貫徹執行 務實推進

Focus on EXECUTION

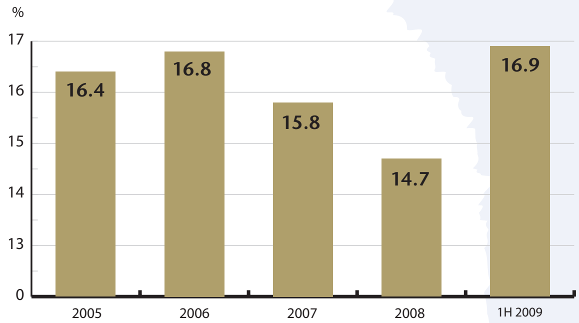
中信嘉華銀行
CITIC KA WAH BANK

2009 Interim Results Highlights

Results Highlights

- Net interest income down 6.7% to HK$795 million due to a contraction in loan portfolio as a result of prudent and conservative lending approach.
- Non-interest income of HK$432 million, compared to a loss in 1H2008 which included the full write-down of investments in structured investment vehicles (SIVs).
- Operating profit before impairment allowances increased over 10.4 times to HK$630 million.
- Profit attributable to shareholders up 296.4% to HK$425 million.

Capital Adequacy Ratio



Healthy Financial Position

- Total assets down slightly by 3.8% to HK$117.2 billion due to moderate decline in customer loans.
- Marked improvement in deposit profile with core deposits accounting for 36.3% of total customer deposits.
- Capital adequacy ratio strengthened by 2.2 percentage points to 16.9%.

Core Performance

- **Retail Banking Group:** Continued expansion of CITIC*first* wealth management franchise to over 14,000 customers and HK$40.2 billion client assets under management.
- **Wholesale Banking Group:** Focused on strengthening core relationships and portfolio quality; sequential quarter-on-quarter improvement in net interest margin since beginning of year.
- **China Banking:** Helped drive momentum in strategic collaboration with CNCB in business and product development, including US$711 million in RMB non-deliverable forward contracts during the period.
- **Treasury & Markets Group:** Strengthened product development and sales capabilities to deepen cross-sell efforts with Retail and Wholesale Banking Groups, resulting in 13.4% increase in related income.

Key Corporate Developments

- CNCB received minority shareholders' approval to acquire a 70.32% stake in CKWB's holding company, CIFH. The transaction, expected to be completed around October 2009 subject to regulatory approvals, is critical step to conclude CITIC's strategy to restructure its cross-border commercial banking businesses.
- CIFH injected HK$1.7 billion in capital into CKWB which was part of its shareholders' undertaking at the time of its privatisation to support the Bank's future development.

CKWB – CITIC Ka Wah Bank Limited; CIFH – CITIC International Financial Holdings Limited; CITIC – CITIC Group of Beijing; CNCB – China CITIC Bank Corporation Limited.

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 2009 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 2009. 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").

Consolidated Income Statement
For the six months ended 30 June 2009 - Unaudited

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2009 HK$'000	Six months ended 30 June 2008 HK$'000
Interest income	4	**1,421,930**	2,063,077
Interest expense		**(626,808)**	(1,210,740)
Net interest income		**795,122**	852,337
Fee and commission income		**331,225**	445,996
Fee and commission expense		**(11,773)**	(9,172)
Net fee and commission income	5	**319,452**	436,824
Net loss and write-down on structured investment vehicles		**-**	(717,885)
Other net trading income		**106,952**	162,034
Net trading income/(loss)	6	**106,952**	(555,851)
Net loss from financial instruments designated at fair value through profit or loss	7	**(11,666)**	(64,102)
Net hedging loss	8	**(1,741)**	(938)
Other operating income	9	**19,141**	22,222
Operating income		**1,227,260**	690,492
Operating expenses	10	**(597,176)**	(634,979)
Operating profit before impairment		**630,084**	55,513
Impairment losses (charged for)/written back on loans and advances	11	**(220,399)**	9,525
Impairment losses written back on available-for-sale securities		**4**	100
Impairment losses (charged for)/written back		**(220,395)**	9,625
Net gain on disposal of available-for-sale securities	12	**32,779**	36,909
Operating profit		**442,468**	102,047
Net gain/(loss) on disposal of property and equipment		**39,733**	(982)
Revaluation gain on investment properties		**20,355**	28,112
Profit before taxation		**502,556**	129,177
Income tax	13	**(77,530)**	(21,958)
Profit for the period		**425,026**	107,219

Consolidated Statement Of Comprehensive Income
For the six months ended 30 June 2009 - Unaudited

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2009	2008
	HK$'000	HK$'000
Profit for the period	**425,026**	107,219
Other comprehensive income/(expense) for the period		
Exchange differences on translation of financial statements of overseas subsidiaries	**104**	15,952
Surplus on revaluation of other premises upon reclassification to investment properties, net of deferred tax	**6,444**	-
Release of revaluation surplus and deferred tax liabilities upon disposal of investment properties	**-**	277
Effect on deferred tax balances as at 1 January resulting from a change in tax rate	**-**	(784)
Available-for-sale securities		
- change in fair value	**204,022**	(45,103)
- transfer to income statement on disposal	**(34,993)**	(36,539)
- transfer to deferred tax	**(27,890)**	13,472
Other comprehensive income/(expense) for the period, net of tax	**147,687**	(52,725)
Total comprehensive income for the period	**572,713**	54,494
Attributable to equity shareholders of the Bank		
Total comprehensive income for the period	**572,713**	54,494

Consolidated Statement Of Financial Position

As at 30 June 2009 - Unaudited

(Expressed in Hong Kong dollars)

	Note	**As at 30 June 2009 HK$'000**	As at 31 December 2008 HK$'000
Assets			
Cash and balances with banks, central banks and other financial institutions	14	**2,086,473**	10,754,122
Placements with and advances to banks, central banks and other financial institutions	15	**11,470,903**	10,473,951
Trade bills	16	**839,948**	816,069
Trading assets	17	**2,501,804**	2,065,746
Securities designated at fair value through profit or loss	18	**355,597**	521,834
Loans and advances to customers and other accounts	19	**72,877,435**	75,183,429
Available-for-sale securities	20	**25,853,391**	20,683,453
Property and equipment	21		
- Investment property		**178,431**	148,076
- Other property and equipment		**867,539**	887,788
Tax recoverable	25(a)	**112,494**	167,267
Deferred tax assets	25(b)	**68,821**	108,095
Total assets		**117,212,836**	121,809,830
Equity and liabilities			
Deposits and balances of banks and other financial institutions		**1,295,418**	927,337
Deposits from customers	22	**90,149,087**	95,332,338
Trading liabilities	23	**1,504,070**	1,385,886
Certificates of deposit issued	24	**3,374,540**	4,121,408
Debt securities issued	26	**2,319,551**	2,333,727
Current taxation	25(a)	**9,471**	10,128
Deferred tax liabilities	25(b)	**1,317**	1,350
Other liabilities	27	**2,838,782**	4,239,497
Loan capital	28	**3,916,949**	3,927,221
Total liabilities		**105,409,185**	112,278,892
Equity			
Share capital	29(a)	**7,283,341**	5,583,341
Reserves	30	**4,520,310**	3,947,597
Total equity attributable to equity shareholders of the Bank		**11,803,651**	9,530,938
Total equity and liabilities		**117,212,836**	121,809,830

Consolidated Statement Of Changes In Equity
For the six months ended 30 June 2009 - Unaudited
(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Bank											
	Share capital	Share premium	Capital reserve	General reserve	Exchange differences reserve	Property revaluation reserve	Investment revaluation reserve	Share option reserve	Statutory reserve	Regulatory general reserve	Retained profits	Total equity
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 1 January 2008	5,583,341	282,930	6,589	100,000	25,700	22,066	(86,694)	25,785	-	-	3,678,707	9,638,424
Changes in equity for the six months ended 30 June 2008:												
Equity-settled share-based transactions (note 10)	-	-	-	-	-	-	-	12,649	-	-	-	12,649
Total comprehensive income for the period	-	-	-	-	15,952	(1,134)	(69,221)	-	-	-	108,897	54,494
As at 30 June 2008	5,583,341	282,930	6,589	100,000	41,652	20,932	(155,915)	38,434	-	-	3,787,604	9,705,567
As at 1 July 2008	5,583,341	282,930	6,589	100,000	41,652	20,932	(155,915)	38,434	-	-	3,787,604	9,705,567
Changes in equity for the six months ended 31 December 2008:												
Forfeited options transferred to retained profits	-	-	-	-	-	-	-	(38,434)	-	-	38,434	-
Total comprehensive income for the period	-	-	-	-	(804)	-	(194,914)	-	-	-	21,089	(174,629)
Transfer from retained profits	-	-	-	-	-	-	-	-	3,475	47,236	(50,711)	-
As at 31 December 2008	5,583,341	282,930	6,589	100,000	40,848	20,932	(350,829)	-	3,475	47,236	3,796,416	9,530,938
As at 1 January 2009	**5,583,341**	**282,930**	**6,589**	**100,000**	**40,848**	**20,932**	**(350,829)**	**-**	**3,475**	**47,236**	**3,796,416**	**9,530,938**
Changes in equity for the six months ended 30 June 2009:												
Issue and allotment of shares	**1,700,000**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,700,000**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**104**	**6,444**	**141,139**	**-**	**-**	**-**	**425,026**	**572,713**
Transfer from retained profits	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,598**	**367**	**(2,965)**	**-**
As at 30 June 2009	**7,283,341**	**282,930**	**6,589**	**100,000**	**40,952**	**27,376**	**(209,690)**	**-**	**6,073**	**47,603**	**4,218,477**	**11,803,651**

Condensed Consolidated Cash Flow Statement
For the six months ended 30 June 2009 - Unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2009	2008
	HK$'000	HK$'000
Cash used in operations	**(9,308,113)**	(2,776,764)
Income tax paid	**(13,335)**	(103,486)
Net cash used in operating activities	**(9,321,448)**	(2,880,250)
Net cash generated from/(used in) investing activities	**22,574**	(17,969)
Net cash generated from/(used in) financing activities	**1,489,289**	(214,250)
Net decrease in cash and cash equivalents	**(7,809,585)**	(3,112,469)
Cash and cash equivalents at 1 January	**17,615,649**	10,339,283
Cash and cash equivalents at 30 June	**9,806,064**	7,226,814

(1) Basis Of Preparation

The interim financial report together with the unaudited supplementary financial information on pages 31 to 44 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 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.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2008 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2009 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity", issued by the HKICPA.

(2) Changes In Accounting Policies

This interim financial report has been prepared on a basis consistent with the accounting policies adopted in the 2008 accounts except for the following:

The Group adopted HKFRS 8 "Operating Segments" ("HKFRS 8"), which requires segment disclosure to be based on the way that the Group’s chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group’s chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group’s most senior executive management, and the four operating segments including wholesale banking, retail banking, treasury and markets and others are being identified and presented (see note 3). Corresponding amounts have also been provided on a basis consistent with the revised segment information.

As a result of the adoption of revised HKAS 1 "Presentation of Financial Statements" ("HKAS 1"), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expenses are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in this interim financial report and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expenses or net assets for any period presented.

In addition, the amendments to HKFRS 7 "Financial instruments: Disclosures - Improving Disclosure about Financial Instruments" do not contain any additional disclosure requirements specifically applicable to the interim financial report.

(3) Segment Reporting

Segment information is presented in a consistent way with that reportable segments are regularly reviewed or evaluated internally by chief operating decision maker to allocate resources to the segments and to assess their performance. The Group has identified the following four main reportable segments.

Wholesale banking business mainly comprises trade financing, syndicated loans and other corporate lendings.

Retail banking business mainly comprises deposit account services, residential mortgage, other consumer lendings, credit card services and finance leases.

Treasury and Markets covers provision of foreign exchange services, money market activities, management of investment securities and central cash management. In addition, it comprises all fund investments made by the Bank that are managed by external fund managers.

Others mainly comprises results of operations which cannot be directly identified under other reportable 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 "Others" segment and inter-segment expenses for the respective business segments.

(a) Reportable segments

	The Group Six months ended 30 June 2009				
	Wholesale banking HK$'000	Retail banking HK$'000	Treasury and Markets HK$'000	Others HK$'000	Consolidated HK$'000
Net interest income	291,039	358,835	70,503	74,745	795,122
Other operating income	182,167	139,325	92,867	17,779	432,138
Operating income	473,206	498,160	163,370	92,524	1,227,260
Operating expenses	(78,248)	(179,989)	(20,895)	(318,044)	(597,176)
Inter-segment income/(expenses)	(71,012)	(100,332)	(27,707)	199,051	-
Operating profit/(loss) before impairment	323,946	217,839	114,768	(26,469)	630,084
Impairment losses (charged for)/written back on loans and advances	(197,222)	(33,658)	-	10,481	(220,399)
Impairment losses written back on available-for-sale securities	-	4	-	-	4
Impairment losses (charged for)/written back	(197,222)	(33,654)	-	10,481	(220,395)
Net gain on disposal of available-for-sale securities	2,643	-	30,136	-	32,779
Operating profit/(loss)	129,367	184,185	144,904	(15,988)	442,468
Net gain/(loss) on disposal of property and equipment	(1)	(164)	(1)	39,899	39,733
Revaluation gain on investment properties	-	-	-	20,355	20,355
Profit before taxation	129,366	184,021	144,903	44,266	502,556
Income tax	-	-	-	(77,530)	(77,530)
Profit/(loss) for the period	129,366	184,021	144,903	(33,264)	425,026
Other segment items:					
Depreciation	(1,543)	(6,341)	(172)	(30,269)	(38,325)
	As at 30 June 2009				
Segment assets	44,744,576	25,538,170	45,796,446	1,133,644	117,212,836
Segment liabilities	42,580,309	50,237,340	15,432,389	(2,840,853)	105,409,185

(3) Segment Reporting (cont'd)

(a) Reportable segments (cont'd)

	The Group				
	Six months ended 30 June 2008 (Restated)				
	Wholesale banking HK$'000	Retail banking HK$'000	Treasury and Markets HK$'000	Others HK$'000	Consolidated HK$'000
Net interest income	346,995	333,510	73,073	98,759	852,337
Other operating income/(expenses)	194,198	276,262	(648,061)	15,756	(161,845)
Operating income	541,193	609,772	(574,988)	114,515	690,492
Operating expenses	(76,556)	(200,760)	(14,945)	(342,718)	(634,979)
Inter-segment income/(expenses)	(64,711)	(103,289)	(21,494)	189,494	-
Operating profit/(loss) before impairment	399,926	305,723	(611,427)	(38,709)	55,513
Impairment losses (charged for)/written back on loans and advances	13,641	(12,492)	-	8,376	9,525
Impairment losses written back on available-for-sale securities	-	100	-	-	100
Impairment losses (charged for)/written back	13,641	(12,392)	-	8,376	9,625
Net gain on disposal of available-for-sale securities	-	756	36,153	-	36,909
Operating profit/(loss)	413,567	294,087	(575,274)	(30,333)	102,047
Net gain/(loss) on disposal of property and equipment	(3)	(1,057)	-	78	(982)
Revaluation gain on investment properties	-	-	-	28,112	28,112
Profit/(loss) before taxation	413,564	293,030	(575,274)	(2,143)	129,177
Income tax	-	-	-	(21,958)	(21,958)
Profit/(loss) for the period	413,564	293,030	(575,274)	(24,101)	107,219
Other segment items:					
Depreciation	(1,764)	(6,526)	(104)	(28,437)	(36,831)
	As at 31 December 2008 (Restated)				
Segment assets	46,562,217	25,632,612	49,135,423	479,578	121,809,830
Segment liabilities	50,678,137	48,826,264	16,146,354	(3,371,863)	112,278,892

(3) Segment Reporting (cont'd)

(b) Geographical information

The geographical information analysis is based on the location of the principal operations of the subsidiaries, or in the case of the Bank itself, of the location of the branches responsible for reporting the results or booking the assets and liabilities.

	Six months ended 30 June			
	2009 Profit before taxation HK$'000	2008 Profit before taxation HK$'000	**2009 Operating income HK$'000**	2008 Operating income HK$'000
Hong Kong	**454,748**	64,957	**1,114,350**	559,264
Mainland China	**31,158**	45,138	**76,086**	87,743
USA	**5,476**	8,331	**19,257**	26,637
Others	**11,153**	10,796	**17,570**	16,917
Inter-segment items	**21**	(45)	**(3)**	(69)
	502,556	129,177	**1,227,260**	690,492

	As at 30 June 2009 Total assets HK$'000	As at 31 December 2008 Total assets HK$'000	**As at 30 June 2009 Total liabilities HK$'000**	As at 31 December 2008 Total liabilities HK$'000
Hong Kong	**114,362,800**	119,499,885	**102,850,375**	110,270,863
Mainland China	**6,439,277**	6,905,392	**5,194,594**	5,654,967
USA	**1,819,054**	1,690,064	**1,776,266**	1,539,559
Others	**1,198,415**	1,630,056	**1,163,189**	1,604,849
Inter-segment items	**(6,606,710)**	(7,915,567)	**(5,575,239)**	(6,791,346)
	117,212,836	121,809,830	**105,409,185**	112,278,892

(4) Interest Income

	Six months ended 30 June	
	2009	2008
	HK$'000	HK$'000
Listed securities	**125,463**	199,944
Unlisted securities	**199,965**	222,379
Others	**1,096,502**	1,640,754
	1,421,930	2,063,077

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 2009 and 2008.

Included in the above is interest income accrued on impaired financial assets of HK$1,164,000 (six months ended 30 June 2008: HK$1,570,000), which includes interest income on unwinding of discount on loan impairment losses of HK$1,164,000 (six months ended 30 June 2008: HK$1,084,000) for the six months ended 30 June 2009.

(5) Net Fee And Commission Income

	Six months ended 30 June	
	2009	2008
	HK$'000	HK$'000
Fee and commission income:		
Bills commission	**32,576**	39,648
Cards related income	**13,169**	15,606
General banking services	**37,885**	28,183
Insurance	**44,751**	64,802
Investment and structured investment products	**36,651**	113,508
Loans, overdrafts and facilities fee	**165,762**	183,733
Others	**431**	516
	331,225	445,996
Fee and commission expense	**(11,773)**	(9,172)
	319,452	436,824
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	**178,931**	199,339
- Fee and commission expense	**(5,683)**	(3,692)
	173,248	195,647

(6) Net Trading Income/(Loss)

	Six months ended 30 June	
	2009	2008
	HK$'000	HK$'000
Net loss and write-down on structured investment vehicles	**-**	(717,885)
Other net trading income:		
Gains less losses from dealing in foreign currencies	**74,482**	90,365
Gains less losses from trading securities	**(7,360)**	(25,099)
Gains less losses from other dealing activities	**37,172**	90,261
Interest income on trading assets		
- Listed	**-**	30
- Unlisted	**2,658**	6,477
	106,952	162,034
	106,952	(555,851)

The Group recorded a net loss and write-down on structured investment vehicles of approximately HK$717,885,000 for the six months ended 30 June 2008, which represented the changes in fair value of the investments.

(7) Net Loss From Financial Instruments Designated At Fair Value Through Profit Or Loss

	Six months ended 30 June	
	2009	2008
	HK$'000	HK$'000
Net loss	**(19,154)**	(22,882)
Interest income		
- Listed	**2,771**	2,485
- Unlisted	**8,001**	8,400
Interest expense	**(3,284)**	(52,105)
	(11,666)	(64,102)

(8) Net Hedging Loss

	Six months ended 30 June	
	2009	2008
	HK$'000	HK$'000
Fair value hedge loss	**1,741**	938

(9) Other Operating Income

	Six months ended 30 June	
	2009	2008
	HK$'000	HK$'000
Dividend income from available-for-sale equity securities		
- Listed	**40**	-
- Unlisted	**3,160**	3,060
Rental income from investment properties less direct outgoings of HK$76,000 (six months ended 30 June 2008: HK$41,000)	**2,193**	2,997
Others	**13,748**	16,165
	19,141	22,222

(10) Operating Expenses

	Six months ended 30 June	
	2009	2008
	HK$'000	HK$'000
(a) Staff costs		
Salaries and other staff costs	**353,621**	356,260
Retirement costs	**24,509**	22,271
Share-based payment expenses		
- Equity-settled share-based payment expenses	**-**	12,649
- Cash-settled share-based payment expenses	**-**	4,997
	378,130	396,177
(b) Depreciation		
Depreciation of property and equipment		
- Assets held for use under operating leases	**7,608**	6,212
- Other assets	**30,717**	30,619
	38,325	36,831
(c) Other operating expenses		
Property and equipment expenses (excluding depreciation)		
- Rental of property	**42,536**	42,606
- Others	**37,778**	39,120
Auditors’ remuneration	**3,009**	2,918
Advertising	**10,964**	18,083
Communication, printing and stationery	**27,339**	32,274
Legal and professional fee	**8,266**	13,032
Others	**50,829**	53,938
	180,721	201,971
Total operating expenses	**597,176**	634,979

Included in other operating expenses are minimum lease payment under operating leases of HK$2,094,000 (six months ended 30 June 2008: HK$2,290,000) for hire of equipment and HK$40,247,000 (six months ended 30 June 2008: HK$40,230,000) for hire of other assets (including property rentals).

(11) Impairment Losses (Charged For)/Written Back On Loans And Advances

	Six months ended 30 June	
	2009	2008
	HK$'000	HK$'000
Individual assessment (charged for)/written back		
- Additions	**(260,339)**	(83,565)
- Releases	**17,198**	6,189
- Recoveries	**74,739**	44,612
	(168,402)	(32,764)
Collective assessment (charged for)/written back	**(51,997)**	42,289
	(220,399)	9,525

(12) Net Gain On Disposal Of Available-for-sale Securities

	Six months ended 30 June	
	2009	2008
	HK$'000	HK$'000
Net revaluation gain transferred from reserves	**34,993**	36,539
Net (loss)/gain arising in current period	**(2,214)**	370
	32,779	36,909

(13) Income Tax In The Consolidated Income Statement

	Six months ended 30 June	
	2009	2008
	HK$'000	HK$'000
Current tax - Hong Kong Profits Tax		
Provision for the period	**55,664**	2,934
Over-provision in respect of prior years	**-**	(584)
	55,664	2,350
Current tax - Overseas		
Provision for the period	**8,406**	11,688
Under-provision in respect of prior years	**3,380**	582
	11,786	12,270
Deferred tax		
Origination of temporary differences (note 25(b))	**10,080**	4,234
Effect on deferred tax balances as at 1 January resulting from a change in tax rate	**-**	3,104
	10,080	7,338
	77,530	21,958

The provision for Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 June 2008: 16.5%) of the estimated assessable profits for the period. Taxation for overseas branches and subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant countries.

(14) Cash And Balances With Banks, Central Banks And Other Financial Institutions

	As at 30 June 2009 HK$'000	As at 31 December 2008 HK$'000
Cash in hand	**147,294**	167,898
Balances with central banks	**269,099**	310,010
Balances with banks	**1,363,466**	635,166
Balances with other financial institutions	**306,614**	9,641,048
	2,086,473	10,754,122

(15) Placements With And Advances To Banks, Central Banks And Other Financial Institutions

	As at 30 June 2009 HK$'000	As at 31 December 2008 HK$'000
Placements with banks	**6,569,282**	5,535,875
Advances to banks	**4,901,621**	4,705,576
Items in the course of collection from other banks	**-**	232,500
	11,470,903	10,473,951
Maturing		
- Within one month	**6,453,254**	5,527,041
- Between one month and one year	**2,002,873**	1,465,650
- After one year	**3,014,776**	3,481,260
	11,470,903	10,473,951

(16) Trade Bills

	As at 30 June 2009 HK$'000	As at 31 December 2008 HK$'000
Gross trade bills	**846,330**	816,746
Impairment allowances		
- Individually assessed	**-**	(508)
- Collectively assessed	**(6,382)**	(169)
	839,948	816,069

(17) Trading Assets

	As at 30 June 2009 HK$'000	As at 31 December 2008 HK$'000
Debt securities	**611,567**	619,782
Equity securities	**2,798**	2,340
Investment funds	**4,289**	5,534
Trading securities	**618,654**	627,656
Positive fair values of derivatives (note 33(b))	**1,883,150**	1,438,090
	2,501,804	2,065,746
Issued by:		
Banks and other financial institutions	**611,567**	619,782
Corporate entities	**7,087**	7,874
	618,654	627,656
Analysed by place of listing:		
Listed outside Hong Kong	**2,798**	2,340
Unlisted	**615,856**	625,316
	618,654	627,656

(18) Securities Designated At Fair Value Through Profit Or Loss

	As at 30 June 2009 HK$'000	As at 31 December 2008 HK$'000
Debt securities	**355,597**	521,834
Issued by:		
Banks and other financial institutions	**193,769**	257,471
Corporate entities	**161,828**	264,363
	355,597	521,834
Analysed by place of listing:		
Listed in Hong Kong	**31,417**	-
Listed outside Hong Kong	**84,333**	82,029
	115,750	82,029
Unlisted	**239,847**	439,805
	355,597	521,834

(19) Loans And Advances To Customers And Other Accounts

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

	As at 30 June 2009 HK$'000	As at 31 December 2008 HK$'000
Gross loans and advances to customers	**70,888,822**	73,414,516
Impairment allowances		
- Individually assessed	**(185,080)**	(247,227)
- Collectively assessed	**(276,571)**	(237,579)
	70,427,171	72,929,710
Accrued interest and other accounts less impairment allowances	**2,450,264**	2,253,719
	72,877,435	75,183,429

(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 2009		As at 31 December 2008	
	Gross loans and advances to customers HK$'000	**% of loans and advances covered by collateral**	Gross loans and advances to customers HK$'000	% of loans and advances covered by collateral
Industrial, commercial and financial				
- Property development	**3,000**	**100**	110,000	-
- Property investment	**9,078,709**	**97**	9,124,397	96
- Financial concerns	**4,287,475**	**25**	4,494,391	53
- Stockbrokers	**820,225**	**4**	11,360	92
- Wholesale and retail trade	**3,829,998**	**46**	3,440,433	48
- Manufacturing	**5,501,598**	**30**	6,420,287	29
- Transport and transport equipment	**2,624,911**	**84**	2,902,689	75
- Recreational activities	**149,698**	**100**	125,358	100
- Information technology	**22,334**	**82**	20,845	88
- Others	**3,448,850**	**63**	3,065,534	66
Individuals				
- Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**30,895**	**100**	32,148	100
- Loans for the purchase of other residential properties	**10,356,816**	**100**	10,398,618	100
- Credit card advances	**341,131**	**-**	381,074	-
- Others	**3,373,882**	**91**	3,174,606	89
Gross loans and advances for use in Hong Kong	**43,869,522**	**71**	43,701,740	74
Trade finance	**3,599,765**	**35**	4,495,859	33
Gross loans and advances for use outside Hong Kong	**23,419,535**	**39**	25,216,917	44
Gross loans and advances to customers	**70,888,822**	**59**	73,414,516	61

(19) Loans And Advances To Customers And Other Accounts (cont'd)

(c) Impaired loans and advances to customers

	As at 30 June 2009 HK$'000	As at 31 December 2008 HK$'000
Gross impaired loans and advances to customers	**1,763,683**	1,384,179
Impairment allowances		
- Individually assessed	**(185,080)**	(247,227)
	1,578,603	1,136,952
Gross impaired loans and advances as a % of total loans and advances to customers	**2.49%**	1.89%

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$1,238,750,000 (31 December 2008: HK$878,996,000) 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 2009	
	Individual impairment allowances HK$'000	**Collective impairment allowances HK$'000**	**Impaired loans and advances HK$'000**
Property investment	**3,551**	**6,726**	**11,931**
Loans and advances for the purchase of other residential properties	**-**	**604**	**2,956**
Gross loans and advances for use outside Hong Kong	**67,278**	**53,081**	**1,025,647**
	70,829	**60,411**	**1,040,534**

		As at 31 December 2008	
	Individual impairment allowances HK$'000	Collective impairment allowances HK$'000	Impaired loans and advances HK$'000
Property investment	3,377	4,993	11,465
Loans and advances for the purchase of other residential properties	-	943	4,448
Gross loans and advances for use outside Hong Kong	70,182	69,216	1,000,456
	73,559	75,152	1,016,369

(20) Available-for-sale Securities

	As at 30 June 2009 HK$'000	As at 31 December 2008 HK$'000
Certificates of deposit held	**1,546,692**	200,014
Debt securities	**22,067,825**	19,219,141
Treasury bills (including Exchange Fund Bills)	**2,146,217**	1,173,721
Equity securities	**36,385**	34,306
Investment funds	**56,272**	56,271
	25,853,391	20,683,453
Issued by:		
Sovereigns	**2,146,217**	1,173,721
Public sector entities	**287,353**	727,720
Banks and other financial institutions	**19,030,695**	14,434,242
Corporate entities	**4,389,126**	4,347,770
	25,853,391	20,683,453
Analysed by place of listing:		
Listed in Hong Kong	**599,332**	500,428
Listed outside Hong Kong	**4,394,523**	4,897,115
	4,993,855	5,397,543
Unlisted	**20,859,536**	15,285,910
	25,853,391	20,683,453

(21) Property And Equipment

	Investment properties HK$'000	Other premises HK$'000	Furniture, fixtures and equipment HK$'000	Total HK$'000
Cost or valuation:				
As at 1 January 2009	**148,076**	**1,021,792**	**677,585**	**1,847,453**
Additions	**-**	**-**	**23,316**	**23,316**
Reclassification	**10,000**	**(10,000)**	**-**	**-**
Disposals	**-**	**(7,677)**	**(3,897)**	**(11,574)**
Surplus on revaluation before reclassification	**-**	**7,155**	**-**	**7,155**
Surplus on revaluation	**20,355**	**-**	**-**	**20,355**
Exchange adjustments	**-**	**-**	**(1)**	**(1)**
As at 30 June 2009	**178,431**	**1,011,270**	**697,003**	**1,886,704**
The analysis of cost or valuation of the above assets is as follows:				
Cost	**-**	**993,673**	**697,003**	**1,690,676**
Valuation				
- 1985	**-**	**17,597**	**-**	**17,597**
- 2009	**178,431**	**-**	**-**	**178,431**
	178,431	**1,011,270**	**697,003**	**1,886,704**
As at 1 January 2008	238,380	935,810	701,296	1,875,486
Additions	-	-	40,601	40,601
Reclassification	(88,900)	88,900	-	-
Disposals	(1,850)	(2,918)	(64,224)	(68,992)
Surplus on revaluation	446	-	-	446
Exchange adjustments	-	-	(88)	(88)
As at 31 December 2008	148,076	1,021,792	677,585	1,847,453
The analysis of cost or valuation of the above assets is as follows:				
Cost	-	993,673	677,585	1,671,258
Valuation				
- 1985	-	28,119	-	28,119
- 2008	148,076	-	-	148,076
	148,076	1,021,792	677,585	1,847,453
Accumulated depreciation:				
As at 1 January 2009	**-**	**283,980**	**527,609**	**811,589**
Charge for the period (note 10(b))	**-**	**11,351**	**26,974**	**38,325**
Written back on disposals	**-**	**(4,933)**	**(3,683)**	**(8,616)**
Reclassification	**-**	**(563)**	**-**	**(563)**
Exchange adjustments	**-**	**-**	**(1)**	**(1)**
As at 30 June 2009	**-**	**289,835**	**550,899**	**840,734**
As at 1 January 2008	-	263,527	527,723	791,250
Charge for the year	-	21,634	56,079	77,713
Written back on disposals	-	(1,181)	(56,135)	(57,316)
Exchange adjustments	-	-	(58)	(58)
As at 31 December 2008	-	283,980	527,609	811,589
Net book value:				
As at 30 June 2009	**178,431**	**721,435**	**146,104**	**1,045,970**
As at 31 December 2008	148,076	737,812	149,976	1,035,864

(22) Deposits From Customers

	As at 30 June 2009 HK$'000	As at 31 December 2008 HK$'000
Demand deposits and current deposits	**13,195,770**	7,814,934
Savings deposits	**19,480,969**	13,378,528
Time, call and notice deposits	**57,472,348**	74,138,876
	90,149,087	95,332,338

(23) Trading Liabilities

	As at 30 June 2009 HK$'000	As at 31 December 2008 HK$'000
Negative fair value of derivatives (note 33(b))	**1,504,070**	1,385,886

(24) Certificates Of Deposit Issued

	As at 30 June 2009 HK$'000	As at 31 December 2008 HK$'000
Designated at fair value through profit or loss	**-**	497,694
Non-trading	**3,374,540**	3,623,714
	3,374,540	4,121,408

Certificates of deposit issued were designated at fair value through profit or loss when they contained embedded derivatives that modified 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 31 December 2008 was HK$2,494,000 higher than the contractual amount at maturity, which was mainly attributable to changes in benchmark interest rate.

(25) Income Tax In The Consolidated Statement Of Financial Position

(a) Current taxation in the consolidated statement of financial position represents:

	As at 30 June 2009 HK$'000	As at 31 December 2008 HK$'000
Provision for Hong Kong Profits Tax for the period/year	**55,664**	5,856
Provisional Profits Tax paid	**(167,267)**	(172,862)
	(111,603)	(167,006)
Balance of Profits Tax provision relating to prior years	**260**	-
	(111,343)	(167,006)
Provision for overseas taxation	**8,320**	9,867
	(103,023)	(157,139)
Of which:		
Tax recoverable	**(112,494)**	(167,267)
Current taxation	**9,471**	10,128
	(103,023)	(157,139)

(b) Deferred tax assets and liabilities recognised

The components of deferred tax (assets)/liabilities recognised on the consolidated statement of financial position and the movements during the period are as follows:

Deferred tax arising from:	**Depreciation allowances in excess of related depreciation HK$'000**	**Impairment allowances for loans and advances HK$'000**	**Revaluation adjustments for properties HK$'000**	**Revaluation adjustments for available-for-sale securities HK$'000**	**Tax losses HK$'000**	**Others HK$'000**	**Total HK$'000**
As at 1 January 2008	8,411	(39,026)	16,155	(18,389)	(34,052)	(254)	(67,155)
Charged/(credited) to consolidated income statement	702	(975)	(6,578)	-	15,418	254	8,821
Charged/(credited) to reserves	-	-	(277)	(51,987)	-	-	(52,264)
Effect on deferred tax balances at 1 January resulting from a change in tax rate charged/ (credited) to consolidated income statement	(481)	2,231	(627)	-	1,946	-	3,069
Effect on deferred tax balances at 1 January resulting from a change in tax rate charged/ (credited) to reserve	-	-	(267)	1,051	-	-	784
As at 31 December 2008	8,632	(37,770)	8,406	(69,325)	(16,688)	-	(106,745)
As at 1 January 2009	**8,632**	**(37,770)**	**8,406**	**(69,325)**	**(16,688)**	**-**	**(106,745)**
Charged/(credited) to consolidated income statement (note 13)	**85**	**(8,160)**	**3,329**	**-**	**16,688**	**(1,862)**	**10,080**
Charged to reserves	**-**	**-**	**1,274**	**27,890**	**-**	**-**	**29,164**
Exchange and other adjustments	**-**	**-**	**-**	**-**	**-**	**(3)**	**(3)**
As at 30 June 2009	**8,717**	**(45,930)**	**13,009**	**(41,435)**	**-**	**(1,865)**	**(67,504)**

	As at 30 June 2009 HK$'000	As at 31 December 2008 HK$'000
Net deferred tax assets recognised on the consolidated statement of financial position	**(68,821)**	(108,095)
Net deferred tax liabilities recognised on the consolidated statement of financial position	**1,317**	1,350
	(67,504)	(106,745)

(c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$3,000,000 at 30 June 2009 (31 December 2008: HK$2,997,000), 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, there is no expiry dates for the tax losses carry forward.

(26) Debt Securities Issued

	As at 30 June 2009 HK$'000	As at 31 December 2008 HK$'000
Non-trading debt securities issued	**2,319,551**	2,333,727

(27) Other Liabilities

	As at 30 June 2009 HK$'000	As at 31 December 2008 HK$'000
Items in the course of transmission to other financial institutions	**1,181,654**	2,424,273
Accruals and other payables	**1,657,128**	1,815,224
	2,838,782	4,239,497

(28) Loan Capital

	As at 30 June 2009 HK$'000	As at 31 December 2008 HK$'000
Subordinated notes with US$250 million 9.125% (note (a))	**1,979,415**	1,989,717
Subordinated notes with US$250 million 1.75%+LIBOR rate (note (b))	**1,937,534**	1,937,504
	3,916,949	3,927,221

(a) Subordinated notes with a coupon of 9.125% per annum and with face value of US$250 million (equivalent to HK$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.

(b) 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 (equivalent to HK$1,949.5 million). The notes are listed on the SGX-ST and will be matured on 12 December 2017.

(29) Share Capital

(a) Authorised and issued share capital

	As at 30 June 2009 HK$'000	As at 31 December 2008 HK$'000
Authorised:		
8,000,000,000 ordinary shares of HK$1 each	**8,000,000**	8,000,000
Issued and fully paid:		
As at 1 January:		
5,583,341,176 ordinary shares of HK$1 each	**5,583,341**	5,583,341
Issue and allotment of shares		
1,700,000,000 (2008: Nil) ordinary shares of HK$1 each	**1,700,000**	-
As at 30 June/31 December:		
7,283,341,176 (2008: 5,583,341,176) ordinary shares of HK$1 each	**7,283,341**	5,583,341

(b) Shares issued during the period

The Bank issued and allotted 1,700,000,000 ordinary shares at par to its immediate parent company, CITIC International Financial Holdings Limited, on 30 June 2009.

(30) Reserves

(a) Statutory reserve
Under relevant legislation of People's Republic of China ("PRC"), the Bank's wholly-owned PRC subsidiary bank is required to transfer 10% of its profit after taxation to a non-distributable statutory reserve until such reserve has reached 50% of its registered share capital.

(b) Regulatory general reserve
Pursuant to the PRC banking regulations, the Bank's wholly-owned PRC subsidiary bank is required to set up a regulatory general reserve, through a transfer directly from the current year's profit appropriation, as determined based on the 1% of the total risk assets at the date of financial position to cover its unidentified potential loss exposures. The regulatory general reserve forms part of the equity of the Group.

(c) Retained profits
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 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 2009, HK$600,721,000 (31 December 2008: HK$675,465,000) was included in the retained profits in this respect which was distributable to equity holders of the Bank subject to consultation with the HKMA.

(31) Maturity Profile

The following maturity profile is based on the remaining period at the date of financial position 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 2009

	Total HK$'000	Repayable on demand HK$'000	Within 1 month HK$'000	3 months or less but over 1 month HK$'000	1 year or less but over 3 months HK$'000	5 years or less but over 1 year HK$'000	After 5 years HK$'000	Undated HK$'000
Assets								
Cash and balances with banks, central banks and other financial institutions	2,086,473	2,086,473	-	-	-	-	-	-
Placements with and advances to banks, central banks and other financial institutions	11,470,903	-	6,453,254	550,850	1,452,023	525,002	2,489,774	-
Trade bills	839,948	-	243,303	499,640	95,312	-	-	1,693
Trading assets	2,501,804	1,883,150	-	-	-	611,567	-	7,087
Securities designated at fair value through profit or loss	355,597	-	6,820	9,956	31,417	267,337	-	40,067
Loans and advances to customers and other accounts	72,877,435	1,897,274	2,733,896	5,800,474	10,098,458	30,661,792	17,811,302	3,874,239
Available-for-sale securities	25,853,391	-	1,650,580	4,310,582	8,773,813	9,034,916	1,989,635	93,865
Tax recoverable	112,494	-	-	-	112,494	-	-	-
Undated assets	1,114,791	-	-	-	-	-	-	1,114,791
Total assets	117,212,836	5,866,897	11,087,853	11,171,502	20,563,517	41,100,614	22,290,711	5,131,742
Liabilities								
Deposits and balances of banks and other financial institutions	1,295,418	311,806	699,109	-	284,503	-	-	-
Deposits from customers	90,149,087	32,676,739	29,049,000	16,114,121	10,829,095	1,480,132	-	-
Trading liabilities	1,504,070	1,504,070	-	-	-	-	-	-
Certificates of deposit issued	3,374,540	-	150,000	-	3,145,899	78,641	-	-
Debt securities issued	2,319,551	-	-	-	2,319,551	-	-	-
Loan capital	3,916,949	-	-	-	-	3,916,949	-	-
Current taxation	9,471	-	-	-	9,471	-	-	-
Other liabilities	2,838,782	-	1,181,654	-	-	-	-	1,657,128
Undated liabilities	1,317	-	-	-	-	-	-	1,317
Total liabilities	105,409,185	34,492,615	31,079,763	16,114,121	16,588,519	5,475,722	-	1,658,445
Asset - liability gap		(28,625,718)	(19,991,910)	(4,942,619)	3,974,998	35,624,892	22,290,711	

As at 31 December 2008

	Total HK$'000	Repayable on demand HK$'000	Within 1 month HK$'000	3 months or less but over 1 month HK$'000	1 year or less but over 3 months HK$'000	5 years or less but over 1 year HK$'000	After 5 years HK$'000	Undated HK$'000
Assets								
Cash and balances with banks, central banks and other financial institutions	10,754,122	10,754,122	-	-	-	-	-	-
Placements with and advances to banks, central banks and other financial institutions	10,473,951	-	5,527,041	534,751	930,899	1,594,654	1,886,606	-
Trade bills	816,069	-	250,814	436,246	103,343	-	-	25,666
Trading assets	2,065,746	1,438,090	-	-	-	619,782	-	7,874
Securities designated at fair value through profit or loss	521,834	-	-	-	16,904	504,930	-	-
Loans and advances to customers and other accounts	75,183,429	2,121,819	3,744,429	6,501,410	12,159,969	29,220,568	18,468,563	2,966,671
Available-for-sale securities	20,683,453	-	1,774,172	5,463,835	5,316,979	6,036,518	1,999,179	92,770
Tax recoverable	167,267	-	-	-	167,267	-	-	-
Undated assets	1,143,959	-	-	-	-	-	-	1,143,959
Total assets	121,809,830	14,314,031	11,296,456	12,936,242	18,695,361	37,976,452	22,354,348	4,236,940
Liabilities								
Deposits and balances of banks and other financial institutions	927,337	196,158	234,589	240,073	256,517	-	-	-
Deposits from customers	95,332,338	21,193,462	48,119,602	15,298,771	10,027,553	692,950	-	-
Trading liabilities	1,385,886	1,385,886	-	-	-	-	-	-
Certificates of deposit issued	4,121,408	-	-	-	3,309,352	812,056	-	-
Debt securities issued	2,333,727	-	20,800	-	2,312,927	-	-	-
Loan capital	3,927,221	-	-	-	-	3,927,221	-	-
Current taxation	10,128	-	-	-	10,128	-	-	-
Other liabilities	4,239,497	-	2,424,273	-	-	-	-	1,815,224
Undated liabilities	1,350	-	-	-	-	-	-	1,350
Total liabilities	112,278,892	22,775,506	50,799,264	15,538,844	15,916,477	5,432,227	-	1,816,574
Asset - liability gap		(8,461,475)	(39,502,808)	(2,602,602)	2,778,884	32,544,225	22,354,348	

(32) 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:

	Ultimate controlling party		Immediate parent		Fellow subsidiaries		Associates (note (i))		Related company (note (ii))	
					Six months ended 30 June					
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Interest income	**193**	-	**-**	-	**15,049**	8,703	**521**	6,446	**6**	-
Interest expense	**(49,596)**	(19,124)	**(2,034)**	(4,951)	**(44,555)**	(62,082)	**(6,273)**	(41,242)	**(10,839)**	(18,223)
Other operating income	**-**	-	**197**	197	**-**	-	**19,697**	21,280	**-**	-
Operating expenses	**-**	-	**(7,097)**	(1,844)	**(2,222)**	(6,154)	**(443)**	-	**-**	-
Guarantees and letter of credit	**-**	-	**-**	-	**624**	-	**-**	-	**-**	-
	(49,403)	(19,124)	**(8,934)**	(6,598)	**(31,104)**	(59,533)	**13,502**	(13,516)	**(10,833)**	(18,223)
					As at 30 June 2009/31 December 2008					
Lending activities:										
As at 1 January	**-**	-	**-**	-	**1,371,228**	602,607	**200,000**	218,285	**-**	-
As at 30 June 2009/31 December 2008	**-**	-	**-**	-	**843,820**	1,371,228	**185,000**	200,000	**-**	-
Average for the period/for the year	**-**	-	**-**	-	**1,172,107**	977,301	**192,500**	155,250	**-**	-
Other receivables:										
As at 1 January	**-**	-	**-**	76,644	**6,669**	1,442	**1,380**	31,987	**-**	-
As at 30 June 2009/31 December 2008	**-**	-	**-**	-	**4,660**	6,669	**10**	1,380	**-**	-
Average for the period/for the year	**-**	-	**-**	62,257	**6,195**	96,141	**20**	16,527	**-**	-
Acceptance of deposits:										
As at 1 January	**11,428,751**	2,147,532	**533,255**	353,361	**5,360,639**	1,423,696	**2,657,949**	3,303,486	**27,018**	-
As at 30 June 2009/31 December 2008	**6,753,842**	11,428,751	**441,858**	533,255	**3,538,043**	5,360,639	**3,538,528**	2,657,949	**17,480**	27,018
Average for the period/for the year	**8,336,460**	3,402,529	**451,898**	424,315	**3,665,371**	4,387,171	**2,792,486**	2,497,180	**15,658**	6,755
Other payables:										
As at 1 January	**415**	1,106	**477,034**	142,123	**27,249**	22,361	**1,603**	4,938	**1,326**	2,508
As at 30 June 2009/31 December 2008	**7,436**	415	**442,260**	477,034	**20,288**	27,249	**1,557**	1,603	**782**	1,326
Average for the period/for the year	**8,230**	488	**453,715**	421,515	**22,653**	28,335	**865**	2,984	**922**	1,482
Loan capital:										
As at 1 January	**-**	-	**-**	-	**1,185,752**	1,193,187	**-**	-	**620,001**	623,889
As at 30 June 2009/31 December 2008	**-**	-	**-**	-	**1,185,771**	1,185,752	**-**	-	**620,011**	620,001
Average for the period/for the year	**-**	-	**-**	-	**1,185,771**	1,189,742	**-**	-	**620,011**	622,087

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

Note:

(i) Associates of the Group and the Bank included the associates of the ultimate controlling party and immediate parent respectively.

(ii) The related company referred to shareholders of the immediate parent, which exercise significant influence on the immediate parent.

(32) Material Related Party Transactions (cont'd)

(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:

	Six months ended 30 June	
	2009	2008
	HK$'000	HK$'000
Short-term employee benefits	**25,324**	15,281
Post-employment benefits	**1,099**	1,081
Share-based payments	**-**	4,418
	26,423	20,780

Total remuneration is included in "staff costs" (note 10(a)).

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.

	2009	2008
	HK$'000	HK$'000
As at 1 January	**8,739**	13,505
As at 30 June 2009/31 December 2008	**17,672**	8,739
Maximum amount during the period/year	**18,896**	14,829

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.

(33) 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 2009				As at 31 December 2008			
	Held for hedging HK$'000	**Managed in conjunction with financial instruments designated at fair value through profit or loss HK$'000**	**Others (including held for trading) HK$'000**	**Total HK$'000**	Held for hedging HK$'000	Managed in conjunction with financial instruments designated at fair value through profit or loss HK$'000	Others (including held for trading) HK$'000	Total HK$'000
Currency derivatives								
Forwards	**-**	**-**	**22,965,427**	**22,965,427**	-	-	11,091,168	11,091,168
Swaps	**-**	**78,000**	**47,590,717**	**47,668,717**	-	78,000	29,252,333	29,330,333
Options purchased	**-**	**-**	**825,244**	**825,244**	-	-	138,112	138,112
Options written	**-**	**-**	**883,939**	**883,939**	-	-	137,770	137,770
Interest rate derivatives								
Swaps	**3,123,797**	**38,751**	**45,055,805**	**48,218,353**	3,123,755	664,950	41,442,694	45,231,399
Equity derivatives								
Swaps	**-**	**-**	**-**	**-**	-	-	41,600	41,600
	3,123,797	**116,751**	**117,321,132**	**120,561,680**	3,123,755	742,950	82,103,677	85,970,382

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 2009			As at 31 December 2008		
	Fair value assets HK$'000	**Fair value liabilities HK$'000**	**Credit risk-weighted amount HK$'000**	Fair value assets HK$'000	Fair value liabilities HK$'000	Credit risk-weighted amount HK$'000
Interest rate derivatives	**768,786**	**824,253**	**548,561**	994,046	1,076,592	707,634
Currency derivatives	**1,114,364**	**679,817**	**610,089**	435,759	301,009	234,980
Equity derivatives	**-**	**-**	**-**	8,285	8,285	9,665
	1,883,150	**1,504,070**	**1,158,650**	1,438,090	1,385,886	952,279
	(note 17)	**(note 23)**		(note 17)	(note 23)	

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 2008: 0% to 150%) for contingent liabilities and commitments, and from 0% to 150% (31 December 2008: 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.

(33) Derivatives (cont'd)

(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 2009		As at 31 December 2008	
	Fair value assets HK$'000	**Fair value liabilities HK$'000**	Fair value assets HK$'000	Fair value liabilities HK$'000
Interest rate contracts	**43,230**	**156,501**	57,192	196,015

Fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of 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 2009 Notional amounts with remaining life of			
	Total HK$'000	**1 year or less HK$'000**	**Over 1 year to 5 years HK$'000**	**Over 5 years HK$'000**
Interest rate derivatives	**48,218,353**	**9,956,561**	**38,261,792**	**-**
Currency derivatives	**72,343,327**	**71,234,262**	**1,109,065**	**-**
Equity derivatives	**-**	**-**	**-**	**-**
	120,561,680	**81,190,823**	**39,370,857**	**-**

	As at 31 December 2008 Notional amounts with remaining life of			
	Total HK$'000	1 year or less HK$'000	Over 1 year to 5 years HK$'000	Over 5 years HK$'000
Interest rate derivatives	45,231,399	13,426,714	31,804,685	-
Currency derivatives	40,697,383	40,434,250	263,133	-
Equity derivatives	41,600	41,600	-	-
	85,970,382	53,902,564	32,067,818	-

(34) 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 2009 HK$'000	As at 31 December 2008 HK$'000
Direct credit substitutes	**5,779,722**	4,818,512
Transaction-related contingencies	**685,248**	357,938
Trade-related contingencies	**1,319,893**	989,214
Forward forward deposits placed	**615,008**	-
Other commitments:		
- which are unconditionally cancellable or automatically cancellable due to deterioration in the creditworthiness of the borrower	**17,945,101**	18,894,280
- with an original maturity of not more than 1 year	**2,646,011**	4,258,945
- with an original maturity of more than 1 year	**3,464,022**	3,468,674
	32,455,005	32,787,563
Credit risk-weighted amounts	**6,656,087**	5,269,794

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 2008: 0% to 150%).

(b) Capital commitments

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

	As at 30 June 2009 HK$'000	As at 31 December 2008 HK$'000
Authorised and contracted for	**34,420**	20,620
Authorised but not contracted for	**16,450**	23,138
	50,870	43,758

(35) Non-adjusting Post Balance Sheet Events

On 22 July 2009, the Bank entered into an agreement with the HKMA, the Securities and Futures Commission and 15 other distributing banks under which the Bank would offer to eligible customers to repurchase a structured investment, known as Lehman Brothers Minibonds subscribed or purchased through the Bank ("the Repurchase Scheme").

Under the Repurchase Scheme, the Bank will, on a without liability basis, make an offer to repurchase at a price equivalent to 60% of the nominal value of the principal invested for eligible customers below the age of 65 as at 1 July 2009 or at 70% of the nominal value of the principal invested for eligible customers aged 65 or above as at 1 July 2009. The Repurchase Scheme includes additional payments to the eligible customers based on the amounts recoverable from the Lehman Brothers Minibonds, which will be repurchased by the Bank under the Repurchase Scheme. The Bank has also made a voluntary offer to make ex-gratia payments to those eligible customers who had previously settled with the Bank on a case-by-case basis, to bring them in line with the terms of the Repurchase Scheme, and will make available an amount equivalent to the total commission income received as a Lehman Brothers Minibonds distributor to the trustee of the Lehman Brothers Minibonds to fund the trustee's expenses in realising the value of the underlying collaterals.

Based on the Bank's estimation, the maximum amount the Bank will pay out including the amount to fund the trustee expenses in the event that all eligible customers accept the offer is approximately HK$278 million (excluding any further recovery from the underlying collaterals).

No provision has been made regarding the Repurchase Scheme for the period ended 30 June 2009 as management is of the opinion that the proportion of investors accepting the offer and the net amount which could be recovered from the Lehman Brothers Minibonds on collateral recovery and realisation cannot be reliably estimated.

(36) Comparative Figures

As a result of the application of HKAS 1 (revised 2007), Presentation of financial statements, and HKFRS 8, Operating segments, certain comparative figures have been adjusted to conform to current period's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009.

Unaudited Supplementary Financial Information
(Expressed in Hong Kong dollars unless otherwise indicated)

(A) Summary Of Financial Position

	As at 30 June 2009 HK$'000	As at 31 December 2008 HK$'000
Loans and advances to customers and trade bills	**71,735,152**	74,231,262
Impairment allowances	**468,033**	485,483
Total assets	**117,212,836**	121,809,830
Total deposits	**93,523,627**	99,453,746
Total equity attributable to equity shareholders of the Bank	**11,803,651**	9,530,938
<u>Financial ratios</u>		
Capital adequacy ratio	**16.9%**	14.7%
Core capital ratio	**12.1%**	9.6%
Average liquidity ratio for the period/year ended* (six months ended 30 June 2008: 34.4%)	**49.4%**	37.0%
Loans to deposits	**76.7%**	74.6%
Loans to total assets	**61.2%**	60.9%
Cost to income	**48.7%**	73.6%
Cost to income (excluding SIVs impact)	**48.7%**	52.6%
Return on assets	**0.7%**	0.1%
Return on assets (excluding SIVs impact)	**0.7%**	0.7%
Return on average total equity attributable to equity shareholders of the Bank	**7.6%**	1.3%
Return on average total equity attributable to equity shareholders of the Bank (excluding SIVs impact)	**7.6%**	7.1%

* 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.

Unaudited Supplementary Financial Information

(B) (i) Capital Base After Deductions

	As at 30 June 2009 HK$'000	As at 31 December 2008 HK$'000
Core capital		
Paid up ordinary share capital	**7,283,341**	5,583,341
Share premium	**282,930**	282,930
Reserves	**3,184,256**	2,782,734
Profit and loss account	**424,968**	170,834
Total core capital before deductions	**11,175,495**	8,819,839
Less: Net deferred tax assets	**(67,504)**	(106,745)
Less: Deductions from core capital	**(659,672)**	(473,652)
Total core capital after deductions	**10,448,319**	8,239,442
Eligible supplementary capital		
Unrealised fair value gains arising from holdings of equities and debt securities designated at fair value through profit or loss (in supplementary capital)	**-**	6,616
Regulatory reserve for general banking risks	**600,721**	675,465
Collectively assessed impairment allowances	**282,959**	237,758
Perpetual subordinated debt	**1,979,415**	1,989,718
Term subordinated debt	**1,937,534**	1,937,504
Total supplementary capital before deductions	**4,800,629**	4,847,061
Less: Deductions from supplementary capital items	**(659,672)**	(473,652)
Total supplementary capital after deductions	**4,140,957**	4,373,409
Total capital base after deductions	**14,589,276**	12,612,851
Total deductions from the core capital and supplementary capital	**1,319,344**	947,304
Risk-weighted amount		
- credit risk	**81,797,813**	81,447,518
- market risk	**1,203,288**	959,975
- operational risk	**3,471,775**	3,323,050
	86,472,876	85,730,543

At 30 June 2009 and 31 December 2008, 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 CAR 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
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
CKWH-UT2 Limited
Viewcon Hong Kong Limited
Carford International Limited
CITIC Ka Wah Bank (China) Limited
CKWB-SN Limited
Ka Wah International Services Limited
KWB Investment Limited
Ka Wah International Merchant Finance

The following subsidiaries are deducted from the Bank's capital base under Part 3 of the Banking (Capital) Rules:

Name of subsidiaries
The Ka Wah Bank (Nominees) Limited
Security Nominees Limited
The Hongkong Chinese Bank (Nominees) Limited

(C) Segmental Information On Loans And Advances To customers - By Geographical Areas

	As at 30 June 2009				
	Loans and advances to customers HK$'000	**Overdue loans and advances HK$'000**	**Impaired loans and advances HK$'000**	**Individual impairment allowances HK$'000**	**Collective impairment allowances HK$'000**
Hong Kong	**51,346,313**	**433,922**	**789,809**	**117,802**	**221,930**
Mainland China	**11,736,676**	**745,352**	**745,352**	**45,744**	**38,795**
USA	**1,809,501**	**-**	**38,242**	**-**	**1,586**
Others	**5,996,332**	**245,661**	**190,280**	**21,534**	**14,260**
	70,888,822	**1,424,935**	**1,763,683**	**185,080**	**276,571**

	As at 31 December 2008				
	Loans and advances to customers HK$'000	Overdue loans and advances HK$'000	Impaired loans and advances HK$'000	Individual impairment allowances HK$'000	Collective impairment allowances HK$'000
Hong Kong	52,926,670	268,039	489,615	215,435	171,430
Mainland China	12,102,527	520,855	517,303	107	41,731
USA	1,661,738	-	38,711	-	1,489
Others	6,723,581	233,686	338,550	31,685	22,929
	73,414,516	1,022,580	1,384,179	247,227	237,579

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 2009		As at 31 December 2008	
	HK$'000	**% of total loans and advances to customers**	HK$'000	% of 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	**134,800**	**0.19**	229,009	0.31
- 1 year or less but over 6 months	**566,096**	**0.80**	127,815	0.17
- over 1 year	**724,039**	**1.02**	665,756	0.91
	1,424,935	**2.01**	1,022,580	1.39
Secured overdue loans and advances	**1,042,696**		722,164	
Unsecured overdue loans and advances	**382,239**		300,416	
	1,424,935		1,022,580	
Market value of collateral held against the secured overdue loans and advances	**1,630,319**		867,174	
Individual impairment allowance made	**164,726**		99,952	

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" which 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 2009 and 31 December 2008.

(E) Other Overdue Assets

	As at 30 June 2009 HK$'000	As at 31 December 2008 HK$'000
The gross amount of trade bills which has been overdue for:		
- 6 months or less but over 3 months	-	11,650
- 1 year or less but over 6 months	**1,709**	-
Available-for-sale securities which has been overdue for:		
- over 1 year	**14,510**	15,500

(F) Rescheduled Loans

	As at 30 June 2009		As at 31 December 2008	
	HK$'000	**% of total loans and advances to customers**	HK$'000	% of total loans and advances to customers
Rescheduled loans	**146,376**	**0.21**	15,297	0.02

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 2009 and 31 December 2008.

(G) Repossessed Assets

	As at 30 June 2009 HK$'000	As at 31 December 2008 HK$'000
Included in loans and advances to customers and other accounts	**52,053**	69,008

The amount represents the estimated market value of the repossessed assets as at 30 June 2009 and 31 December 2008.

(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:

	As at 30 June 2009			
	Banks and other financial institutions HK$'000	**Public sector entities HK$'000**	**Others HK$'000**	**Total HK$'000**
Asia and Pacific excluding Hong Kong	**9,452,657**	**31,157**	**14,050,568**	**23,534,382**
of which Australia	**4,269,201**	**1,046**	**583,782**	**4,854,029**
of which Mainland China	**1,991,816**	**28,748**	**11,191,774**	**13,212,338**
Western Europe	**20,784,313**	**1,897**	**2,894,934**	**23,681,144**
of which France	**2,790,537**	**-**	**721,055**	**3,511,592**
of which Germany	**2,673,588**	**-**	**19,217**	**2,692,805**
of which Netherlands	**2,626,398**	**-**	**693,170**	**3,319,568**
of which United Kingdom	**6,808,289**	**494**	**974,601**	**7,783,384**

	As at 31 December 2008			
	Banks and other financial institutions HK$'000	Public sector entities HK$'000	Others HK$'000	Total HK$'000
Asia and Pacific excluding Hong Kong	9,519,509	33,333	14,697,159	24,250,001
of which Australia	3,264,931	829	351,026	3,616,786
of which Mainland China	2,798,451	30,636	11,764,953	14,594,040
Western Europe	16,189,713	1,924	2,861,252	19,052,889
of which France	3,691,215	-	706,087	4,397,302
of which Germany	2,612,756	-	19,498	2,632,254
of which Netherlands	1,421,752	-	924,932	2,346,684
of which United Kingdom	5,285,005	518	653,923	5,939,446

Unaudited Supplementary Financial Information

(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 2009			
	On-balance sheet exposure HK$'000	**Off-balance sheet exposure HK$'000**	**Total HK$'000**	**Individual impairment allowances HK$'000**
Mainland China entities	**15,479,421**	**5,522,569**	**21,001,990**	**57,171**
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	**13,650,547**	**6,131,364**	**19,781,911**	**33,866**
	29,129,968	**11,653,933**	**40,783,901**	**91,037**

	As at 31 December 2008			
	On-balance sheet exposure HK$'000	Off-balance sheet exposure HK$'000	Total HK$'000	Individual impairment allowance HK$'000
Mainland China entities	16,883,465	5,898,957	22,782,422	15,516
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	14,160,597	5,798,051	19,958,648	125,336
	31,044,062	11,697,008	42,741,070	140,852

(J) Risk Management

The Group manages its risks under the oversight of the Board of Directors and its delegated committees. The Risk Management Group of the Bank has been entrusted with the ongoing responsibilities of identifying, quantifying, monitoring and mitigating the risks, comprising group credit risk, market risk, operational risk, risk asset management and policy & portfolio risk management. The Group continually enhances its risk management policies and systems in line with changes in markets, products, best practice and regulatory requirements.

The Bank appointed a Director of Risks in February 2009 to further enhance the day-to-day supervision of its risk management infrastructure and practices. Following the appointment, a Risk Management Project plan was launched with the gradual implementation of various initiatives under Basel II, credit risk, operational risk, market risk and MIS to enhance the group's risk infrastructure, methodologies and practices.

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 undertaken by monitoring the implementation of adopted credit policies that define the Bank's risk appetite, the borrower's creditworthiness, credit risk classification, and the framework 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 statement of financial position, 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 apply 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. In addition, the Bank has a Contingency Funding Plan that provides guidelines in the identification and management of contingent funding situation, minimising disruptions and ensuring a smooth operation of the Bank.

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 2009, the Bank's average liquidity ratio was 49.4% (31 December 2008: 37.0%). 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 ("CD") so as to secure a stable source of funding. For the six months ended 30 June 2009, a total of HK$2.46 billion (31 December 2008: HK$3.91 billion) was raised through several successful CD issuances.

(J) Risk Management (cont'd)

(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.

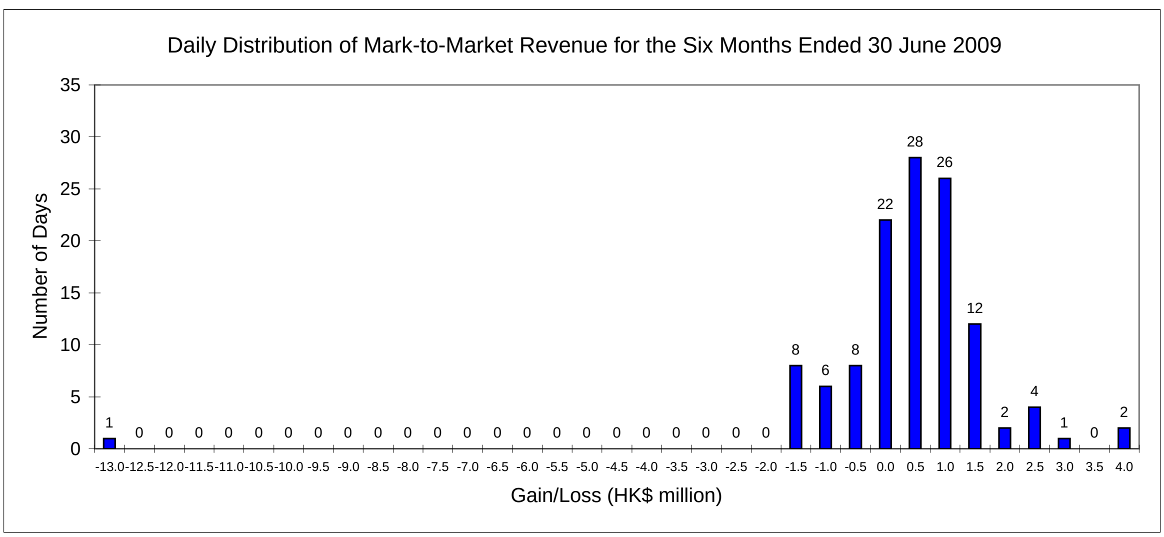
The Bank's Treasury is the central point to take and manage market risk exposure within the prescribed limit hierarchy.

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 were HK$6,493,000 and HK$1,546,000 during the six months ended 30 June 2009 and 2008, 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 2009, the average daily mark-to-market revenue from the Bank's trading portfolio was a gain of HK$149,000 (six months ended 30 June 2008: a gain of HK$68,000 (excluding structured investment vehicles)). The standard deviation of the daily revenue was HK$1,609,000 (six months ended 30 June 2008: HK$665,000). The graph below shows a histogram of the Bank's daily mark-to-market revenue for the six months ended 30 June 2009.



From the graph above, the maximum daily mark-to-market gain was HK$3,674,000 (six months ended 30 June 2008: a gain of HK$1,935,000) and the maximum daily mark-to-market loss was HK$13,294,000 (six months ended 30 June 2008: a loss of HK$3,587,000). Out of the 120 trading days for the period, there were 75 days with mark-to-market gains and 45 days with mark-to-market losses. The most frequent range of daily mark-to-market revenue was between HK$ Nil and a gain of HK$ $500,000 (six months ended 30 June 2008: between a loss of HK$500,000 and HK$ Nil), with the highest occurrence of 28 days.

(J) Risk Management (cont'd)

(iii) Market risk management

(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 2009, the Bank's average daily trading profit and loss from foreign exchange positions was a profit of HK$117,000 (six months ended 30 June 2008: a profit of $41,000) with a standard deviation of HK$259,000 (six months ended 30 June 2008: HK$281,000).

Significant foreign currency exposures at the date of financial position were as follows:

	As at 30 June 2009			
Equivalent in HK$’000	**USD**	**RMB**	**Others**	**Total**
Spot assets	**39,926,338**	**659,176**	**4,468,413**	**45,053,927**
Spot liabilities	**(36,716,670)**	**(305,991)**	**(6,947,128)**	**(43,969,789)**
Forward purchases	**34,168,571**	**5,807,690**	**14,242,619**	**54,218,880**
Forward sales	**(36,120,868)**	**(5,790,826)**	**(11,735,577)**	**(53,647,271)**
Net options position	**-**	**-**	**-**	**-**
Net long position	**1,257,371**	**370,049**	**28,327**	**1,655,747**
Net structural position	**-**	**226,960**	**48,509**	**275,469**

	As at 31 December 2008			
Equivalent in HK$’000	USD	RMB	Others	Total
Spot assets	42,574,348	1,914,543	3,304,502	47,793,393
Spot liabilities	(43,668,983)	(1,512,671)	(6,202,653)	(51,384,307)
Forward purchases	21,011,235	2,987,077	7,554,558	31,552,870
Forward sales	(18,906,234)	(3,069,207)	(4,697,912)	(26,673,353)
Net options position	-	-	-	-
Net long/(short) position	1,010,366	319,742	(41,505)	1,288,603
Net structural position	-	227,390	48,515	275,905

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 has used 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 has also adopted 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 2009, the Bank's average daily trading profit and loss from interest rate positions was a gain of HK$32,000 (six months ended 30 June 2008: a gain of HK$53,000) with a standard deviation of HK$1,593,000 (six months ended 30 June 2008: HK$515,000).

(J) Risk Management (cont'd)

(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 16.9% (31 December 2008: 14.7%) and 12.1% (31 December 2008: 9.6%) respectively as at 30 June 2009. 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 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:
- 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 RMG has established the Operational Risk Management Section:
- to coordinate operational risk management activities across the Bank and to monitor these risks as an independent and centralised function.
- 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 programmes, 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 programmes 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.

(J) Risk Management (cont'd)

(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.

The Legal and Compliance Department ("LCD") has been a key partner to the business, providing legal and compliance advice and support to all parts of the Bank. In the first half of 2009, 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 addition, since the second half of 2008, there have been challenges as financial markets and systems have been stressed beyond levels seen in recent memory. In the second half of 2009, these stresses will continue and significant if not fundamental changes can be expected in the regulatory approach as to how banks are supervised and in the area of investor protection. LCD will continue to provide the advice and support that the Bank will require as it strives to meet the challenges these changes will present.

(vii) Strategic and reputational risk management

Strategic risk management refers to the Bank's efforts to develop, uphold and implement strategic decisions related to its long-term growth and development. Reputation risk management refers to the Bank's efforts to protect its brand name and business franchise from any potential damages arising from negative publicity about its business practices, conduct or financial condition.

The CRMC of the Bank meets regularly to monitor and oversee the Bank's strategic and reputational risks. High priority is placed by senior management to ensure that the Bank's business and operational strategies are appropriately defined and executed in a professional and time-relevant manner. Such strategies are reviewed on a regular basis to enable the Bank to make timely responses to changes in its operating and regulatory environment. Business priorities are set on a bank-wide basis as well as for individual business and functional units which are clearly aligned to support the Bank's strategies, and measurable targets are assigned to ensure executional excellence. Great care is also taken to protect the Bank's reputation and to maximise its brand equity. This involves on-going efforts to monitor and ensure high standards in customer satisfaction, operational efficiencies, legal and regulatory compliance, public communications and issues management, etc.

(K) Additional Information On Structured Investments

Collateralised Debt Obligations ("CDO")

As at 30 June 2009, the US$120.0 million (HK$ equivalent 930.0 million) capital notes issued by Farmington Finance Limited ("Farmington") (restructured from the Victoria's SlV in November 2007) was still the only cash-flow CDO held by the Group. These capital notes represent the equity tranche. In May 2009, the long-term funding obtained by Farmington was downgraded to "BBB+" from "A+" while the US$114.0 million (HK$ equivalent 883.5 million) Farmington capital note was also downgraded to "CCC-" from "CCC". The remaining US$6.0 million (HK$ equivalent 46.5 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 30 June 2009 was US$105.1 million (31 December 2008: US$83.1 million) equivalent to HK$814.6 million (31 December 2008: HK$644.0 million) based on their net present value of 87.6% (31 December 2008: 69.2%) as determined by discounting the projected cash flows of the underlying investment portfolio considering that the vehicle will be maintained until all assets mature.

As at 30 June 2009 the underlying investment portfolio of Farmington continued to meet 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 65% rated A- or above, 27% rated between B- to A-, and 8% rated CCC+ or below as at 30 June 2009. The portfolio of Farmington consists of approximately 6% in debt securities of financial institutions, approximately 11% in monoline guaranteed financial institution securities, approximately 34% in residential prime mortgage-backed securities, and the remaining 49% in other structured credit securities. As at 30 June 2009, the Weighted Average Life of the whole portfolio was 4.41 years. Reinvestment was resumed in January 2009. The Group considered the portfolio's direct exposure to sub-prime related mortgage backed securities not to be significant.

In addition to the credit default swap ("CDS") as reported in the annual report 2008, the Group has entered into a second CDS in January 2009 with the senior loan provider of Farmington as a partial credit protection against non-performance of a term loan to Farmington provided by this senior loan provider. Under the terms of the two CDSs entered, the Group is now responsible for the first loss of the portfolio up to a notional value of US$456.0 million (31 December 2008: US$456.0 million) equivalent to HK$3,535.7 million (31 December 2008: HK$3,535.7 million). Up to the date of this report, there was neither any settlement request claimed on the CDSs nor any indication that the deterioration in the credit quality of the underlying assets of Farmington threatening its ability to meet payments under the long-term senior debt as they become due, as such, no provision is considered necessary in respect of the CDSs for the period.

As last reported, 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.

Other than the above Farmington CDO investments, the Group has not made nor does it hold any other CDO investments as at 30 June 2009.

Report of Chief Executive Officer

Operating Environment

Hong Kong's economy continued to be embattled in the first half of 2009 in the aftermath of the global financial tsunami. As European and US demand contracted sharply, Hong Kong's externally oriented economy was strained by double-digit falls in both imports and exports. Meanwhile, domestic consumption was dampened by widespread salary freezes or salary cuts by local corporates as well as high local unemployment rates. For the local banking industry, in addition to facing severe recessionary pressures, it was afflicted by a number of challenges including a languid local credit market particularly in the corporate lending sector, deteriorating asset quality, and stressed net interest margins for capital-rich banks as a result of the low interest rate environment. Notwithstanding signs of credit quality gradually stabilising in the second quarter and the better-than-expected overall problem loan situation, these were insufficient to reverse the negative impact of the earlier sharp increases in loan impairment losses on the first-half performance of banks.

On the positive side, the concerted efforts of governments around the world to revive the global economy started to take effect. Capital markets that were once in near-paralysis were resuscitated after massive liquidity injections by central banks. China's ability to sustain relatively strong economic performance proved its capacity to withstand the shocks from the financial tsunami. Benefiting from China's economic resilience, Hong Kong captured strong funds inflow during the period which helped to relieve earlier pressures from tight local market liquidity. As the Hong Kong Interbank Offered Rate ("HIBOR") fell to near-zero levels, its interest spread to the Prime Lending Rate ("Prime") reached record highs. Such conditions contributed to the significant rebound in the local stock and property markets and spurred the improvement in overall investment sentiment, while rising asset prices helped to arrest the deteriorating trend in asset quality.

More significantly, simultaneous to sustaining relatively fast economic growth, the Chinese government rolled out successive policy measures that will benefit Hong Kong's long-term development. These included its national policy to promote economic integration between the Pearl River Delta region, Hong Kong and Macau, the promulgation of Supplement Six of the Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA") which will give Hong Kong firms greater and easier access to the mainland market for tourism, banking services and securities, and the launch of the pilot scheme to permit RMB cross-broader trade settlement between Hong Kong and five designated cities in China. Not only will these important policies give rise to tremendous opportunities for Hong Kong's financial services and various other industry sectors, they will also better equip Hong Kong to overcome its current economic challenges and expedite its return to the road of recovery.

CITIC Ka Wah Bank Limited ("CKWB" or the "Bank") stayed consistent in its efforts to protect its business fundamentals in the first half of 2009. Amidst a continuing climate of economic uncertainties, priority was given to ensure the Bank's overall financial and business operational stability. On the one hand, the Bank strengthened its capital adequacy levels and raised its risk management capabilities to enhance its core competence and competitive advantages. On the other hand, it deepened the scope of its strategic collaboration with China CITIC Bank Corporation Limited ("CNCB") to include both the front line business areas and the supporting functions. Through frequent and in-depth exchanges, the two banks will seek to jointly build a solid and complete cross-border financial services platform – one that will enable CKWB and CNCB to unite their strengths to capture the boundless opportunities from the economic integration in the Greater Pearl River Delta region as well as to steadily pave the way for their regional expansion plan.

Corporate Developments

On 8 May 2009, CNCB entered into a Share Purchase Agreement with CITIC Group of Beijing ("CITIC") and its wholly-owned subsidiary, Gloryshare Investments Limited ("GIL"), pursuant to which CNCB agreed to acquire from GIL its entire 70.32% interest in CKWB's holding company, CITIC International Financial Holdings Limited ("CIFH"), in return for a cash consideration of HK$13.6 billion ("Share Purchase Agreement"). This follows the successful privatisation of CIFH by CITIC in November 2008, and is a critical step to complete CITIC's strategy to restructure its cross-border commercial banking businesses. This will enable better alignment of CITIC's onshore and offshore commercial banking businesses which are currently operated through CNCB and CKWB respectively, and will facilitate and maximise synergies from the tripartite cooperation between CNCB, CKWB and its strategic partner, Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA").

At CNCB's annual general meeting on 29 June 2009, the Share Purchase Agreement was approved by the vast majority of its minority shareholders. Subject to obtaining the necessary regulatory approvals, the Share Purchase Agreement is expected to be completed around October 2009, at which time CNCB will have an effective 70.32% shareholding in CIFH, with the remaining 29.68% held by BBVA. CKWB will continue to maintain its management independence, and will support CNCB to expand its branch network to international financial centres, develop its commercial banking network internationally, and provide "one-stop-shop" financial solutions and a wider variety of and more applicable service products and service channels for its customers with international banking needs. The Bank will subsequently be renamed CITIC Bank International Limited, subject to regulatory approval, to better reflect its role within the CITIC commercial banking franchise.

Meanwhile, the Board of CIFH approved in April 2009 a HK$1.7 billion capital injection for CKWB ("Capital Injection"). The Capital Injection was part of the HK$3.0 billion undertaking by GIL and BBVA at the time of CIFH's privatisation to support the Bank's future development. It was successfully completed on 30 June 2009, and helped to significantly boost the Bank's capital adequacy ratios. *(See section on Asset Quality – Financial Position for details of the Bank's capital adequacy ratios.)*

Separately, the sudden collapse of Lehman Brothers in the US last September led to demands by a large segment of the investing public for compensation by banks that had distributed structured notes involving Lehman Brothers counter-party risk known as Minibonds. On 22 July 2009, 16 Minibonds distributing banks (including CKWB) jointly announced their voluntary offer of a scheme to repurchase Minibonds from eligible customers ("Repurchase Scheme"). The distributing banks believe that the Repurchase Scheme offers Minibonds investors a compromise that will optimise their ultimate potential recovery from those investments depending on the proceeds of any recovery from the collateral underlying the Minibonds. The Repurchase Scheme has been endorsed by the Hong Kong Monetary Authority ("HKMA") and the Securities and Futures Commission. If the Repurchase Scheme is accepted by all eligible customers, the Bank estimates that the aggregate repurchase amount payable together with Minibonds-related commissions to be applied towards efforts to maximise the recovery from underlying collateral will amount to approximately HK$278 million.

Business Performance

Earnings

As Hong Kong's banking sector contended with the challenges in the macroeconomic and regulatory environment in the first half of 2009, the impact was also felt in CKWB's core business performance for the period. The Bank's net interest income and net fee and commission income fell by 6.7% and 26.9% respectively compared to a year ago. Its operating profit before impairment allowances, however, rose 10.4 times year-on-year to HK$630 million, as the Bank's performance in the first half of 2008 took into account the full write-downs of its investments in structured investment vehicles ("SIVs").

With the abrupt turning of the credit cycle, the Bank registered net impairment losses of HK$220 million during the period. After taking into account HK$33 million in net profit on disposal of available-for-sale securities, the Bank reported an operating profit of HK$442 million, an increase of 3.3 times over the same period last year. Coupled with HK$40 million in net gain on disposal of property and HK$20 million in revaluation gain on investment properties, the Bank's profit attributable to shareholders totalled HK$425 million, which represented a 296.4% increase compared to the first half of 2008.

Net Interest Income

CKWB's net interest income for the first half of 2009 fell 6.7% to HK$795 million. The Bank's net interest income performance during the period was affected by its priority to uphold a relatively high level of capital adequacy in order to protect its fundamentals against any unexpected challenges and crisis situations amidst the current weak economic climate. As a result of the prudent and conservative approach to lending and capital management, the Bank's loan portfolio contracted and restricted its net interest income capability. In the meantime, interest rates fell significantly during the period with the one-month HIBOR at almost 200 basis points below the previous year's level. This has also seriously weakened the interest earning capability of the Bank's interest-free capital.

Although the interest spread on the Bank's mortgage portfolio benefited from a persistently wide Prime-HIBOR gap at above 4% during the period, and the general tightening of the local credit market allowed a gradual repricing of its wholesale loan portfolio, these factors were not sufficient to offset the negative impact mentioned above. As a result, the Bank's net interest margin fell 27 basis points compared to a year ago to 1.49%.

Non-Interest Income

The Bank registered HK$432 million in non-interest income in the first half of 2009. This compared to a loss of HK$162 million in the previous same period when the Bank had to fully write down its SIV investments. Demand for investment products continued to be weak during the period as investor confidence remained fragile, as a result, wealth management related income suffered a sharp 56.9% year-on-year decline. Trade bills commission income also declined by 18.4% as imports and exports fell. Despite a 4.5% increase in corporate loans related fee income, overall net fee and commission income fell 26.9% year-on-year to HK$319 million.

Operating Expenses

CKWB continued to exercise prudent cost disciplines in face of the challenging economic conditions. Operating expenses fell 6.0% compared to the first half of 2008 to HK$597 million. Staff cost fell 4.6% without any meaningful change in staff numbers. Legal and professional fees as well as advertising expenses decreased by 36.6% and 39.4% respectively. Free from the impact of SIV-related write-downs in the first half of 2009, cost to income ratio improved significantly to 48.7% from last year's 92.0%.

Impairment Allowances

As loan asset quality deteriorated with the sharp turn in the credit cycle especially in the last quarter of 2008 and the first quarter of 2009, the Bank adopted a defensive impairment provisioning strategy during the period and registered a net charge in impairment losses totalling HK$220 million. This compared to a net write-back in impairment losses of HK$10 million in the first half of 2008. The net charge in individually assessed loans increased by 2.2 times year-on-year to HK$243 million, while the net charge on collectively assessed loans amounted to HK$57 million compared to a net write-back of HK$37 million in the first half of 2008. Bad debt recoveries increased 63.5% year-on-year to HK$80 million.

Asset Quality

Asset, Loan, And Deposit Sizes

At the end of June 2009, CKWB's total assets stood at HK$117.2 billion, a slight reduction of 3.8% compared to the previous year-end, primarily due to the decline in customer loan balances. As mentioned above, the Bank adopted a prudent and conservative approach to lending and capital management as a measure against challenges from the economic downturn. This has in turn led to a 3.4% contraction in total loans to HK$71.7 billion. With liquidity returning to the market as a whole and the Bank's success in significantly strengthening its average liquidity ratio, deliberate efforts were made to trim low-return cash balances; a drop in wholesale deposits also contributed to the decline in cash balances. Meanwhile, although total deposits fell by 6.0% compared to the previous year-end to HK$93.5 billion, the Bank registered a marked improvement in its deposit profile, with core deposits comprising current and savings account balances accounting for 36.3% of total customer deposits, significantly higher than the 22.2% at the previous year-end and contributing to more effective funding cost control by the Bank.

Asset Quality Indicators

Although CKWB's asset quality during the period was negatively impacted by the economic downturn, it is worthy to note a further improvement in the Bank's residential mortgage delinquency ratio from 0.03% at the end of 2008 to 0.02% at the end of June 2009. This compared favourably to the industry average of 0.05% as announced by the HKMA. Separately, concerned with the resilience of Hong Kong banks to the worsening economy, international credit rating agencies conducted a series of stress tests on industry players, and confirmed that CKWB's credit ratings remained unchanged. The Bank's credit ratings were confirmed at BBB+ and Baa2 in February 2009 and June 2009 respectively by Fitch Ratings and Moody's Investment Services.

Financial Position

The Bank's capital adequacy ratio benefited from the HK$1.7 billion capital injection by its parent CIFH to reach 16.9% as at the end of June 2009. This represented a significant improvement by about 2.2 percentage points compared to the previous year-end. Not only has this strengthened the Bank's ability to weather the economic challenges and allowed the Bank to renew its drive to grow its loan portfolio, it also gives the Bank the necessary foundation to pursue new business development in Asia in future. Meanwhile, with improving market liquidity coupled with the Bank's deposit campaigns and active asset and liability management programmes, its average liquidity ratio and loans to deposits ratio stood at the healthy levels of 49.4% and 76.7% respectively as at the end of June 2009.

CKWB's Key Financial Ratios

	30 June 2009	**31 December 2008**
Capital adequacy	16.9%	14.7%
Core capital adequacy	12.1%	9.6%
Average liquidity	49.4%	37.0%
Loans to deposits	76.7%	74.6%
Loans to total assets	61.2%	60.9%
Impaired loans	2.49%	1.89%
Coverage[1]	77.7%	81.2%
Loan loss coverage	26.2%	35.0%
Collective assessment coverage	0.39%	0.32%
Mainland loans to total customer advances	16.6%	16.5%

[1] Calculated by dividing the sum of individually assessed impairment allowances and collateral of impaired loans by the gross impaired loans.

Business Development

Retail Banking Group ("RBG")

RBG continued to focus on its deposit acquisition drive in the first half of this year to support the Bank's strategy to improve its overall deposit structure. A variety of deposit products was rolled out during the period to meet the needs of customers in the low interest rate environment. This contributed to a 2.9% increase in retail deposits compared to 2008 year-end. Net interest income benefited from the relatively wide Prime-HIBOR gap to register a year-on-year increase of 7.6%. A broad array of currency-linked and interest rate-linked yield enhancement products was offered to cater to the more conservative needs of retail customers in the aftermath of the financial tsunami. However, wealth management-related income was still driven down by the weak market sentiment and declined by 56.9% year-on-year. As a result, non-interest income fell 49.6% compared to the same period last year.

After factoring in an increase in loan impairment losses, net profit before tax fell 37.2% year-on-year to HK$184 million.

Notwithstanding the changes in the operating environment, the Bank's private wealth management franchise, CITIC*first*, was relentless in its commitment to uphold its premium service quality and to fulfil its promise to deliver an innovative and differentiated experience to customers. Attention during the period was given to helping customers address the market volatilities. This involved establishing with customers a thorough understanding of their own risk appetite and wealth objectives to derive the appropriate wealth management strategy. CITIC*first* was most encouraged by the unwavering support and trust of its customers through this challenging period. Its total number of customers grew by 2.6% since the end of 2008 to breach the 14,000 mark, of which 5.0% were new-to-bank customers. Meanwhile, total customer assets under management grew by 8.6% compared to last year-end to reach HK$40.2 billion. Indeed, on 31 July 2009, CITIC*first* received the "Wealth Management Service Award" honour from local finance magazine Capital Weekly in its "Service Award 2009". The award was given based on the evaluation of the award judges as well as voting by readers, a further testimony to its brand recognition by the market and its customers.

RBG continued its prudent approach in consumer lending during the period. Total retail lending fell marginally by 0.4% compared to the end of December 2008. The Bank's decision to eschew price-cutting competition helped to lift the pricing of its new residential mortgages; this in turn helped to alleviate some of the pressure on the Bank's net interest margin. As the market stabilises, RBG will selectively promote its mortgage offerings to its core customer segments by structuring them as an integral part of its total wealth management solutions.

<u>Wholesale Banking Group ("WBG")</u>

Faced with the economic downturn, the performance of WBG was inevitably impacted. Net interest income and non-interest income for the first half of the year fell 16.1% and 6.2% year-on-year respectively. The worsening of credit quality also led to a net charge in loan impairment losses of HK$197 million, in stark contrast to a net write-back of HK$14 million in the first half of 2008 when the credit cycle was at its best. As a result, net profit before tax for the period fell 68.7% compared to a year ago to HK$129 million. Since the market started to stabilise, WBG's operating income has also shown signs of steady improvement. As loan pricing gradually adjusted to reflect rising risk premium in the economic recession, net interest margin has also shown quarter-on-quarter improvement, with second quarter net interest margin at 16 basis points over that of the fourth quarter of last year when market conditions were at the worst.

To brace itself against the unprecedented economic turbulences, WBG has been tightening its risk management standards to reduce its exposure to high-risk customers or projects on the one hand, while on the other hand it has been strengthening its service to core customers to help them ride out current challenges. Solutions included the restructuring of loans in accordance with customers' individual circumstances. This has not only cemented long-term relationships with core customers, but has also brought the pricing of loans closer to market levels to attain a win-win situation for all parties. With early signs of an economic recovery emerging and the Bank's capital significantly boosted, WBG will start to build up its high quality loan portfolio again to regain its earnings momentum in the second half of the year.

WBG's other priority during the period was to continue to deepen its collaboration with CNCB. *(Also see section on China Banking.)* In May 2009, the two banks held a senior management forum for their wholesale banking divisions to establish joint strategic customer development plans, and a preliminary list of over 110 key customers was identified for joint marketing. To-date, the Bank has already established credit facilities or is in the process of assessing credit applications for over half of these customers. Meanwhile, WBG has also strengthened its cooperation with the Treasury & Markets Group and has successfully cross-sold treasury solutions to customers for hedging against the volatile markets. As a result, treasury-related income has increased 23.9% year-on-year to reach HK$25 million.

China Banking

The Bank's strategic cooperation with CNCB continued uninterrupted by the impact of the global financial tsunami. On the contrary, the two banks have been seizing the opportunities arising from a closer equity relationship to increase the depth and frequency of their tripartite discussions together with BBVA, and the scope of such exchanges has extended from front line business units to include middle and back office units including risk management and information technology, further solidifying the foundation for future collaboration. At these exchanges, the two banks seek not only to establish joint plans to develop key strategic customers, but also to enhance joint product development efforts to address increasing customer needs for cross-border financial products and solutions.

In the first half of 2009, the Bank continued to build momentum in delivering RMB-related currency hedging solutions to CNCB customers, with transaction volumes of RMB non-deliverable forward contracts reaching a record of US$711 million. The two banks are also building encouraging results in jointly delivering one-stop offshore financing solutions, collateralised offshore lending on onshore assets or vice versa to address the fund-raising or financing needs of CNCB's domestic customers with outbound business or investment needs, or to CKWB's clients investing into China. During the period, the Bank approved a total of HK$3 billion in credit facilities referred by CNCB, and the number of joint signature deals won on the merits of the combined onshore and offshore strengths of the two banks has also increased.

More recently, the Bank signed an agreement with CNCB's Guangzhou Branch to mark their collaboration under the Chinese government's launch of the Pilot Programme of RMB Settlement of Cross-border Trade Transactions, and the first joint cross-border settlement transaction was executed immediately following the implementation of the new policy in early July 2009. With the offshore RMB business just in its infancy, the industry firmly believes that its future development potential is enormous. The Bank is currently studying related joint business cooperation opportunities with CNCB, and will strive to roll out timely RMB products and services to address to the needs of customers.

<u>Treasury and Markets Group ("TMG")</u>

Driven by growth in both its customer-driven revenues and investment returns, TMG registered HK$145 million in net profit before tax for the first half of 2009, in contrast to its net first-half loss of HK$575 million last year which was due to SIV-related write-downs.

Leveraging on the rebound of the financial markets from their lows, TMG expanded its professional talent base to strengthen its product development and sales capabilities. The launch of a number of new equity or foreign currency-linked products enabled TMG to deepen its cross-selling efforts with both WBG and RBG, resulting in an increase in related income by 13.4% year-on-year to HK$42 million.

In the area of central treasury management, reduced funding cost as a result of the low interest rate environment helped to lift the performance of the Bank's available-for-sale ("AFS") fixed income securities portfolio. Meanwhile, in anticipation of rising bond prices in response to narrowing credit spreads in the stabilising financial markets, TMG took advantage of market conditions to sell part of its AFS portfolio and captured a profit of HK$30 million. Concurrently, TMG worked closely with the Risk Management Group to upgrade its risk management methodologies, with the objective of ensuring that the market risk profiles of the Bank's investment portfolios are managed within management defined risk parameters.

Separately, the Bank continued to hold in its AFS portfolio the capital notes of Farmington Finance Limited ("Farmington"), a fully-funded cash flow collateralised debt obligation restructured from its capital notes investment in the SIV Victoria Finance Limited in 2007. In January 2009, agreement was reached with the investment managers to commence reinvestment for the vehicle. This has helped to significantly improve the cash flows for the vehicle. As a result, the net present value ("NPV") of Farmington as at 30 June 2009 improved to 87.6% from 69.2% at the end of 2008. As at the end-June 2009, 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, but it is well diversified amongst some 400 assets in diverse classes. Up to the date of this report, there was no settlement request claimed on the credit default swap ("CDS") written against Farmington, nor was there any indication that the deterioration in the credit quality of the underlying assets of Farmington has threatened its ability to meet its payments under the long-term senior debt as they become due, as such, no provision was considered necessary in respect of the CDS for the period. *(See Note (K) in the Unaudited Supplementary Information for further details on Farmington.)*

Risk Management

The Bank considers risk management an important core competency that is essential to the long-term success of its business and future development. High priority has always been placed in the continuous upgrading of its risk management standards. Such disciplines have played an important role in safeguarding the Bank's business foundations and have enabled it to navigate through the market turmoils over the past two years since early signs of the global credit crunch first emerged.

High standards of risk governance and control are integral to the Bank's approach to managing risks. The Bank's policies, limits and underwriting standards are approved and reviewed by the various delegated committees, including the Audit Committee and the Credit and Risk Management Committee ("CRMC") at the Board level, and the Asset and Liability Committee ("ALCO") and the Credit Committee at the management level. Risk management processes and controls are in place to identify, quantify, monitor and mitigate the Bank's risks, including credit risk, operational risk, market risk, liquidity risk, interest rate risk, strategic risk and reputational risk.

As part of the unique tripartite synergies under CKWB's relationship with BBVA, the Bank has been keen to leverage on the world-class risk management capabilities of its strategic shareholder to help it achieve competitive differentiation in this area. In January 2009, the Bank appointed a new Director of Risks to effect the immediate transfer of skill sets and best practices from BBVA. By the end of June 2009, a comprehensive Risk Management Plan ("RMP") has already been put in place which actively engages the expertise of BBVA to upgrade and promote ongoing enhancement of the Bank's risk infrastructure. The plan focuses on ensuring that appropriate tools, methodologies and processes are in place in key risk areas comprising the Pillar II requirements of the New Basel Accord ("Basel II"), credit risk, market risk, operational risk and management information systems.

Some of the key strategic initiatives in the RMP that are in various stages of implementation included the tightening of underwriting standards and risk review disciplines that takes into particular consideration immediate challenges in the current economic climate, the development of appropriate risk-based pricing models, and the refinement of the Bank's investment policy in line with its defined market risk appetite. The ultimate objective of the RMP is to eventually create a risk infrastructure able to identify, quantity, monitor and mitigate the risks of the Bank to facilitate value creation and to preserve its financial strength.

Future Outlook

Over the past few months, the continuing and concerted efforts of governments around the world have slowly helped to restore a certain level of stability and normalcy in the global capital and funding markets. The impact of toxic assets on global financial institutions still lingers but fears of a systemic collapse are slowly subsiding. Although market fundamentals remain fragile and talks of an economic recovery at a local or global level may still be premature, it is hoped that the worst may be over with the global financial tsunami.

More significantly, China's 8% economic growth target this year is looking increasingly achievable based on economic data released by the country, as well as research forecasts by an increasing number of economists and market analysts. This augurs well for Hong Kong as it is expected to provide the necessary impetus for the accelerated growth of the local economy in the second half of this year and beyond. With the successive implementation of various policies by the Chinese government to promote cross-border financial services and to support Hong Kong's role as an offshore RMB centre, prospects for the future growth and development of the local financial industry will be tremendous. The industry sincerely hopes that the public gloom over the Minibonds controversy will soon be dispelled with the public support of the Repurchase Scheme, so that the local banks and the community at large can move forward in harmony to contribute to and benefit from Hong Kong's economic recovery.

For CKWB, CITIC's restructuring strategy for its cross-border commercial banking businesses will reach fruition once CNCB completes its stake acquisition in CIFH before the end of this year. The streamlined equity structure will bring the collaboration between the two banks to a new level, and with interests fully aligned, the two banks will be able to fully amplify the synergistic power of their combined onshore and offshore competitive strengths. Meanwhile, the Bank is now in a strong capital position following the Capital Injection by CIFH. CKWB is confident that from its vantage position and with the support of our strong shareholders, it will be well-placed to capture the enormous opportunities from an economic recovery and from the economic integration of the Great Pearl River Delta region.

Looking ahead, the Bank will speed up the pace of its business development, and will renew its drive to grow its high quality loan portfolio while maintaining high standards in risk management. Once the new equity structure of CIFH is in place, the Bank will be renamed CITIC Bank International Limited as soon as possible to become CNCB's vehicle to pursue international expansion. Tripartite strategy development between CNCB, the Bank and BBVA is well underway and encompasses both front line businesses and the middle and back office support functions. The objective is to establish a unique and functional tripartite business model with clearly defined common goals and accountability amongst all parties, and to leverage on this formidable alliance to capture the opportunities from the growing economic pre-eminence of the Greater China and Asian region. CKWB will strive to deliver its best in its role as the new business development platform for the tripartite partners in Asia, and will live up to CITIC's trust and expectations in the Bank to expand the frontiers of its commercial banking franchise to the rest of Asia.

Chan Hui Dor Lam Doreen
President and Chief Executive Officer
Hong Kong, 28 August 2009