by place of listing:</b>		
Listed outside Hong Kong	82,147	82,844
Unlisted	<b>323,703</b>	448,181
	<b>405,850</b>	531,025

(18) Loans and advances to customers and other accounts

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

	As at 30 June 2008	As at 31 December 2007
	HK\$'000	HK\$'000
Gross loans and advances	<b>75,424,484</b>	65,833,430
Impairment allowances		
– Individually assessed	(127,657)	(70,883)
– Collectively assessed	<b>(177,347)</b>	(223,540)
	<b>75,119,480</b>	65,539,007
Accrued interest and other accounts less impairment allowances	<b>2,356,360</b>	2,212,331
	<b>77,475,840</b>	67,751,338

(b) *Loans and advances to customers analysed by industry sectors*

The following economic sector analysis is based on categories and definitions used by the HKMA.

	As at 30 June 2008		As at 31 December 2007	
	Gross loans and advances to customers	% of loans and advances covered by collateral	Gross loans and advances to customers	% of loans and advances covered by collateral
	HK\$'000		HK\$'000	
Industrial, commercial and financial				
– Property development	115,000	–	207,000	–
– Property investment	8,701,185	98	7,740,669	98
– Financial concerns	4,747,430	62	5,061,032	36
– Stockbrokers	19,475	67	181,000	6
– Wholesale and retail trade	3,697,869	50	3,383,895	54
– Manufacturing	6,599,276	26	5,833,965	24
– Transport and transport equipment	3,160,065	72	3,394,165	81
– Recreational activities	128,631	99	100,800	99
– Information technology	18,521	99	1,122	80
– Others	2,765,278	56	3,332,366	60
Individuals				
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	33,737	100	34,963	100
– Loans for the purchase of other residential properties	11,219,031	99	11,284,553	99
– Credit card advances	384,712	–	506,775	–
– Others	3,003,987	87	2,401,149	83
Gross loans and advances for use in Hong Kong	44,594,197	74	43,463,454	70
Trade finance	4,991,469	37	4,467,495	38
Gross loans and advances for use outside Hong Kong	25,838,818	35	17,902,481	42
Gross loans and advances to customers	75,424,484	58	65,833,430	61

(c) *Impaired loans and advances to customers*

	As at 30 June 2008	As at 31 December 2007
	HK\$'000	HK\$'000
Gross impaired loans and advances to customers	937,753	757,212
Impairment allowances – Individually assessed	(127,657)	(70,883)
	<b>810,096</b>	<b>686,329</b>
Gross impaired loans and advances as a % of total loans and advances to customers	<b>1.24%</b>	<b>1.15%</b>

Impaired loans and advances are individually assessed loans which exhibit objective evidence of impairment on an individual basis.

Individually assessed impairment allowances were made after taking into account the realisable value of collateral in respect of such loans and advances of HK\$664,037,000 (31 December 2007: HK\$601,359,000) for the Group. This collateral mainly comprises mortgage interest over residential or commercial properties and cash with the Group.

The analysis of impaired loans and advances of the individual loan usage category, which accounted for 10% or more of the gross loans and advances to customers, is as follows:

	As at 30 June 2008		
	Individual impairment allowances	Collective impairment allowances	Impaired loans and advances
	HK\$'000	HK\$'000	HK\$'000
Property investment	3,059	7,090	30,118
Loans and advances for the purchase of other residential properties	258	2,578	12,236
Gross loans and advances for use outside Hong Kong	46,455	57,572	630,653
	<b>49,772</b>	<b>67,240</b>	<b>673,007</b>
	As at 31 December 2007		
	Individual impairment allowances	Collective impairment allowances	Impaired loans and advances
	HK\$'000	HK\$'000	HK\$'000
Property investment	3,059	7,486	21,931
Loans and advances for the purchase of other residential properties	1,944	4,470	13,927
Gross loans and advances for use outside Hong Kong	52,846	63,886	532,931
	<b>57,849</b>	<b>75,842</b>	<b>568,789</b>

**(19) Available-for-sale securities**

	<b>As at 30 June 2008</b>	<b>As at 31 December 2007</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Certificates of deposit held	<b>184,928</b>	150,033
Debt securities	<b>15,613,558</b>	21,157,046
Treasury bills (including Exchange Fund Bills)	<b>3,865,883</b>	721,180
Equity securities	<b>40,574</b>	40,212
Investment funds	<b>56,944</b>	56,932
	<b><u>19,761,887</u></b>	<b><u>22,125,403</u></b>
<b>Issued by:</b>		
Sovereigns	<b>3,865,883</b>	805,060
Public sector entities	<b>431,534</b>	710,682
Banks and other financial institutions	<b>10,551,595</b>	15,450,543
Corporate entities	<b>4,912,875</b>	5,159,118
	<b><u>19,761,887</u></b>	<b><u>22,125,403</u></b>
<b>Analysed by place of listing:</b>		
Listed in Hong Kong	<b>501,075</b>	864,142
Listed outside Hong Kong	<b>5,738,631</b>	6,473,642
	<b><u>6,239,706</u></b>	<b><u>7,337,784</u></b>
Unlisted	<b>13,522,181</b>	14,787,619
	<b><u>19,761,887</u></b>	<b><u>22,125,403</u></b>

(20) Property and equipment

	Investment properties	Other premises	Furniture, fixtures and equipment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Cost or valuation:</b>				
At 1 January 2007	124,776	1,052,358	656,062	1,833,196
Additions	—	—	54,390	54,390
Reclassification	62,100	(121,177)	—	(59,077)
Disposals	(8,600)	(2,657)	(9,199)	(20,456)
Surplus on revaluation before reclassification	—	7,286	—	7,286
Surplus on revaluation	60,104	—	—	60,104
Exchange adjustments	—	—	43	43
At 31 December 2007	238,380	935,810	701,296	1,875,486
<b>The analysis of cost or valuation of the above assets is as follows:</b>				
Cost	—	904,773	701,296	1,606,069
Valuation				
– 1985	—	31,037	—	31,037
– 2007	238,380	—	—	238,380
	238,380	935,810	701,296	1,875,486
At 1 January 2008	238,380	935,810	701,296	1,875,486
Additions	—	—	22,963	22,963
Reclassification	(88,900)	88,900	—	—
Disposals	(1,850)	—	(12,175)	(14,025)
Surplus on revaluation	28,112	—	—	28,112
Exchange adjustments	—	—	(9)	(9)
At 30 June 2008	175,742	1,024,710	712,075	1,912,527
<b>The analysis of cost or valuation of the above assets is as follows:</b>				
Cost	—	904,773	712,075	1,616,848
Valuation				
– 1985	—	31,037	—	31,037
– 2008	175,742	88,900	—	264,642
	175,742	1,024,710	712,075	1,912,527
<b>Accumulated depreciation:</b>				
At 1 January 2007	—	273,119	474,220	747,339
Charge for the year	—	21,132	61,937	83,069
Reclassification	—	(59,077)	—	(59,077)
Written back on disposals	—	(1,715)	(8,457)	(10,172)
Impairment loss	—	30,068	—	30,068
Exchange adjustments	—	—	23	23
At 31 December 2007	—	263,527	527,723	791,250
At 1 January 2008	—	263,527	527,723	791,250
Charge for the period ( <i>note 8(b)</i> )	—	10,273	26,558	36,831
Written back on disposals	—	—	(11,111)	(11,111)
Exchange adjustments	—	—	(2)	(2)
At 30 June 2008	—	273,800	543,168	816,968
<b>Net book value:</b>				
At 30 June 2008	175,742	750,910	168,907	1,095,559
At 31 December 2007	238,380	672,283	173,573	1,084,236



**(21) Deposits from customers**

	As at 30 June 2008	As at 31 December 2007
	HK\$'000	HK\$'000
Demand deposits and current deposits	6,730,230	6,878,550
Savings deposits	11,850,419	11,691,355
Time, call and notice deposits	60,239,561	65,448,408
	<b>78,820,210</b>	<b>84,018,313</b>

**(22) Trading liabilities**

	As at 30 June 2008	As at 31 December 2007
	HK\$'000	HK\$'000
Negative fair value of derivatives ( <i>note 31(b)</i> )	<b>925,433</b>	<b>879,690</b>

**(23) Certificates of deposit issued**

	As at 30 June 2008	As at 31 December 2007
	HK\$'000	HK\$'000
Designated at fair value through profit or loss	500,780	4,763,836
Non-trading	4,285,261	2,099,288
	<b>4,786,041</b>	<b>6,863,124</b>

Certificates of deposit issued are designated at fair value through profit or loss when they contain embedded derivatives that modify the cash flows that otherwise would be required to be separated.

The carrying amount of certificates of deposit issued designated at fair value through profit or loss at 30 June 2008 was HK\$12,620,000 (31 December 2007: HK\$31,135,000) lower than the contractual amount at maturity, which was mainly attributable to changes in benchmark interest rate.

**(24) Income tax in the consolidated balance sheet**

(a) *Current taxation in the consolidated balance sheet represents:*

	As at 30 June 2008	As at 31 December 2007
	HK\$'000	HK\$'000
Provision for Hong Kong Profits Tax for the period/year	2,934	9,544
Provisional Profits Tax paid	(163,773)	(136,292)
	(160,839)	(126,748)
Balance of Profits Tax provision relating to prior years	(4,076)	55,779
	(164,915)	(70,969)
Provision for overseas taxation	11,620	6,481
	(153,295)	(64,488)
Of which:		
Tax recoverable	(165,812)	(71,248)
Current taxation	12,517	6,760
	(153,295)	(64,488)

(b) *Deferred tax assets and liabilities recognised*

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the period are as follows:

	Depreciation allowances in excess of related depreciation	Impairment allowances for loans	Fair value adjustments for properties and other assets	Fair value adjustments for available- for-sale securities	Tax losses	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Deferred tax arising from:</b>							
At 1 January 2007	8,167	(39,260)	4,681	41,958	–	(254)	15,292
Charged/(credited) to consolidated income statement	244	234	10,199	–	(34,669)	–	(23,992)
Charged/(credited) to reserves	–	–	1,275	(60,347)	–	–	(59,072)
Exchange and other adjustments	–	–	–	–	617	–	617
At 31 December 2007	8,411	(39,026)	16,155	(18,389)	(34,052)	(254)	(67,155)
At 1 January 2008	8,411	(39,026)	16,155	(18,389)	(34,052)	(254)	(67,155)
Charged/(credited) to consolidated income statement (note 11)	2,378	7,593	(2,096)	–	(3,895)	254	4,234
Effect of decrease in tax rate charged/(credited) to consolidated income statement (note 11)	(481)	2,231	(592)	–	1,946	–	3,104
Charged/(credited) to reserves	–	–	(277)	(13,472)	–	–	(13,749)
Effect of decrease in tax rate charged/(credited) to reserves (note 28)	–	–	(267)	1,051	–	–	784
At 30 June 2008	10,308	(29,202)	12,923	(30,810)	(36,001)	–	(72,782)

	As at 30 June 2008	As at 31 December 2007
	HK\$'000	HK\$'000
Net deferred tax assets recognised on the consolidated balance sheet	(74,055)	(67,155)
Net deferred tax liabilities recognised on the consolidated balance sheet	1,273	–
	<u>(72,782)</u>	<u>(67,155)</u>

(c) *Deferred tax assets not recognised*

The Group has not recognised deferred tax assets in respect of cumulative tax losses of HK\$2,977,000 (31 December 2007: HK\$2,979,000), as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. Under the current tax legislation, the expiry dates of the tax losses are as follows:

	As at 30 June 2008	As at 31 December 2007
	HK\$'000	HK\$'000
No expiry date	<u>2,977</u>	<u>2,979</u>

(25) **Debt securities issued**

	As at 30 June 2008	As at 31 December 2007
	HK\$'000	HK\$'000
Non-trading debt securities issued	<u>2,342,413</u>	<u>2,314,394</u>

(26) **Loan capital**

	As at 30 June 2008	As at 31 December 2007
	HK\$'000	HK\$'000
Subordinated notes with US\$250 million 9.125%*	1,974,633	1,976,738
Subordinated notes with US\$250 million 1.75%+LIBOR rate**	<u>1,949,880</u>	<u>1,949,652</u>
	<u>3,924,513</u>	<u>3,926,390</u>

\* Subordinated notes with a coupon of 9.125% per annum and with face value of US\$250 million (HK\$ equivalent 1,944.1 million) were issued on 23 May 2002 by CKWH-UT2 Limited, a wholly-owned subsidiary of the Bank, and qualify as tier 2 capital. The Bank unconditionally and irrevocably guarantees all amounts payable under the notes. The 9.125% per annum perpetual subordinated notes will be callable by CKWH– UT2 Limited in 2012.

\*\* On 11 December 2007, the Bank, under a US\$2 billion Medium Term Note Programme, issued subordinated float rate notes with a coupon of 1.75% per annum above the LIBOR for three-month US dollar deposits with face value of US\$250 million (HK\$ equivalent 1,949.5 million). The notes are listed on the SGX-ST and will be matured on 12 December 2017.

**(27) Other liabilities**

	As at 30 June 2008	As at 31 December 2007
	HK\$'000	HK\$'000
Items in the course of collection to other financial institutions	1,998,768	–
Other accounts	2,200,131	1,596,952
	<b>4,198,899</b>	<b>1,596,952</b>

**(28) Reserves**

Attributable to equity shareholders of the Bank								
	Share premium	Capital reserve	General reserve	Exchange differences reserve	Other property revaluation reserve	Fair value reserve	Share option reserve	Retained profits*
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2007	282,930	6,589	100,000	10,462	22,066	197,792	12,828	3,566,331
Release of revaluation surplus upon disposal of investment properties (transferred from other premises during the year)	–	–	–	–	–	–	–	6,011
Exchange difference on translation	–	–	–	15,238	–	–	–	–
Equity-settled share-based transactions	–	–	–	–	–	–	12,957	–
Available-for-sale securities								
– change in fair value	–	–	–	–	–	(337,476)	–	–
– transferred to deferred tax	–	–	–	–	–	60,346	–	–
– transferred to income statement on disposal	–	–	–	–	–	(7,356)	–	–
Profit for the year	–	–	–	–	–	–	–	106,365
At 31 December 2007	282,930	6,589	100,000	25,700	22,066	(86,694)	25,785	3,678,707
At 1 January 2008	282,930	6,589	100,000	25,700	22,066	(86,694)	25,785	3,678,707
Exchange difference on translation	–	–	–	15,952	–	–	–	–
Release of revaluation surplus and deferred tax liabilities upon disposal of investment properties (transferred from other premises in prior years)	–	–	–	–	(1,401)	–	–	1,678
Effect of decrease in tax rate on deferred tax balance at 1 January (note 24(b))	–	–	–	–	267	(1,051)	–	–
Available-for-sale securities								
– change in fair value	–	–	–	–	–	(45,103)	–	–
– transferred to deferred tax	–	–	–	–	–	13,472	–	–
– transferred to income statement on disposal	–	–	–	–	–	(36,539)	–	–
Equity-settled share-based transactions (note 8)	–	–	–	–	–	–	12,649	–
Profit for the period	–	–	–	–	–	–	–	107,219
At 30 June 2008	282,930	6,589	100,000	41,652	20,932	(155,915)	38,434	3,787,604

\* A regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of losses which the Bank will or may incur on loans and advances (and the investments in the year of 2007) in addition to impairment losses recognised. Movements in the reserve are earmarked directly through retained profits and in consultation with the HKMA. As at 30 June 2008, HK\$764,214,000 (31 December 2007: HK\$957,055,000) was included in the retained profits in this respect which was distributable to equity holders of the Bank subject to consultation with the HKMA.

## (29) Maturity profile

The following maturity profile is based on the remaining period at the balance sheet date to the contractual maturity date.

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

As at 30 June 2008							
	Repayable on Total	Within 1 month	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Undated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Assets</b>							
Cash and balances with banks, central banks and other financial institutions	1,290,076	1,290,076	-	-	-	-	-
Placements with and advances to banks, central banks and other financial institutions	7,065,223	-	1,859,273	347,677	1,449,244	1,507,457	1,901,572
Trade bills	1,128,511	-	424,982	608,987	94,542	-	-
Trading assets	1,709,257	1,025,294	-	901	351	670,208	100
Securities designated at fair value through profit or loss	405,850	-	-	-	-	405,850	-
Loans and advances to customers and other accounts	77,475,840	1,763,396	3,819,171	5,190,701	12,238,384	31,818,441	19,449,305
Available-for-sale securities	19,761,887	-	4,402,853	2,602,367	2,824,299	8,397,823	1,434,890
Tax recoverable	165,812	-	-	-	165,812	-	-
Undated assets	1,169,614	-	-	-	-	-	1,169,614
<b>Total assets</b>	<b>110,172,070</b>	<b>4,078,766</b>	<b>10,506,279</b>	<b>8,750,633</b>	<b>16,772,632</b>	<b>42,799,779</b>	<b>22,785,867</b>
<b>Liabilities</b>							
Deposits and balances of banks and other financial institutions	5,455,204	112,272	4,204,559	924,250	214,123	-	-
Deposits from customers	78,820,210	18,580,649	42,619,482	12,483,263	4,855,652	281,164	-
Trading liabilities	925,433	925,433	-	-	-	-	-
Certificates of deposit issued	4,786,041	-	-	39,884	3,474,672	1,271,485	-
Debt securities issued	2,342,413	-	-	-	21,300	2,321,113	-
Loan capital	3,924,513	-	-	-	-	3,924,513	-
Current taxation	12,517	-	-	-	12,517	-	-
Undated liabilities	4,200,172	-	-	-	-	-	4,200,172
<b>Total liabilities</b>	<b>100,466,503</b>	<b>19,618,354</b>	<b>46,824,041</b>	<b>13,447,397</b>	<b>8,578,264</b>	<b>7,798,275</b>	<b>-</b>
<b>Asset – liability gap</b>	<b>(15,539,588)</b>	<b>(36,317,762)</b>	<b>(4,696,764)</b>	<b>8,194,368</b>	<b>35,001,504</b>	<b>22,785,867</b>	

As at 31 December 2007

	Total	Repayable on demand	Within 1 month	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Undated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Assets</b>								
Cash and balances with banks, central banks and other financial institutions	1,502,875	823,245	101,204	77,986	500,440	–	–	–
Placements with and advances to banks, central banks and other financial institutions	12,647,588	–	9,552,993	525,567	57,421	1,424,023	1,087,584	–
Trade bills	1,523,200	–	445,835	836,911	240,454	–	–	–
Trading assets	3,479,009	899,542	–	–	948	1,086,007	248,653	1,243,859
Securities designated at fair value through profit or loss	531,025	–	–	–	–	531,025	–	–
Loans and advances to customers and other accounts	67,751,338	1,564,930	1,958,699	5,381,822	7,865,500	29,116,210	18,942,826	2,921,351
Available-for-sale securities	22,125,403	–	1,645,774	2,822,729	6,063,073	9,785,773	1,708,876	99,178
Tax recoverable	71,248	–	–	–	71,248	–	–	–
Undated assets	1,151,391	–	–	–	–	–	–	1,151,391
<b>Total assets</b>	<b>110,783,077</b>	<b>3,287,717</b>	<b>13,704,505</b>	<b>9,645,015</b>	<b>14,799,084</b>	<b>41,943,038</b>	<b>21,987,939</b>	<b>5,415,779</b>
<b>Liabilities</b>								
Deposits and balances of banks and other financial institutions	1,539,030	282,145	882,462	171,293	203,130	–	–	–
Deposits from customers	84,018,313	18,569,905	51,534,648	11,061,862	2,290,713	561,185	–	–
Trading liabilities	879,690	879,690	–	–	–	–	–	–
Certificates of deposit issued	6,863,124	–	–	595,801	4,199,195	2,068,128	–	–
Debt securities issued	2,314,394	–	–	–	–	2,314,394	–	–
Loan capital	3,926,390	–	–	–	–	3,926,390	–	–
Current taxation	6,760	–	–	–	6,760	–	–	–
Undated liabilities	1,596,952	–	–	–	–	–	–	1,596,952
<b>Total liabilities</b>	<b>101,144,653</b>	<b>19,731,740</b>	<b>52,417,110</b>	<b>11,828,956</b>	<b>6,699,798</b>	<b>8,870,097</b>	<b>–</b>	<b>1,596,952</b>
<b>Asset – liability gap</b>		<b>(16,444,023)</b>	<b>(38,712,605)</b>	<b>(2,183,941)</b>	<b>8,099,286</b>	<b>33,072,941</b>	<b>21,987,939</b>	

### (30) Material related party transactions

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

#### (a) Transactions with group companies

During the period, the Group entered into a number of transactions with related parties, in the normal course of its banking business including, inter alia, lending, acceptance and placement of inter-bank deposits, participation in loan syndicates, correspondent banking transactions and foreign exchange transactions. The transactions were priced based on relevant market rates at the time of each transaction, and were under the same terms as those available to other counterparties and customers of the Group. In the opinion of the directors, these transactions were conducted on normal commercial terms.

The amount of related party transactions during the periods and outstanding balances at the end of the period/year are set out below:

	Immediate parent		Fellow subsidiaries		Associates (note 1)		Related company (note 2)	
					Six months ended 30 June			
	2008	2007	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income	–	–	8,703	2,089	6,446	8,102	–	–
Interest expense	(4,951)	(1,029)	(81,206)	(39,952)	(41,242)	(52,694)	(18,223)	–
Other operating income	197	–	–	–	21,280	19,543	–	–
Operating expenses	(1,844)	–	(6,154)	(5,806)	–	(118)	–	–
	(6,598)	(1,029)	(78,657)	(43,669)	(13,516)	(25,167)	(18,223)	–

	Immediate parent		Fellow subsidiaries		Associates (note 1)		Related company (note 2)	
					As at 30 June 2008/31 December 2007			
	2008	2007	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Lending activities:</b>								
As at 1 January	–	–	18,786	475,381	802,106	221,798	–	–
As at 30 June 2008/31 December 2007	–	–	1,059,032	18,786	519,315	802,106	–	–
Average for the period/for the year	–	–	591,002	18,902	595,679	463,692	–	–
<b>Other receivables:</b>								
As at 1 January	76,444	–	747	2,462	32,682	124,728	–	–
As at 30 June 2008/31 December 2007	83,014	76,644	8,210	747	386,492	32,682	–	–
Average for the period/for the year	82,961	54,380	8,450	4,407	193,644	13,973	–	–
<b>Acceptance of deposits:</b>								
As at 1 January	353,361	543,776	3,329,591	1,081,372	3,545,123	2,022,559	–	–
As at 30 June 2008/31 December 2007	273,429	353,361	5,448,556	3,329,591	2,451,699	3,545,123	–	–
Average for the period/for the year	287,480	1,425,480	4,261,254	2,997,448	2,864,279	2,670,054	–	–
<b>Other payables:</b>								
As at 1 January	142,123	327	21,279	1,744	7,126	903	2,508	–
As at 30 June 2008/31 December 2007	285,307	142,123	37,184	21,279	4,366	7,126	1,494	2,508
Average for the period/for the year	298,980	147,526	27,733	18,926	4,000	4,433	1,552	627
<b>Loan capital:</b>								
As at 1 January	–	–	803,257	–	389,930	–	623,889	–
As at 30 June 2008/31 December 2007	–	–	803,351	803,257	389,976	389,930	623,962	623,889
Average for the period/for the year	–	–	802,588	200,814	389,606	97,483	623,369	155,972

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

*Note:*

- (1) Associates of the Group included the associates of the ultimate controlling party and immediate parent respectively.
- (2) The related company referred to a shareholder of the immediate parent, which exercises significant influence on the immediate parent.



(b) *Transactions with key management personnel*

Remuneration for key management personnel of the Group, including amounts paid to the Group's directors and certain employees with the highest emoluments, are as follows:

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Short-term employee benefits	<b>15,281</b>	14,850
Post-employment benefits	<b>1,081</b>	982
Share-based payments	<b>4,418</b>	3,707
	<b>20,780</b>	19,539

Total remuneration is included in "staff costs" (note 8).

During the period, the Group provided credit facilities to key management personnel of the Group and its holding companies and their close family members and companies controlled or significantly influenced by them. The credit facilities were provided in the ordinary course of business and on substantially the same terms as for comparable transactions with persons of a similar standing or, where applicable, with other employees.

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
At 1 January	<b>13,505</b>	13,112
At 30 June 2008/31 December 2007	<b>12,512</b>	13,505
Maximum amount during the period/year	<b>14,395</b>	16,820

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

### (31) Derivatives

#### (a) Notional amounts of derivatives

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices. The following is a summary of the notional amounts of each significant type of derivatives entered into by the Group:

	As at 30 June 2008				As at 31 December 2007			
	Managed in conjunction with financial instruments designated at fair value	Held for through profit hedging or loss	Other (including held for trading)	Total	Managed in conjunction with financial instruments designated at fair value	Held for through profit hedging or loss	Other (including held for trading)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Currency derivatives</b>								
Forwards	-	-	21,346,213	21,346,213	-	-	21,114,508	21,114,508
Swaps	-	78,000	37,213,808	37,291,808	-	78,000	32,681,133	32,759,133
Options purchased	-	-	1,198,294	1,198,294	-	-	624,865	624,865
Options written	-	-	1,195,450	1,195,450	-	-	624,865	624,865
<b>Interest rate derivatives</b>								
Swaps	3,597,107	687,298	34,417,174	38,701,579	3,674,725	5,337,675	22,504,576	31,516,976
<b>Equity derivatives</b>								
Swaps	-	-	42,600	42,600	-	-	-	-
	<u>3,597,107</u>	<u>765,298</u>	<u>95,413,539</u>	<u>99,775,944</u>	<u>3,674,725</u>	<u>5,415,675</u>	<u>77,549,947</u>	<u>86,640,347</u>

The above transactions are undertaken by the Group in the foreign exchange, interest rate and equity markets. The notional amounts of these instruments indicate the volume of transactions outstanding and do not represent amounts at risk.

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

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

	As at 30 June 2008			As at 31 December 2007		
	Fair value assets	Fair value liabilities	Credit risk- weighted amount	Fair value assets	Fair value liabilities	Credit risk- weighted amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest rate derivatives	411,321	427,531	255,697	319,870	394,222	231,334
Currency derivatives	612,145	496,074	629,254	579,672	485,468	685,435
Equity derivatives	1,828	1,828	3,362	-	-	-
	<u>1,025,294</u>	<u>925,433</u>	<u>888,313</u>	<u>899,542</u>	<u>879,690</u>	<u>916,769</u>
	(note 16)	(note 22)		(note 16)	(note 22)	

The credit risk-weighted amount is the amount which has been calculated in accordance with the Banking (Capital) Rules on capital adequacy and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 150% (31 December 2007: 0% to 150%) for contingent liabilities and commitments, and from 0% to 150% (31 December 2007: 0% to 150%) for exchange rate, interest rate and other derivatives contracts.

The Group did not enter into any bilateral netting arrangements during the period and accordingly these amounts are shown on a gross basis.

(c) *Fair value of derivatives designated as hedging instruments*

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

	As at 30 June 2008		As at 31 December 2007	
	Fair value assets	Fair value liabilities	Fair value assets	Fair value liabilities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest rate contracts	<b>26,290</b>	<b>122,760</b>	26,628	127,597

Fair value hedges are principally consisted of interest rate swaps that are used to protect against changes in the fair value certain fixed rate assets or liabilities due to movements in the market interest rates.

(d) *Remaining life of derivatives*

The following tables provide an analysis of the notional amounts of derivatives of the Group by relevant maturity grouping based on the remaining periods to settlement at the balance sheet date:

	As at 30 June 2008 Notional amounts with remaining life of			
	Total	1 year or less	Over 1 year to 5 years	Over 5 years
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest rate derivatives	<b>38,701,579</b>	<b>7,202,552</b>	<b>31,499,027</b>	–
Currency derivatives	<b>61,031,765</b>	<b>58,832,438</b>	<b>2,199,327</b>	–
Equity derivatives	<b>42,600</b>	<b>42,600</b>	–	–
	<b>99,775,944</b>	<b>66,077,590</b>	<b>33,698,354</b>	–

	As at 31 December 2007 Notional amounts with remaining life of			
	Total	1 year or less	Over 1 year to 5 years	Over 5 years
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest rate derivatives	31,516,976	4,106,558	27,098,474	311,944
Currency derivatives	55,123,371	51,017,338	4,106,033	–
	<b>86,640,347</b>	<b>55,123,896</b>	<b>31,204,507</b>	<b>311,944</b>

### (32) Contingent liabilities and commitments

#### (a) Contingent liabilities and commitments to extend credit

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

	As at 30 June 2008	As at 31 December 2007
	HK\$'000	HK\$'000
Direct credit substitutes	4,958,969	4,391,322
Transaction-related contingencies	226,586	576,339
Trade-related contingencies	2,110,732	1,746,636
Forward forward deposits placed	21,839	—
Other commitments:		
– which are unconditionally cancellable or automatically cancellable due to deterioration in the creditworthiness of the borrower	17,462,212	15,921,154
– with an original maturity of not more than 1 year	4,596,063	3,551,324
– with an original maturity of more than 1 year	4,151,391	3,488,150
	<b>33,527,792</b>	<b>29,674,925</b>
Credit risk-weighted amounts	<b>5,904,175</b>	<b>4,472,023</b>

Contingent liabilities and commitments are credit-related instruments which include forward deposits placed, letters of credit, guarantees and commitments to extend credit. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. As the facilities may expire without being drawn upon, the contractual amounts do not represent expected future cash flows.

The risk weights used in the computation of credit risk-weighted amounts range from 0% to 150% (31 December 2007: 0% to 150%).

#### (b) Capital commitments

Capital commitments for purchase of properties and equipment outstanding at balance sheet date not provided for in the financial statements were as follows:

	As at 30 June 2008	As at 31 December 2007
	HK\$'000	HK\$'000
Authorised and contracted for	6,600	3,484
Authorised but not contracted for	31,300	58,100
	<b>37,900</b>	<b>61,584</b>

### (33) Post balance sheet events

Subsequent to the balance sheet date, certain amount of the facilities to a corporate customer totalling HK\$203 million became overdue in principal and/or interest. No individual impairment provision has been made on the exposures as at 30 June 2008 as it is too early to assess whether such a provision is needed. This event may lead to potential impairment charges as events relating to the circumstances of the customer unfold.

# **UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION**

*(Expressed in Hong Kong dollars unless otherwise indicated)*

## **(A) Summary of financial position**

	As at <b>30 June 2008</b>	As at 31 December 2007
	<b>HK\$'000</b>	<b>HK\$'000</b>
Loans and advances to customers and trade bills	<b>76,553,036</b>	67,356,673
Impairment allowances	<b>305,045</b>	294,466
Total assets	<b>110,172,070</b>	110,783,077
Total deposits	<b>83,606,251</b>	90,881,437
Total equity attributable to equity shareholders of the Bank	<b>9,705,567</b>	9,638,424
<b>Financial ratios</b>		
Capital adequacy ratio	<b>15.6%</b>	15.8%
Core capital ratio	<b>10.2%</b>	10.3%
Average liquidity ratio for the period/year ended* (six months ended 30 June 2007: 40.8%)	<b>34.4%</b>	40.8%
Loans to deposits	<b>91.6%</b>	74.1%
Loans to total assets	<b>69.5%</b>	60.8%
Cost to income	<b>92.0%</b>	90.6%
Cost to income (excluding SIVs impact)	<b>45.1%</b>	45.1%
Return on assets	<b>0.7%</b>	0.1%
Return on assets (excluding SIVs impact)	<b>1.2%</b>	1.2%
Return on average total equity attributable to equity shareholders of the Bank	<b>7.8%</b>	1.3%
Return on average total equity attributable to equity shareholders of the Bank (excluding SIVs impact)	<b>13.5%</b>	14.8%

\* *The average liquidity ratio for the period is the simple average of each calendar month's average liquidity ratio, which is computed on the consolidated basis covering the Bank and certain of its subsidiaries as required by the Hong Kong Monetary Authority ("HKMA") for its regulatory purposes, and is in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance.*

**(B)(i) Capital base after deductions**

	As at 30 June 2008 <u>HK\$'000</u>	As at 31 December 2007 <u>HK\$'000</u>
<b>Core capital</b>		
Paid up ordinary share capital	5,583,341	5,583,341
Share premium	282,930	282,930
Reserves	3,074,975	2,791,766
Profit and loss account	<u>114,910</u>	<u>106,352</u>
<b>Total core capital before deductions</b>	<b>9,056,156</b>	8,764,389
Less: Net deferred tax assets	(72,782)	(67,155)
Less: Deductions from core capital	<u>(36,398)</u>	<u>(357,533)</u>
<b>Total core capital after deductions</b>	<b>8,946,976</b>	8,339,701
<b>Eligible supplementary capital</b>		
Reserves attributable to fair value losses on revaluation of holdings of available-for-sale equities and debt securities	(186,726)	(105,085)
Unrealised fair value gains arising from holdings of equities and debt securities designated at fair value through profit or loss (in supplementary capital)	22,915	–
Regulatory reserve for general banking risks	764,214	795,023
Collective provisions	177,426	223,695
Perpetual subordinated debt	1,974,632	1,976,738
Term subordinated debt	<u>1,949,880</u>	<u>1,949,652</u>
<b>Total eligible supplementary capital before deductions</b>	<b>4,702,341</b>	4,840,023
Less: Deductions from supplementary capital items	<u>(36,398)</u>	<u>(357,533)</u>
<b>Total supplementary capital after deductions</b>	<b>4,665,943</b>	4,482,490
<b>Total capital base after deductions</b>	<b>13,612,919</b>	12,822,191
<b>Total deductions from the core capital and supplementary capital</b>	<b>72,796</b>	715,066
<b>Risk-weighted amount</b>		
– credit risk	83,170,955	77,053,822
– market risk	963,288	875,063
– operational risk	<u>3,216,566</u>	<u>3,384,425</u>
	<b>87,350,809</b>	81,313,310
<b>Capital adequacy ratios</b>		
– capital adequacy ratio	15.6%	15.8%
– core capital ratio	10.2%	10.3%

At 30 June 2008 and 31 December 2007, the capital adequacy ratio (“CAR”) and core capital ratio are computed on the consolidated basis covering the Bank and certain of its subsidiaries as required by the HKMA for its regulatory purposes, and are in accordance with the Banking (Capital) Rules. The Bank has adopted the “standardised approach” for the calculation of the risk-weighted amount for credit risk and market risk and the “basic indicator approach” for the calculation of operational risk.

**(B)(ii) Basis of consolidation**

Unless otherwise stated, all financial information contained in the interim financial report are prepared according to the consolidation basis for accounting purpose.

In preparing the capital adequacy ratio and liquidity ratio of the Group, they are prepared according to the basis of consolidation for regulatory purposes. The main difference between the consolidation basis for accounting and regulatory purposes is that the former includes the Bank and all its subsidiaries whereas the latter includes the Bank and only some of the Group's subsidiaries, which are discussed as follows:

The Bank calculates the CAR in accordance with Banking (Capital) Rules effective on 1 January 2007. The HKMA has granted approval under section 28(2)(a) of the Banking (Capital) Rules for the Bank to calculate its CAR on a solo-consolidated basis instead of solo basis in respect of the following subsidiaries of the Bank:

**Name of subsidiaries**

CKWB (Cayman Islands) Limited  
CKWH-UT2 Limited  
Viewcon Hong Kong Limited

On the other hand, the Bank is required under section 98(2)(b) of the Banking Ordinance to calculate its CAR on a consolidated basis in respect of the following subsidiaries:

**Name of subsidiaries**

HKCB Finance Limited  
CITIC Insurance Brokers Limited  
The Ka Wah Bank (Trustee) Limited  
KWB Management Limited  
CKWB (Cayman Islands) Limited  
CKWH-UT2 Limited  
HKCB Insurance Agency Limited  
Viewcon Hong Kong Limited  
Carford International Limited  
China International Finance Company Limited (Shenzhen)  
CITIC Ka Wah Bank (China) Limited  
CKWB-SN Limited  
Ka Wah International Merchant Finance Limited  
Ka Wah International Services Limited  
KWB Investment Limited

The following subsidiaries are deducted from the Bank's capital base under Part 3 of the Capital Rules.

**Name of subsidiaries**

The Ka Wah Bank (Nominees) Limited  
Security Nominees Limited  
The Hongkong Chinese Bank (Nominees) Limited

**(C) Segmental information**

*(a) By business segments*

The Group is principally engaged in the provision of banking and related financial services. The Group comprises the following main business segments:

Wholesale banking business:	It mainly comprises trade financing, syndicated loans and other corporate lendings.
Retail banking business:	It mainly comprises deposit account services, residential mortgage, other consumer lendings, credit card services and finance leases.
Treasury:	It covers provision of foreign exchange services, money market activities, management of investment securities and central cash management.
Fund investment:	It mainly comprises all fund investments made by the Bank that are managed by external fund managers.
Unallocated:	It mainly comprises the Bank's premises and any items which cannot be reasonably allocated to specific business segments.

For the purpose of segment reporting, the allocation of operating income reflects the benefits of funding resources allocated to the business segments based on internal funds transfer pricing mechanism.

Cost allocation is based on the direct costs incurred by the respective business segments and apportionment of overheads on a reasonable basis to the business segments. Rental charges at market rate for usage of bank premises are reflected as inter-segment income for the "unallocated" segment and inter-segment expenses for the respective business segments.

	Six months ended 30 June			
	2008 Profit/(loss) before taxation HK\$'000	2007 Profit/(loss) before taxation HK\$'000	2008 Operating income/ (loss) HK\$'000	2007 Operating income HK\$'000
Wholesale banking business	418,141	310,701	541,513	459,213
Retail banking business	292,424	274,556	609,145	569,824
Treasury	174,832	54,178	175,118	91,019
Fund investment	(769,942)	102,658	(769,942)	106,817
Unallocated	13,722	(93,712)	134,658	61,783
	<b>129,177</b>	<b>648,381</b>	<b>690,492</b>	<b>1,288,656</b>



(b) *By geographical areas*

As at 30 June 2008					
	Loans and advances to customers	Overdue loans and advances	Impaired loans and advances	Individual impairment allowances	Collective impairment allowances
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	53,345,476	325,693	386,252	89,391	127,668
Mainland China	12,320,514	520,294	520,294	26,821	32,475
USA	1,727,513	–	–	–	872
Others	8,030,981	31,207	31,207	11,445	16,332
	<b>75,424,484</b>	<b>877,194</b>	<b>937,753</b>	<b>127,657</b>	<b>177,347</b>

As at 31 December 2007					
	Loans and advances to customers	Overdue loans and advances	Impaired loans and advances	Individual impairment allowances	Collective impairment allowances
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	46,888,980	183,628	254,867	29,969	142,348
Mainland China	11,397,494	502,346	502,345	40,914	55,616
USA	1,787,427	–	–	–	1,618
Others	5,759,529	51,034	–	–	23,958
	<b>65,833,430</b>	<b>737,008</b>	<b>757,212</b>	<b>70,883</b>	<b>223,540</b>

The above geographical analysis is classified by the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor.

Overdue loans and advances are loans that have been overdue more than three months.

Impaired loans and advances are individually assessed loans which exhibit objective evidence of impairment on an individual basis.

**(D) Overdue loans and advances to customers**

	As at 30 June 2008		As at 31 December 2007	
	HK\$'000	% on total loans and advances to customers	HK\$'000	% on total loans and advances to customers
The gross amount of loans and advances has been overdue for periods of:				
– 6 months or less but over 3 months	118,706	0.16	100,158	0.15
– 1 year or less but over 6 months	178,123	0.24	55,274	0.08
– over 1 year	580,365	0.77	581,576	0.88
	<b>877,194</b>	<b>1.17</b>	<b>737,008</b>	<b>1.11</b>
Secured overdue loans and advances	675,154		679,136	
Unsecured overdue loans and advances	202,040		57,872	
	<b>877,194</b>		<b>737,008</b>	
Market value of collateral held against the secured overdue loans and advances	<b>905,838</b>		<b>982,533</b>	
Individual impairment allowance made	<b>114,699</b>		<b>61,491</b>	

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid at the period end, loans repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the demand notice, and/or when the loans have remained continuously outside the approved limit advised to the borrower for more than the overdue period in question.

Majority of collateral held in respect of the overdue loans and advances is real estate properties. The eligible collateral should generally satisfy the following:

- (a) The market value of the asset is readily determinable or can be reasonably established and verified;
- (b) The asset is marketable and there exists a readily available secondary market for disposing of the asset;
- (c) The Bank's right to repossess the asset is legally enforceable and without impediment; and
- (d) The Bank is able to secure control over the asset if necessary.

The main types of "Eligible Collateral" is "Eligible Physical Collateral" mainly comprises real estate.

There were no advances to banks and other financial institutions which were overdue for over 3 months as at 30 June 2008 and 31 December 2007.

**(E) Other overdue assets**

	As at 30 June 2008	As at 31 December 2007
	HK\$'000	HK\$'000
Available-for-sale securities which has been overdue for: – over 1 year	<u>15,599</u>	<u>15,597</u>

**(F) Rescheduled loans**

	As at 30 June 2008		As at 31 December 2007
	HK\$'000	% on total loans and advances to customers	HK\$'000
			% on total loans and advances to customers
Rescheduled loans	<u>12,792</u>	<u>0.02</u>	<u>15,970</u>
			<u>0.02</u>

Rescheduled loans are those advances which have been restructured or renegotiated because of a deterioration in the financial position of the borrower, or the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms are non-commercial to the Group. Rescheduled loans to customers are stated net of any advances that have subsequently become overdue for over 3 months and reported as overdue advances in note (D).

There were no advances to banks and other financial institutions which were rescheduled as at 30 June 2008 and 31 December 2007.

**(G) Repossessed assets**

	As at 30 June 2008	As at 31 December 2007
	HK\$'000	HK\$'000
Included in loans and advances to customers and other accounts	<u>65,996</u>	<u>37,773</u>

The amount represents the estimated market value of the repossessed assets as at 30 June 2008 and 31 December 2007.

**(H) Cross-border claims**

Cross-border claims are on-balance sheet exposures of counterparties based on the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor. For a claim on the branch of a bank or other financial institution, the risk will be transferred to the country where its head office is situated. Claims on individual countries or areas, after risk transfer, amounting to 10% or more of the aggregate cross-border claims are shown as follows:

	<b>Banks and other financial institutions</b>	<b>Public sector entities</b>	<b>Others</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>At 30 June 2008</b>				
Asia and Pacific excluding Hong Kong	10,319,645	34,931	15,487,684	25,842,260
of which Australia	2,819,463	1,015	475,513	3,295,991
of which Mainland China	3,982,515	31,001	12,260,583	16,274,099
Caribbean	–	–	3,118,632	3,118,632
of which Bermuda	–	–	442,619	442,619
of which Cayman Islands	–	–	1,149,096	1,149,096
of which British Virgin Islands	–	–	1,441,188	1,441,188
Western Europe	8,016,482	1,254	3,098,129	11,115,865
of which France	768,341	–	722,691	1,491,032
of which Germany	728,049	–	21,001	749,050
of which Netherlands	330,017	–	849,979	1,179,996
of which United Kingdom	3,341,026	252	934,459	4,275,737
<b>At 31 December 2007</b>				
Asia and Pacific excluding Hong Kong	12,793,868	112,353	14,251,739	27,157,960
of which Australia	4,620,357	1,212	352,456	4,974,025
of which Mainland China	4,976,665	109,598	10,889,775	15,976,038
Caribbean	–	–	3,256,767	3,256,767
of which Bermuda	–	–	482,910	482,910
of which Cayman Islands	–	–	2,185,974	2,185,974
of which British Virgin Islands	–	–	587,884	587,884
Western Europe	15,516,696	2,451	2,946,157	18,465,304
of which France	1,746,454	–	791,162	2,537,616
of which Germany	3,394,903	–	2,287	3,397,190
of which Netherlands	1,593,567	–	886,191	2,479,758
of which United Kingdom	3,789,650	402	566,492	4,356,544

**(I) Non-bank Mainland China exposures**

Non-bank Mainland China exposures are the Mainland China exposures to non-bank counterparties. The categories follow the non-bank Mainland China exposures submitted by the Bank to the HKMA pursuant to section 63 of the Hong Kong Banking Ordinance.

	As at 30 June 2008			
	On-balance sheet exposure	Off-balance sheet exposure	Total	Individual impairment allowances
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mainland China entities	16,813,585	6,995,598	23,809,183	38,266
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	14,546,364	6,669,454	21,215,818	41,252
	<b>31,359,949</b>	<b>13,665,052</b>	<b>45,025,001</b>	<b>79,518</b>
As at 31 December 2007				
	On-balance sheet exposure	Off-balance sheet exposure	Total	Individual impairment allowances
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mainland China entities	14,800,862	5,346,463	20,147,325	37,836
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	13,212,306	6,549,817	19,762,123	10,520
	<b>28,013,168</b>	<b>11,896,280</b>	<b>39,909,448</b>	<b>48,356</b>

**(J) Risk management**

The Group manages various types of risks mainly through the Bank under the delegation and close supervision of the Board. The Risk Management Group of the Bank which is entrusted with the responsibilities consists of group credit risk, financial institution credit risk, market risk, operational risk, risk asset management and policy & portfolio risk management functions. The Group continually modifies and enhances its risk management policies and systems to reflect changes in markets, products, best practice and regulatory requirements.

The Bank appointed a Director of Risks in January 2008 to further enhance the daily oversight of its risk portfolios. Following the appointment, end-to-end reviews were conducted on various business functions to ensure proper policies, procedures, practices, people and systems have been in place.

The Group manages the following main types of risks:

*(i) Credit risk management*

Credit risk is managed by regular analyses of the current and potential risk of loss arising from a customer's or counterparty's inability to meet financial obligations. The Bank is exposed to credit risk through its lending, trading and capital markets activities. The Bank defines the credit exposure to a customer as the amount of maximum potential loss arising from all these activities. These exposures include both on- and off-balance sheet transactions, including unfunded lending commitments such as loan commitments, letters of credit and financial guarantees.

Credit risk management is effected by monitoring implementation of adopted credit policies that determine the borrower's creditworthiness, credit risks classification, loan application procedure and procedures for making lending decisions. The Bank applies the same credit policy in respect of contingent liabilities as in respect of financial instruments recorded on the balance sheet, based on loan approval procedures, use of limits to reduce risk and monitoring. Credit risk is also minimised by obtaining collateral in the form of pledged assets and guarantees from borrowers and third parties.

The Bank's credit risk management practices are designed to preserve the independence and integrity of the risk assessment process. The Bank assesses credit risk based upon the risk profile of the borrower, the source of repayment and the nature of the underlying collateral after giving consideration to current events and market developments. Concentration risk is also managed at portfolio levels in terms of product, industry and geography.

*(ii) Liquidity risk management*

It is the Bank's policy to exercise prudence in its funding and liquidity management. The Bank has a Liquidity Management Policy which needs to be strictly followed. The Policy covers the important aspects of the Bank's liquidity management. The Bank is committed to applying the best market practices in liquidity management by adopting the guidelines and recommendations of the HKMA. The structure of this Policy conforms to the "LM-1 Liquidity Risk Management" issued by the HKMA in 2004. The Policy applies to the Bank and its overseas branches and subsidiaries. The Bank expects all business units to contribute to the success of managing liquidity under normal and contingency situations by maintaining a rapport with depositors, customers, interbank counterparties, related companies and HKMA.

An appropriate level of liquidity ratio was always maintained, and stress tests were performed regularly to ensure that the Bank could handle sudden drains in market liquidity due to adverse or unexpected economic events. For the six months ended 30 June 2008, the Bank's average liquidity ratio was 34.4% (31 December 2007: 40.8%). The Bank holds a portfolio of high-grade securities with short maturities which can generate liquidity if necessary either through the re-purchase arrangements or out-right selling in the secondary market. It is also active in wholesale funding through the issuances of Hong Kong dollar certificates of deposit ("CDs") so as to secure a stable source of funding. For the six months ended 30 June 2008, a total of HK\$3.76 billion (31 December 2007: HK\$4.13 billion) was raised through several successful CD issuances.

*(iii) Market risk management*

Market risk is the risk of loss arising from the movements in market variables such as foreign exchange rates, interest rates, equity and commodity prices. The Bank's short term trading positions and long term strategic businesses inherit market risk exposure.

The Bank manages its market risk within a hierarchy of limits approved by the Bank's Credit and Risk Management Committee ("CRMC"), Asset and Liability Committee ("ALCO") and its delegated sub-committees or members. The hierarchy is composed of limits at 3 levels: policy, business and transaction. Each level in the hierarchy consists of limits on a series of risk measurements, including profit and loss limits, position limits and sensitivity limits. Limit excesses will set off alert signals or trigger adequate actions at different management levels.

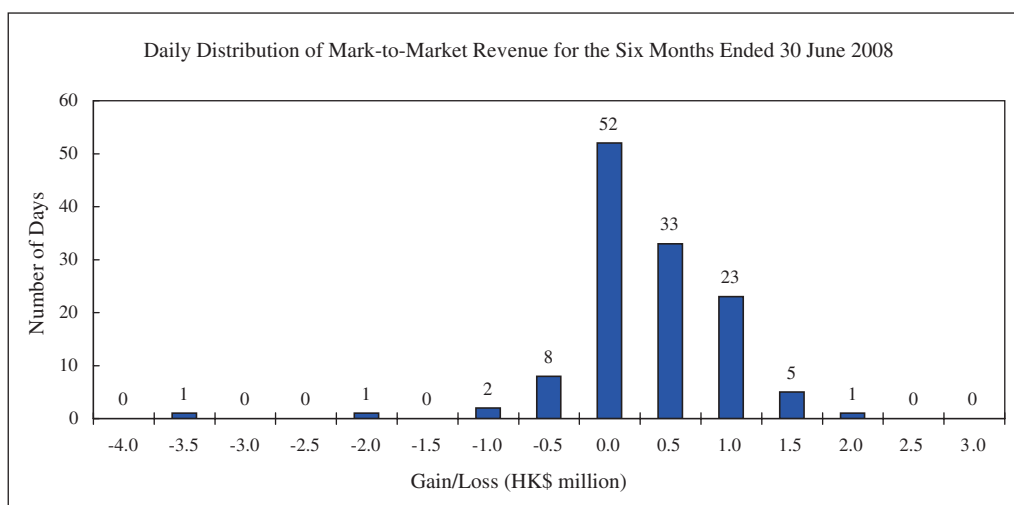
The Bank's Treasury is the central point to take and manage market risk exposure within the prescribed limit hierarchy.

Operating as an unit under the Risk Management Group, Market Risk Management is responsible for the daily monitoring and reporting to ensure that the Bank's market risk exposure measures are within the prescribed limits.

The Bank measures the overall market risk of its trading book in terms of Value-at-Risk (VaR). VaR is a statistical tool to estimate the potential loss of an investment portfolio over a selected time horizon and given a confidence level. The Bank adopts a 99% 1-day VaR and implements historical simulation to compute the VaR figure. The simulating process reflects the historical relationships among different market variables. The bank's average VaRs for the trading portfolio was HK\$1,546,000 and HK\$518,000 during the six months ended 30 June of 2008 and 2007 respectively.

The Bank also implemented stress testing for its trading portfolio to assess the potential adverse effects under the "stressed" conditions. Two types of stressed scenarios are adopted: historical and hypothetical scenarios. Historical scenarios are "stressed conditions" which happened in the past, including the Asian Crisis in 1997, the LTCM event in 1998 and the Terror Attacks in 2001. Hypothetical scenarios are developed in view of the key risk factors affecting the trading portfolio. Examples of hypothetical scenarios are a parallel yield curve shift by 200 basis points, steepening and flattening of yield curve, HKD strengthening against USD by 10% and G7 Currencies appreciating against USD by 10%.

For the six months ended 30 June 2008, the average daily mark-to-market revenue from the Bank's trading portfolio and fund investments (excluding structured investment vehicles) was a gain of HK\$68,000 (six months ended 30 June 2007: a gain of HK\$2,148,000). The standard deviation of the daily revenue was HK\$665,000 (six months ended 30 June 2007: HK\$2,388,000). The graph below shows a histogram of the Bank's daily mark-to-market revenue for the six months ended 30 June 2008.



From the graph above, the maximum daily mark-to-market gain was HK\$1,935,000 (six months ended 30 June 2007: HK\$7,879,000) and the maximum daily mark-to-market loss was HK\$3,587,000 (six months ended 30 June 2007: HK\$7,357,000). Out of the 126 trading days for the period, there were 62 days with mark-to-market gains and 64 days with mark-to-market losses. The most frequent range of daily mark-to-market revenue was between a loss of HK\$500,000 and HK\$Nil (six months ended 30 June 2007: between an income of HK\$1,000,000 and HK\$1,500,000), with the highest occurrence of 52 days.

(a) Currency risk

The Bank's foreign exchange risk stems from foreign exchange positions, commercial dealings, investments in foreign currency securities and operations of the Bank and its overseas branches and subsidiaries. Foreign exchange positions of the Bank are subject to exposure limits approved by ALCO. For the half-year ended 30 June 2008, the Bank's average daily trading profit and loss from foreign exchange positions was a profit of HK\$41,000 (six months ended 30 June 2007: a profit of HK\$34,000) with a standard deviation of HK\$281,000 (six months ended 30 June 2007: HK\$136,000).

Significant foreign currency exposures at the balance sheet date were as follows:

Equivalent in HK\$'000	As at 30 June 2008			
	USD	Renminbi	Others	Total
Spot assets	41,003,024	2,039,102	4,026,717	47,068,843
Spot liabilities	(36,244,400)	(1,689,648)	(6,876,965)	(44,811,013)
Forward purchases	27,245,647	6,975,797	10,503,940	44,725,384
Forward sales	(31,911,649)	(6,962,794)	(7,628,738)	(46,503,181)
Net long position	92,622	362,457	24,954	480,033
Net structural position	–	227,437	48,469	275,906

Equivalent in HK\$'000	As at 31 December 2007			
	USD	Renminbi	Others	Total
Spot assets	38,538,910	1,255,843	5,102,714	44,897,467
Spot liabilities	(34,921,047)	(891,646)	(7,187,422)	(43,000,115)
Forward purchases	25,333,018	8,026,722	9,424,640	42,784,380
Forward sales	(28,515,984)	(8,016,877)	(7,328,437)	(43,861,298)
Net long position	434,897	374,042	11,495	820,434
Net structural position	–	213,555	48,559	262,114

The net options position is calculated using the model user approach which has been approved by the HKMA.

(b) Interest rate risk

The Bank's ALCO oversees all interest rate risks arising from the interest rate profile of the Bank's assets and liabilities. These interest rate risks comprise of maturity gaps, basis risks among different interest rate benchmarks, yield curve movements, interest rate re-pricing risks and risks from embedded options, if any. ALCO supervises management of the interest rate risks of the banking book through gap mismatch reports, sensitivity analyses and various stress testings. To mitigate interest rate risks, the Bank uses interest rate derivatives, mainly interest rate swaps, to hedge both assets and liabilities such as available-for-sale securities (AFS) and non-trading liabilities (NTL). The Bank also adopts hedge accounting principles, under which the fair value changes of the AFS/NTL securities and the corresponding hedging derivative instruments are offset with each other. For the half-year ended 30 June 2008, the Bank's average daily trading profit and loss from interest rate positions was a gain of HK\$53,000 (six months ended 30 June 2007: a loss of HK\$40,000) with a standard deviation HK\$515,000 (six months ended 30 June 2007: HK\$248,000).



(iv) *Capital adequacy management*

The Bank has structured and maintained a strong capital base to support the development of the Bank's businesses and to meet statutory capital adequacy ratios. As disclosed in note (A) above, the Bank's capital adequacy ratio and core capital adequacy ratio were 15.6% (31 December 2007: 15.8%) and 10.2% (31 December 2007: 10.3%) respectively as at 30 June 2008. Certain financial subsidiaries, as specified by the HKMA, are subject to the HKMA's capital requirements for its regulatory supervision purposes.

(v) *Operational risk management*

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Bank's Board of Directors, through the establishment of the CRMC:

- recognises the major aspects of the Bank's operational risks as a distinct risk category that should be managed;
- approves and periodically reviews the Bank's operational risk management framework; and
- ensures that the Bank's senior management is taking the necessary steps to implement the operational risk management policies, processes and procedures.

The Bank's senior management, through the establishment of the Operations & Control Committee ("OCC"):

- implements the operational risk management framework approved by the CRMC;
- defines the Bank's organisational structure for operational risk management;
- assigns authority, responsibility and reporting relationships to encourage and maintain accountability; and
- ensures that sufficient human and technical resources are devoted to operational risk management.

The Risk Management Group has established the Operational Risk Management Section:

- to coordinate operational risk management activities across the Bank and to manage these risks as an independent, centralised function, including the approval of operational risk and control limits under authorities delegated by the OCC where necessary;
- to develop and monitor bank-wide policies and procedures in relation to operational risk management and control; and
- to ensure adequacy of design and implementation of operational risk assessment methodology tool and reporting system within individual business lines and functional units.

The Bank currently manages its operational risks through a number of ways:

- The Operational Risk Management Policy, which includes the operational risk management framework to ensure that operational risks are consistently and comprehensively identified, assessed, monitored and controlled, have been established and approved.
- Material operational risk exposures are managed through a framework of policies, procedures, processes, and indicators.
- Various operational risk management programs, such as self-assessment exercises and key risk indicators, for assisting the Bank in identifying, assessing, mitigating and reporting operational risk have been developed and are being progressively rolled out. The programs will be continuously updated, expanded and enhanced.

- Operations and technology policies and manuals are developed and reviewed annually to ensure processes are adequately considered and defined:
  - Human resources policies and practices are established to define and encourage proper staff behaviour, and to ensure that staff are qualified and trained for their roles.
  - New products and services are evaluated by various functional units before they are approved by the Bank's senior management to ensure that staff, processes and technology can adequately support prior to launching.
  - Disaster recovery and business continuity plans are set up and tested annually for major events such as major failure of data centre caused by fire or other events; loss of operating site and Bank Run Drill for sudden and massive customer withdrawal due to market rumours or other reasons is tested bi-annually.
  - The examination and evaluation of the adequacy and effectiveness of the Bank's internal control system is independently conducted by the Audit Department on an on-going basis. The audits cover all material controls, including financial, operational and compliance controls as well as risk management functions.

*(vi) Legal risk management*

The Bank remains abreast of all legal and regulatory requirements applicable to its governance and operations, and continuously seeks to develop its people, to enhance its systems and processes to create awareness and to implement necessary change. Policies and procedures, incorporated with relevant legal and regulatory requirements, are set and regularly reviewed. These policies and procedures are promulgated through internal communications and training. There is a strong process in place to ensure legal risk is under control. Any significant failings are reported by the legal and compliance function to the Bank's Audit Committee and senior management.

Our Legal and Compliance Department ("LCD") has been a key partner in the business, providing legal and compliance advice and support to all parts of the Bank. In the first half of 2008, LCD was actively involved in launching new products and new business, strategically important transactions and commercial agreements, outsourcing arrangement as well as day-to-day matters arising from the business that is diverse both geographically and in scope. In second half of 2008, we will continue to support LCD as a critical mission-important function of the Bank.

*(vii) Strategic and reputational risk management*

In order to keep pace with the ever-evolving operating and regulatory environment of the Bank, senior management places a high priority on ensuring that our business and operational strategies are appropriately defined and executed in a professional and time-relevant manner. Great care is taken to protect our reputation and maximise our brand equity. The Management Committee of the Bank meets regularly to monitor and manage the Bank's strategic and reputational risks, and is responsible for enforcing high-level policies approved by the Board to identify and assess such risks, as well as to improve controls.

**(K) Additional information on Structured Investments**

*(i) Structured Investment Vehicles ("SIVs")*

During the year ended 31 December 2007, the Group wrote down HK\$1,311.2 million for the changes in fair value of its SIV investments, which comprised Beta Finance Corporation ("Beta"), Five Finance Corporation ("Five"), Victoria Finance Limited and Whistlejacket Capital Limited.

During the period ended 30 June 2008, the Group made a further write-down of HK\$717.9 million for Beta and Five and thus all SIV investments were fully written off. As at 30 June 2008, the Group did not have any exposure on SIVs.

(ii) *Collateralised Debt Obligations (“CDO”)*

In November 2007, one of the Group’s SIV investments, Victoria Finance Ltd. (“Victoria”), was restructured into a fully-funded vehicle with long-term funding (the “Restructuring”) called Farmington Finance Ltd. (“Farmington”). The Farmington vehicle is considered as a cash flow CDO. The nominal value of the CDO was US\$120.0 million (HK\$935.9 million) on the date of restructuring.

Under the Restructuring, the Group’s US\$120.0 million capital notes in Victoria were exchanged into US\$120.0 million capital notes issued by Farmington. The capital note of US\$120.0 million represents the equity tranche. At the time of the restructuring and as of 30 June 2008, the long-term funding obtained by Farmington was rated “AAA” while the US\$114.0 million new Farmington capital note was rated “BBB”. The remaining US\$6.0 million capital note was not rated.

The capital notes are accounted for as available-for-sale securities by the Group and their book carrying value as at 31 December 2007 was US\$71.0 million (HK\$553.8 million) based on their net present value (“NPV”) of 59.2%. The NPV is determined based on the discounted future cash flow of the underlying investment portfolio considering that the vehicle will be maintained until all assets mature and there are no defaults in the portfolio. As at 30 June 2008, the NPV and the book carrying value of the capital notes have increased to 70.3% and US\$84.4 million (HK\$658.0 million) respectively. The improvement in NPV was due to the lower interest rates during the period and certain reinvestments by the investment manager that helped to enhance cash flows.

As at 30 June 2008, the underlying investment portfolio of Farmington continued to meet projected cash flows. The portfolio quality showed some deterioration in line with the general credit markets. However, the portfolio is well diversified amongst some 400 assets in diverse classes, with approximately 91.6% rated A- or above, 6.0% rated between BB- to A-, and only 2.4% rated CCC+ or below as at 30 June 2008. The portfolio of Farmington consists of approximately 7% in debt securities of financial institutions, approximately 15% in monoline guaranteed financial institution securities, approximately 17% in residential prime mortgage-backed securities, and the remaining 61% in other structured credit securities. As at 30 June 2008, the Weighted Average Life of the whole portfolio was 3.63 years. The Group considered the portfolio’s direct exposure to sub-prime related mortgage backed securities not to be significant.

As customary in most CDOs, Farmington is subject to certain trigger events that take into account the credit quality of the underlying assets and the cash flows of the portfolio. In the event that any such event is triggered, the senior debt provider will have the right to realise the collateral in the portfolio.

As part of the arrangement, the Group provided the senior debt provider with partial credit protection against non-performance of Farmington by way of a credit default swap (“CDS”). Under the terms of the CDS, the Group is responsible for the first loss of the portfolio for up to a notional value of US\$347.3 million (HK\$2,708.3 million). The CDS was accounted for as an outstanding contingent liability in the Group’s accounts as at 31 December 2007, and the amount remained unchanged as at 30 June 2008. Up to the date of this report, there was no settlement request claimed on the CDS nor was there any indication that the deterioration in the credit quality of the underlying assets of Farmington has threatened Farmington’s ability to meet its payments under the long-term senior debt as they become due, as such, no provision is considered necessary in respect of the CDS for the period. However, the Directors note that there are continuing uncertainties in the global credit and financial markets, the full future impact of which is unknown.

Other than the above Farmington CDO investments, the Group has not made nor does it hold any other CDO investments as at 30 June 2008.