Gearing for Growth

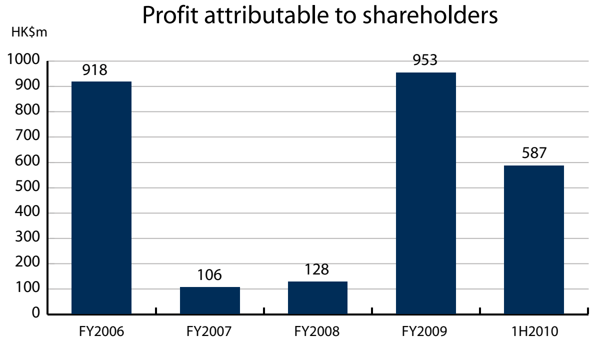
中信銀行國際
CITIC BANK INTERNATIONAL

2010 Interim Results Highlights

Results Highlights

- Net interest income up 26.4% to HK$1,005 million
- Non-interest income up 13.2% to HK$526 million
- Operating profit before impairment allowances up 22.0% to HK$809 million, reflecting the Bank's continued growth momentum in revenue generation
- Profit attributable to shareholders up 38.0% to HK$587 million

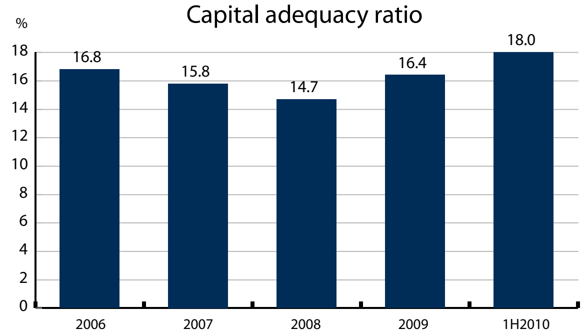
Profit attributable to shareholders



Robust Financial Position

- The Bank achieved outstanding results in renewing its drive to grow quality lending, with total loans and total assets up by 17.9% and 19.3% to HK$86.4 billion and HK$143.3 billion respectively
- Expanded variety of customer-driven deposit products boosted total deposits to grow by 19.7% to HK$117.2 billion
- Capital adequacy ratio improved by 1.6 percentage points to 18.0%

Capital adequacy ratio



(As at period-end)

Core Performance

- **Retail Banking Group:** Continued expansion of CITIC*first* wealth management franchise to over 15,700 customers with HK$45.7 billion customer assets under management
- **Wholesale Banking Group:** Net interest margin increased by 27 basis points due to rigorous application of risk-based pricing on loans
- **China Banking:** Enhanced collaboration with CNCB drove strong growth in business referrals and supported the Bank's leadership in cross-border RMB trade settlement business in Hong Kong
- **Treasury & Markets Group:** Close cooperation with Wholesale Banking Group for cross-selling treasury products to customers resulted in a 95.2% growth in total sales income

CNCB – China CITIC Bank Corporation Limited

CITIC BANK INTERNATIONAL LIMITED

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

ANNOUNCEMENT OF 2010 INTERIM RESULTS

The Board of Directors of CITIC Bank International Limited ("the Bank") (formerly known as "CITIC Ka Wah Bank Limited") is pleased to announce the unaudited consolidated results of the Bank and its subsidiaries ("the Group") for the six months ended 30 June 2010. 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 2010 - unaudited

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2010 HK$'000	2009 HK$'000
Interest income	4	**1,374,416**	1,421,930
Interest expense		**(369,660)**	(626,808)
Net interest income		**1,004,756**	795,122
Fee and commission income		**341,244**	331,225
Fee and commission expense		**(14,913)**	(11,773)
Net fee and commission income	5	**326,331**	319,452
Net trading income	6	**154,420**	106,952
Net gain/(loss) from financial instruments designated at fair value through profit or loss	7	**14,857**	(11,666)
Net hedging loss	8	**(730)**	(1,741)
Net gain on disposal of available-for-sale securities	9	**15,561**	32,779
Other operating income	10	**15,696**	19,141
Operating income		**1,530,891**	1,260,039
Operating expenses	11	**(722,128)**	(597,176)
Operating profit before impairment		**808,763**	662,863
Impairment losses on loans and advances and other accounts	12	**(120,249)**	(220,399)
Impairment losses written back on available-for-sale securities		**6**	4
Impairment losses		**(120,243)**	(220,395)
Operating profit		**688,520**	442,468
Net gain on disposal of property and equipment		**62**	39,733
Revaluation gain on investment properties		**12,690**	20,355
Profit before taxation		**701,272**	502,556
Income tax	13	**(114,565)**	(77,530)
Profit for the period		**586,707**	425,026
Attributable to equity shareholders of the Bank		**586,707**	425,026

Consolidated Statement of Comprehensive Income
for the six months ended 30 June 2010 - unaudited

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2010	2009
	HK$'000	HK$'000
Profit for the period	**586,707**	425,026
Other comprehensive income for the period (after tax and reclassification adjustments)		
Exchange differences on translation of financial statements of overseas subsidiaries	-	104
Other property revaluation reserve		
- surplus on revaluation of other premises upon reclassification to investment properties	-	7,719
- transfer from deferred tax	-	(1,275)
Available-for-sale securities		
- change in fair value	**(238,167)**	204,022
- transfer to income statement on disposal	**(17,874)**	(34,993)
- transfer from/(to) deferred tax	**42,247**	(27,890)
	(213,794)	147,687
Total comprehensive income for the period	**372,913**	572,713
Attributable to equity shareholders of the Bank	**372,913**	572,713

Consolidated Statement of Financial Position

at 30 June 2010 - unaudited

(Expressed in Hong Kong dollars)

	Note	**At 30 June 2010 HK$'000**	At 31 December 2009 HK$'000
Assets			
Cash and balances with banks, central banks and other financial institutions	14	**10,573,477**	6,898,339
Placements with and advances to banks, central banks and other financial institutions	15	**24,111,020**	15,562,509
Trading assets	16	**1,730,185**	1,783,875
Securities designated at fair value through profit or loss	17	**704,072**	580,636
Loans and advances to customers and other accounts	18	**87,631,845**	74,069,969
Available-for-sale securities	19	**17,329,595**	20,073,727
Property and equipment	20		
- Investment property		**191,082**	183,192
- Other property and equipment		**863,778**	845,147
Tax recoverable	24(a)	**19**	24,036
Deferred tax assets	24(b)	**144,781**	101,355
Total assets		**143,279,854**	120,122,785
Equity and liabilities			
Deposits and balances of banks and other financial institutions		**1,054,513**	2,794,355
Deposits from customers	21	**112,055,649**	94,240,980
Trading liabilities	22	**1,545,430**	1,108,009
Certificates of deposit issued	23	**5,119,989**	3,693,598
Debt securities issued	25	**150,600**	71,800
Current taxation	24(a)	**93,510**	11,564
Deferred tax liabilities	24(b)	**5,866**	1,718
Other liabilities	26	**2,749,147**	2,054,037
Loan capital	27	**7,901,530**	3,916,017
Total liabilities		**130,676,234**	107,892,078
Equity			
Share capital	28	**7,283,341**	7,283,341
Reserves	28	**5,320,279**	4,947,366
Total equity attributable to equity shareholders of the Bank		**12,603,620**	12,230,707
Total equity and liabilities		**143,279,854**	120,122,785

Consolidated Statement of Changes in Equity
for the six months ended 30 June 2010 - unaudited
(Expressed in Hong Kong dollars)

The Group

	Share capital	Share premium	Capital reserve	General reserve	Exchange differences reserve	Property revaluation reserve	Investment revaluation reserve	Statutory reserve	Regulatory general reserve	Retained profits	Total reserves (note 28(b))	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
At 1 January 2010	**7,283,341**	**282,930**	**6,589**	**100,000**	**(15)**	**20,932**	**(270,815)**	**6,567**	**57,099**	**4,744,079**	**4,947,366**	**12,230,707**
Changes in equity for the six months ended 30 June 2010:												
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**(213,794)**	**-**	**-**	**586,707**	**372,913**	**372,913**
At 30 June 2010	**7,283,341**	**282,930**	**6,589**	**100,000**	**(15)**	**20,932**	**(484,609)**	**6,567**	**57,099**	**5,330,786**	**5,320,279**	**12,603,620**
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	3,947,597	9,530,938
Changes in equity for the six months ended 30 June 2009:												
Issuance 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	572,713
Transfer from retained profits	-	-	-	-	-	-	-	2,598	367	(2,965)	-	-
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	4,520,310	11,803,651
At 1 July 2009	7,283,341	282,930	6,589	100,000	40,952	27,376	(209,690)	6,073	47,603	4,218,477	4,520,310	11,803,651
Changes in equity for the six months ended 31 December 2009:												
Release of reserve on disposal of property	-	-	-	-	-	(7,719)	-	-	-	7,719	-	-
Total comprehensive income for the period	-	-	-	-	(40,967)	1,275	(61,125)	-	-	527,873	427,056	427,056
Transfer from retained profits	-	-	-	-	-	-	-	494	9,496	(9,990)	-	-
At 31 December 2009	7,283,341	282,930	6,589	100,000	(15)	20,932	(270,815)	6,567	57,099	4,744,079	4,947,366	12,230,707

Condensed Consolidated Cash Flow Statement
for the six months ended 30 June 2010 - unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2010	2009
	Note	**HK$'000**	HK$'000
Cash generated from/(used in) operations		**13,891,971**	(9,308,113)
Income tax paid		**(5,939)**	(13,335)
Net cash generated from/(used in) operating activities		**13,886,032**	(9,321,448)
Net cash (used in)/generated from investing activities		**(45,764)**	22,574
Net cash generated from financing activities		**3,678,906**	1,489,289
Net increase/(decrease) in cash and cash equivalents		**17,519,174**	(7,809,585)
Cash and cash equivalents at 1 January		**11,988,356**	17,615,649
Cash and cash equivalents at 30 June	29	**29,507,530**	9,806,064

Notes to the Interim Financial Report - Unaudited
(Expressed in Hong Kong dollars unless otherwise indicated)

(1) Basis of Preparation

The interim financial report together with the unaudited supplementary financial information on pages 33 to 50 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 2009 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2010 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 2009 accounts except for the following:

The HKICPA has issued two revised HKFRSs, a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Bank. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 3 (revised 2008), Business combinations
- Amendments to HKAS 27, Consolidated and separate financial statements
- Amendments to HKFRS 5, Non-current assets held for sale and discontinued operations – plan to sell the controlling interest in a subsidiary
- Amendments to HKAS 39, Financial instruments: Recognition and measurement – eligible hedged items
- Improvements to HKFRSs (2009)
- HK(IFRIC) 17, Distributions of non-cash assets to owners

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

The amendments to HKAS 39 have had no material impact on the Group's financial statements as the amendments were consistent with policies already adopted by the Group. The other developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

- The impact of the majority of the revisions to HKFRS 3, HKAS 27, HKFRS 5 and HK(IFRIC) 17 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.

- The impact of the amendments to HKFRS 3 (in respect of recognition of acquiree's deferred tax assets) and HKAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

- The amendment introduced by the Improvements to HKFRSs (2009) omnibus standard in respect of HKAS 17, Leases, resulted in a change of classification of certain of the Group's leasehold land interests located in the Hong Kong Special Administrative Region, but this had no material impact on the amounts recognised in respect of these leases as the lease premiums in respect of all such leases are fully paid and are being amortised over the remaining length of the lease term.

(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 finance and 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 comprise unallocated revenue and expenses, head office and corporate expenses.

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 2010				
	Wholesale banking HK$'000	**Retail banking HK$'000**	**Treasury and markets HK$'000**	**Others HK$'000**	**Consolidated HK$'000**
Net interest income	465,958	421,503	27,380	89,915	1,004,756
Other operating income	180,553	189,609	126,724	13,688	510,574
Net gain on disposal of available-for-sale securities	-	-	15,561	-	15,561
Operating income	646,511	611,112	169,665	103,603	1,530,891
Operating expenses	(87,878)	(192,009)	(17,494)	(424,747)	(722,128)
Inter-segment income/(expenses)	(75,256)	(92,345)	(34,346)	201,947	-
Operating profit/(loss) before impairment	483,377	326,758	117,825	(119,197)	808,763
Impairment losses (charged for)/written back on loans and advances and other accounts	(123,777)	536	-	2,992	(120,249)
Impairment losses written back on available-for-sale securities	-	6	-	-	6
Impairment losses (charged for)/written back	(123,777)	542	-	2,992	(120,243)
Operating profit/(loss)	359,600	327,300	117,825	(116,205)	688,520
Net gain/(loss) on disposal of property and equipment	(31)	(17)	-	110	62
Revaluation gain on investment properties	-	-	-	12,690	12,690
Profit before taxation	359,569	327,283	117,825	(103,405)	701,272
Income tax	-	-	-	(114,565)	(114,565)
Profit/(loss) for the period	359,569	327,283	117,825	(217,970)	586,707
Other segment items:					
Depreciation	(1,378)	(4,509)	(130)	(29,299)	(35,316)
	At 30 June 2010				
Other segment items:					
Segment assets	56,034,362	30,914,171	54,563,005	1,768,316	143,279,854
Segment liabilities	57,785,143	56,809,994	17,666,558	(1,585,461)	130,676,234
Capital expenditure incurred during the period	18,464	18,796	8,624	8,108	53,992

(3) Segment Reporting (cont'd)

(a) Reportable segments (cont'd)

	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
Net gain on disposal of available-for-sale securities	2,643	-	30,136	-	32,779
Operating income	475,849	498,160	193,506	92,524	1,260,039
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	326,589	217,839	144,904	(26,469)	662,863
Impairment losses (charged for)/written back on loans and advances and other accounts	(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)
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)

	At 31 December 2009				
Other segment items:					
Segment assets	47,704,404	27,424,420	43,389,211	1,604,750	120,122,785
Segment liabilities	44,158,875	52,844,792	13,525,054	(2,636,643)	107,892,078
Capital expenditure incurred during the year	3,040	17,128	679	17,544	38,391

(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			
	2010 Profit before taxation HK$'000	2009 Profit before taxation HK$'000	**2010 Operating income HK$'000**	2009 Operating income HK$'000
Hong Kong	**650,448**	454,748	**1,407,605**	1,147,129
Mainland China	**44,660**	31,158	**93,582**	76,086
USA	**(540)**	5,476	**16,618**	19,257
Others	**(276)**	11,153	**13,208**	17,570
Inter-segment items	**6,980**	21	**(122)**	(3)
	701,272	502,556	**1,530,891**	1,260,039

	At 30 June 2010 Total assets HK$'000	At 31 December 2009 Total assets HK$'000	**At 30 June 2010 Total liabilities HK$'000**	At 31 December 2009 Total liabilities HK$'000
Hong Kong	**138,740,151**	116,548,618	**126,576,650**	104,706,152
Mainland China	**7,743,211**	7,659,459	**6,439,165**	6,384,856
USA	**1,391,174**	2,280,205	**1,285,241**	2,236,519
Others	**1,816,987**	989,333	**1,799,683**	946,258
Inter-segment items	**(6,411,669)**	(7,354,830)	**(5,424,505)**	(6,381,707)
	143,279,854	120,122,785	**130,676,234**	107,892,078

(4) Interest Income

	Six months ended 30 June	
	2010	2009
	HK$'000	HK$'000
Listed securities	**47,283**	125,463
Unlisted securities	**178,817**	199,965
Others	**1,148,316**	1,096,502
	1,374,416	1,421,930

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 2010 and 30 June 2009.

Included in the above is interest income accrued on impaired financial assets of HK$12,831,000 (six months ended 30 June 2009: HK$1,164,000), which includes interest income on unwinding of discount on loan impairment losses of HK$714,000 (six months ended 30 June 2009: HK$1,164,000) for the six months ended 30 June 2010.

(5) Net Fee and Commission Income

	Six months ended 30 June	
	2010	2009
	HK$'000	HK$'000
Fee and commission income:		
Bills commission	**35,008**	32,576
Cards related income	**10,261**	13,169
General banking services	**27,366**	37,885
Insurance	**61,660**	44,751
Investment and structured investment products	**46,700**	36,651
Loans, overdrafts and facilities fee	**159,920**	165,762
Others	**329**	431
	341,244	331,225
Fee and commission expense	**(14,913)**	(11,773)
	326,331	319,452
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	**170,181**	178,931
- Fee and commission expense	**(7,045)**	(5,683)
	163,136	173,248

(6) Net Trading Income

	Six months ended 30 June 2010 HK$'000	2009 HK$'000
Gains less losses from dealing in foreign currencies	**115,880**	74,482
Gains less losses from trading securities	**(27,228)**	(7,360)
Gains less losses from other dealing activities	**75,087**	37,172
Interest income on trading assets		
- Unlisted	**77**	2,658
Interest expense on trading liabilities	**(9,396)**	-
	154,420	106,952

(7) Net Gain/(Loss) from Financial Instruments Designated at Fair Value through Profit or Loss

	Six months ended 30 June 2010 HK$'000	2009 HK$'000
Net gain/(loss)	**5,527**	(19,154)
Interest income		
- Listed	**2,477**	2,771
- Unlisted	**6,853**	8,001
Interest expense	**-**	(3,284)
	14,857	(11,666)

(8) Net Hedging Loss

	Six months ended 30 June 2010 HK$'000	2009 HK$'000
Net loss on fair value hedge	**730**	1,741

(9) Net Gain on Disposal of Available-for-sale Securities

	Six months ended 30 June 2010 HK$'000	2009 HK$'000
Net revaluation gain transferred from reserves	**17,874**	34,993
Net loss arising in current period	**(2,313)**	(2,214)
	15,561	32,779

(10) Other Operating Income

	Six months ended 30 June	
	2010	2009
	HK$'000	HK$'000
Dividend income from available-for-sale equity securities		
- Listed	**48**	40
- Unlisted	**3,260**	3,160
Rental income from investment properties		
less direct outgoings of HK$66,000 (six months ended 30 June 2009: HK$76,000)	**2,066**	2,193
Others	**10,322**	13,748
	15,696	19,141

(11) Operating Expenses

	Six months ended 30 June	
	2010	2009
	HK$'000	HK$'000
(a) Staff costs		
Salaries and other staff costs	**447,297**	353,621
Retirement costs	**24,514**	24,509
	471,811	378,130
(b) Depreciation		
Depreciation of property and equipment (note 20)		
- Assets held for use under operating leases	**4,321**	7,608
- Other assets	**30,995**	30,717
	35,316	38,325
(c) Other operating expenses		
Property and equipment expenses (excluding depreciation)		
- Rental of property	**51,060**	42,536
- Others	**40,957**	37,778
Auditors' remuneration	**2,492**	3,009
Advertising	**20,792**	10,964
Communication, printing and stationery	**29,077**	27,339
Legal and professional fee	**16,547**	8,266
Others	**54,076**	50,829
	215,001	180,721
Total operating expenses	**722,128**	597,176

Included in other operating expenses are minimum lease payment under operating leases of HK$649,000 (six months ended 30 June 2009: HK$2,094,000) for hire of equipment and HK$48,724,000 (six months ended 30 June 2009: HK$40,247,000) for hire of property and other assets for the six months ended 30 June 2010.

(12) Impairment Losses on Loans and Advances and Other Accounts

	Six months ended 30 June	
	2010	2009
	HK$'000	HK$'000
Impairment losses charged for		
- Loans and advances	**(57,173)**	(220,389)
- Other accounts	**(63,076)**	(10)
	(120,249)	(220,399)
Impairment losses on loans and advances and other accounts		
- Individual assessment	**(116,303)**	(168,402)
- Collective assessment	**(3,946)**	(51,997)
	(120,249)	(220,399)
of which:		
- Additions	**(147,330)**	(324,630)
- Releases	**14,950**	23,965
- Recoveries	**12,131**	80,266
	(120,249)	(220,399)

(13) Income Tax in the Consolidated Income Statement

	Six months ended 30 June	
	2010	2009
	HK$'000	HK$'000
Current tax - Hong Kong Profits Tax		
Provision for the period	**98,914**	55,664
Current tax - Overseas		
Provision for the period	**13,897**	8,406
(Over)/Under-provision in respect of prior years	**(1,369)**	3,380
	12,528	11,786
Deferred tax		
Origination of temporary differences (note 24(b))	**3,123**	10,080
	114,565	77,530

The provision for Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 June 2009: 16.5%) of the estimated assessable profits for the period. Taxation for overseas branches and subsidiaries 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

	At 30 June 2010 HK$'000	At 31 December 2009 HK$'000
Cash in hand	**157,669**	159,387
Balances with central banks	**497,126**	379,370
Balances with banks	**1,522,527**	2,357,617
Balances with other financial institutions	**8,396,155**	4,001,965
	10,573,477	6,898,339

(15) Placements with and Advances to Banks, Central Banks and Other Financial Institutions

	At 30 June 2010 HK$'000	At 31 December 2009 HK$'000
Placements with banks	**18,043,322**	8,310,388
Advances to banks	**6,067,698**	7,252,121
	24,111,020	15,562,509
Maturing		
- Within one month	**17,937,753**	5,597,470
- Between one month and one year	**4,636,220**	7,118,136
- Over one year	**1,537,047**	2,846,903
	24,111,020	15,562,509

(16) Trading Assets

	At 30 June 2010 HK$'000	At 31 December 2009 HK$'000
Debt securities	**-**	624,148
Equity securities	**2,344**	2,567
Investment funds	**3,465**	3,606
Trading securities	**5,809**	630,321
Positive fair values of derivatives (note 32(b))	**1,724,376**	1,153,554
	1,730,185	1,783,875
Issued by:		
Banks and other financial institutions	**-**	624,148
Corporate entities	**5,809**	6,173
	5,809	630,321
Analysed by place of listing:		
Listed outside Hong Kong	**2,344**	2,567
Unlisted	**3,465**	627,754
	5,809	630,321

(17) Securities Designated at Fair Value through Profit or Loss

	At 30 June 2010 HK$'000	At 31 December 2009 HK$'000
Debt securities	**704,072**	580,636
Issued by:		
Sovereigns	**34,631**	34,160
Banks and other financial institutions	**537,036**	415,162
Corporate entities	**132,405**	131,314
	704,072	580,636
Analysed by place of listing:		
Listed outside Hong Kong	**83,841**	84,080
Unlisted	**620,231**	496,556
	704,072	580,636

(18) Loans and Advances to Customers and Other Accounts

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

	At **30 June 2010** **HK$'000**	At 31 December 2009 HK$'000
Gross loans and advances to customers	**86,357,652**	73,250,584
Impairment allowances		
- Individually assessed	**(326,772)**	(311,137)
- Collectively assessed	**(311,974)**	(313,090)
	85,718,906	72,626,357
Accrued interest and other accounts	**1,987,256**	1,460,975
Impairment allowances		
- Individually assessed	**(74,317)**	(17,363)
	1,912,939	1,443,612
	87,631,845	74,069,969
Included in loans and advances to customers are:		
Trade bills	**1,893,295**	1,035,773
Impairment allowances		
- Collectively assessed	**(7,277)**	(7,157)
	1,886,018	1,028,616

As part of the ongoing development of the Group's impairment assessment practices, an enhanced Collective Assessment model ("CA model") for corporate loans was adopted with effect from 1 January 2010. This involved the expansion of loss ratios with greater granularity and more in line with market practices compared to the previous CA model. As a result, the collectively assessed impairment allowance remains adequate and no additional provision is required. At 30 June 2010, this change in accounting estimate of the enhanced CA model adopted for corporate loans has resulted in an overall reduction in collectively assessed impairment allowance by approximately HK$136,300,000.

Other accounts include equity interest of HK$233,395,000 (31 December 2009: HK$240,000,000) acquired through recovery of an impaired loan and an investment fund (previously included in available-for-sale securities) which the Group or the Bank plans to dispose of in the near future. The equity interest is carried at the lower of its carrying amount and fair value less costs to sell.

(18) Loans and Advances to Customers and Other Accounts (cont'd)

(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.

	At 30 June 2010		At 31 December 2009	
	Gross loans and advances to customers HK$'000	**% of gross loans and advances to customer covered by collateral**	Gross loans and advances to customers HK$'000	% of gross loans and advances to customer covered by collateral
Industrial, commercial and financial				
- Property development	**313,654**	**100**	303,000	100
- Property investment	**10,775,591**	**99**	9,226,709	98
- Financial concerns	**5,028,586**	**43**	4,407,441	33
- Stockbrokers	**101,449**	**21**	21,428	100
- Wholesale and retail trade	**8,863,189**	**26**	3,775,792	48
- Manufacturing	**7,486,920**	**29**	5,212,804	29
- Transport and transport equipment	**3,326,934**	**63**	2,878,221	76
- Recreational activities	**259,474**	**83**	190,354	92
- Information technology	**21,071**	**64**	24,061	75
- Others	**2,762,791**	**52**	2,472,175	57
Individuals				
- Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**28,353**	**100**	28,981	100
- Loans for the purchase of other residential properties	**11,385,439**	**100**	10,673,018	100
- Credit card advances	**259,113**	**-**	310,487	-
- Others	**3,987,828**	**94**	3,626,044	93
Gross loans and advances for use in Hong Kong	**54,600,392**	**67**	43,150,515	74
Trade finance	**7,062,881**	**22**	4,416,212	28
Gross loans and advances for use outside Hong Kong	**24,694,379**	**31**	25,683,857	36
Gross loans and advances to customers	**86,357,652**	**53**	73,250,584	58

(18) Loans and Advances to Customers and Other Accounts (cont'd)

(c) Impaired loans and advances to customers

	At 30 June 2010 HK$'000	At 31 December 2009 HK$'000
Gross impaired loans and advances to customers	**1,397,236**	1,304,137
Impairment allowances - Individually assessed	**(326,772)**	(311,137)
	1,070,464	993,000
Gross impaired loans and advances as a % of total loans and advances to customers	**1.62%**	1.78%

Impaired loans and advances are mainly 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$278,147,000 (31 December 2009: HK$330,365,000) 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 to customers of the individual loan usage category, which accounted for 10% or more of the gross loans and advances to customers, is as follows:

		At 30 June 2010	
	Individual impairment allowances HK$'000	**Collective impairment allowances HK$'000**	**Impaired loans and advances to customers HK$'000**
Property investment	**1,327**	**2,318**	**9,891**
Wholesale and retail trade	**22,488**	**92,788**	**48,236**
Loans for the purchase of other residential properties	**-**	**102**	**1,688**
Gross loans and advances for use outside Hong Kong	**147,465**	**54,465**	**915,042**
	171,280	**149,673**	**974,857**

		At 31 December 2009	
	Individual impairment allowances HK$'000	Collective impairment allowances HK$'000	Impaired loans and advances to customers HK$'000
Property investment	3,932	5,278	49,610
Loans for the purchase of other residential properties	-	209	936
Gross loans and advances for use outside Hong Kong	174,579	65,432	966,318
	178,511	70,919	1,016,864

(19) Available-for-sale Securities

	At **30 June 2010** **HK$'000**	At 31 December 2009 HK$'000
Certificates of deposit held	**721,566**	1,344,057
Debt securities	**15,500,873**	17,741,780
Treasury bills (including Exchange Fund Bills)	**1,067,752**	888,313
Equity securities	**39,404**	43,244
Investment funds	**-**	56,333
	17,329,595	20,073,727
Issued by:		
Sovereigns	**1,233,201**	972,558
Public sector entities	**199,044**	384,285
Banks and other financial institutions	**11,477,288**	14,123,245
Corporate entities	**4,420,062**	4,593,639
	17,329,595	20,073,727
Analysed by place of listing:		
Listed in Hong Kong	**-**	173,397
Listed outside Hong Kong	**2,924,272**	3,198,066
	2,924,272	3,371,463
Unlisted	**14,405,323**	16,702,264
	17,329,595	20,073,727

The Group's capital note investment issued by Farmington Finance Limited ("Farmington") is accounted for as available-for-sale securities and its fair value is based on the net present value as determined by discounting the projected cash flows of the underlying investment portfolio assuming the investment vehicle will be held until all underlying assets mature. Starting from April 2010, some basic assumptions were changed in cashflow model, which include (a) actual defaults at estimated recovery for prinicpal and interest, and (b) updated market price assumptions for projected defaults resulting in a reduced weighted average price. The estimated increase to the carrying value of Farmington due to these changes is approximately HK$39,000,000.

(20) Property and Equipment

	Investment properties HK$'000	Other premises HK$'000	Furniture, fixtures and equipment HK$'000	Total HK$'000
Cost or valuation:				
At 1 January 2010	**183,192**	**1,011,270**	**705,317**	**1,899,779**
Additions	**-**	**-**	**53,992**	**53,992**
Disposals	**(4,800)**	**-**	**(484)**	**(5,284)**
Surplus on revaluation	**12,690**	**-**	**-**	**12,690**
Exchange adjustments	**-**	**-**	**55**	**55**
At 30 June 2010	**191,082**	**1,011,270**	**758,880**	**1,961,232**
The analysis of cost or valuation of the above assets is as follows:				
Cost	**-**	**993,673**	**758,880**	**1,752,553**
Valuation				
- 1985	**-**	**17,597**	**-**	**17,597**
- 2010	**191,082**	**-**	**-**	**191,082**
	191,082	**1,011,270**	**758,880**	**1,961,232**
At 1 January 2009	148,076	1,021,792	677,585	1,847,453
Additions	-	-	38,391	38,391
Reclassification	10,000	(10,000)	-	-
Disposals	(11,000)	(7,677)	(10,686)	(29,363)
Surplus on revaluation	36,116	7,155	-	43,271
Exchange adjustments	-	-	27	27
At 31 December 2009	183,192	1,011,270	705,317	1,899,779
The analysis of cost or valuation of the above assets is as follows:				
Cost	-	993,673	705,317	1,698,990
Valuation				
- 1985	-	17,597	-	17,597
- 2009	183,192	-	-	183,192
	183,192	1,011,270	705,317	1,899,779
Accumulated depreciation:				
At 1 January 2010	-	**301,148**	**570,292**	**871,440**
Charge for the period (note 11)	**-**	**11,314**	**24,002**	**35,316**
Written back on disposals	-	**-**	**(426)**	**(426)**
Exchange adjustments	**-**	**-**	**42**	**42**
At 30 June 2010	**-**	**312,462**	**593,910**	**906,372**
At 1 January 2009	-	283,980	527,609	811,589
Charge for the year	-	22,665	52,763	75,428
Written back on disposals	-	(4,933)	(10,100)	(15,033)
Reclassification	-	(564)	-	(564)
Exchange adjustments	-	-	20	20
At 31 December 2009	-	301,148	570,292	871,440
Net book value:				
At 30 June 2010	**191,082**	**698,808**	**164,970**	**1,054,860**
At 31 December 2009	183,192	710,122	135,025	1,028,339

(21) Deposits from Customers

	At 30 June 2010 HK$'000	At 31 December 2009 HK$'000
Demand deposits and current deposits	**14,002,720**	15,328,046
Savings deposits	**18,816,511**	25,451,140
Time, call and notice deposits	**79,236,418**	53,461,794
	112,055,649	94,240,980

(22) Trading Liabilities

	At 30 June 2010 HK$'000	At 31 December 2009 HK$'000
Negative fair value of derivatives (note 32(b))	**1,545,430**	1,108,009

(23) Certificates of Deposit Issued

	At 30 June 2010 HK$'000	At 31 December 2009 HK$'000
Non-trading	**5,119,989**	3,693,598

(24) Income Tax in the Consolidated Statement of Financial Position

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

	At 30 June 2010 HK$'000	At 31 December 2009 HK$'000
Provision for Hong Kong Profits Tax for the period/year	**98,914**	159,660
Tax credit to be claimed	**-**	(5,567)
Provisional Profits Tax paid	**-**	(5,856)
	98,914	148,237
Balance of Profits Tax provision relating to prior years	**(15,536)**	(163,773)
	83,378	(15,536)
Provision for overseas taxation	**10,113**	3,064
	93,491	(12,472)
Of which:		
Tax recoverable	**(19)**	(24,036)
Current taxation	**93,510**	11,564
	93,491	(12,472)

(b) Deferred tax assets and liabilities recognised

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

	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**
Deferred tax arising from:							
At 1 January 2010	**8,679**	**(52,038)**	**14,163**	**(53,514)**	**(1,414)**	**(15,513)**	**(99,637)**
Charged/(credited) to consolidated income statement (note 13)	**4,393**	**(171)**	**1,947**	**-**	**(159)**	**(2,887)**	**3,123**
Credited to reserves	**-**	**-**	**-**	**(42,247)**	**-**	**-**	**(42,247)**
Exchange and other adjustments	**(7)**	**(80)**	**-**	**-**	**(1)**	**(66)**	**(154)**
At 30 June 2010	**13,065**	**(52,289)**	**16,110**	**(95,761)**	**(1,574)**	**(18,466)**	**(138,915)**
At 1 January 2009	8,632	(37,770)	8,406	(69,325)	(16,688)	-	(106,745)
Charged/(credited) to consolidated income statement	47	(14,268)	5,757	-	15,274	(15,509)	(8,699)
Charged to reserves	-	-	-	15,811	-	-	15,811
Exchange and other adjustments	-	-	-	-	-	(4)	(4)
At 31 December 2009	8,679	(52,038)	14,163	(53,514)	(1,414)	(15,513)	(99,637)

	At 30 June 2010 HK$'000	At 31 December 2009 HK$'000
Net deferred tax assets recognised on the consolidated statement of financial position	**(144,781)**	(101,355)
Net deferred tax liabilities recognised on the consolidated statement of financial position	**5,866**	1,718
	(138,915)	(99,637)

(c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$5,293,000 at 30 June 2010 (31 December 2009: HK$2,974,000), 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. The tax losses do not expire under current tax legislation.

(25) Debt Securities Issued

	At 30 June 2010 HK$'000	At 31 December 2009 HK$'000
Non-trading debt securities issued	**150,600**	71,800

(26) Other Liabilities

	At 30 June 2010 HK$'000	At 31 December 2009 HK$'000
Items in the course of transmission to other financial institutions	**375,673**	16,377
Accruals and other payables	**2,373,474**	2,037,660
	2,749,147	2,054,037

(27) Loan Capital

	At 30 June 2010 HK$'000	At 31 December 2009 HK$'000
Subordinated notes with US$250 million 9.125% *	**1,982,430**	1,977,356
Subordinated notes with US$250 million 1.75%+LIBOR rate **	**1,946,161**	1,938,661
Subordinated notes with US$500 million 6.875% ***	**3,972,939**	-
	7,901,530	3,916,017

* 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 has been qualified as tier 2 capital. The Bank unconditionally and irrevocably guarantees all amounts payable under the notes. The 9.125% per annum perpetual subordinated notes will be callable by CKWH-UT2 Limited in 2012.

** On 11 December 2007, the Bank, under a US$2 billion Medium Term Note Programme ("the 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 Singapore Exchange Securities Trading Limited and will be matured on 12 December 2017.

*** Under the Programme, and the new Offering Circular which issued in June 2010, the Bank issued subordinated fixed rate notes on 24 June 2010 at 6.875% per annum and with a face value of US$500 million (equivalent to HK$3,888.9 million). The notes are listed on the Singapore Exchange Securities Trading Limited and will be matured on 24 June 2020.

(28) Capital and Reserves

(a) Share capital

(i) Authorised and issued share capital

	At 30 June 2010 HK$'000	At 31 December 2009 HK$'000
Authorised:		
8,000,000,000 ordinary shares of HK$1 each	**8,000,000**	8,000,000
Issued and fully paid:		
At 1 January:		
7,283,341,176 (2009: 5,583,341,176) ordinary shares of HK$1 each	**7,283,341**	5,583,341
Issue and allotment of shares		
Nil (2009: 1,700,000,000) ordinary shares of HK$1 each	**-**	1,700,000
At 30 June/31 December:		
7,283,341,176 (2009: 7,283,341,176) ordinary shares of HK$1 each	**7,283,341**	7,283,341

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All ordinary shares rank equally with regard to the Bank's residual assets.

(ii) Shares issued during the period

On 30 June 2009, the Bank issued and allotted 1,700,000,000 ordinary shares of HK$1 each at par to its immediate parent company, CITIC International Financial Holdings Limited. There was no shares issuance during the period ended 30 June 2010.

(28) Capital and Reserves (cont'd)

(b) Nature and purpose of components of reserves

(i) Share premium
The application of the share premium account is governed by section 48B of the Hong Kong Companies Ordinance.

(ii) Capital reserve
The capital reserve is not available for distribution to shareholders.

(iii) General reserve
General reserve was set up from the transfer of retained earnings, and it is available for distribution to shareholders.

(iv) Exchange differences reserve
The exchange differences reserve comprises all foreign exchange differences arising from the translation of the financial statement of foreign operations.

(v) Property revaluation reserve
The property revaluation reserve is not available for distribution to shareholders because it does not constitute realised profits within the meaning of section 79B(2) of the Hong Kong Companies Ordinance.

(vi) Investment revaluation reserve
The investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the end of the reporting period.

(vii) Statutory reserve
Under relevant legislation of the People's Republic of China ("PRC"), the Bank's wholly-owned PRC subsidiary bank, CITIC Ka Wah Bank (China) Limited ("CKWB China") 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.

(viii) Regulatory general reserve
Pursuant to the PRC banking regulations, CKWB China 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 end of the reporting period to cover its unidentified potential loss exposures. The regulatory general reserve forms part of the equity of the Group.

(ix) 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 impairment losses recognised which the Bank will or may incur on loans and advances. Movements in the reserve are earmarked directly through retained profits and in consultation with the HKMA. At 30 June 2010, HK$750,225,000 (31 December 2009: HK$587,892,000) was included in the retained profits in this respect which was distributable to equity holders of the Bank subject to consultation with the HKMA.

(29) Cash and Cash Equivalents

	At 30 June 2010 HK$'000	At 30 June 2009 HK$'000
(i) Components of cash and cash equivalents in the consolidated cash flow statement		
Cash and balances with banks, central banks and other financial institutions	**10,573,477**	2,086,473
Placements with and advances to banks, central banks and other financial institutions with original maturity within three months	**18,610,607**	6,573,311
Treasury bills and certificates of deposit held with original maturity within three months:		
- Available-for-sale securities	**323,446**	1,146,280
	29,507,530	9,806,064
(ii) Reconciliation with the consolidated statement of financial position		
Cash and balances with banks, central banks and other financial institutions	**10,573,477**	2,086,473
Placements with and advances to banks, central banks and other financial institutions	**24,111,020**	11,470,903
Treasury bills and certificates of deposit held:		
- Available-for-sale securities	**1,789,318**	3,692,909
Amounts shown in the consolidated statement of financial position	**36,473,815**	17,250,285
Less : Amounts with an original maturity of over three months	**(6,966,285)**	(7,444,221)
Cash and cash equivalents in the consolidated cash flow statement	**29,507,530**	9,806,064

(30) Maturity Profile

The following maturity profile is based on the remaining period at the end of the reporting period date to the contractual maturity date.

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

At 30 June 2010

	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	Over 5 years HK$'000	Undated HK$'000
Assets								
Cash and balances with banks, central banks and other financial institutions	**10,573,477**	**10,573,477**	**-**	**-**	**-**	**-**	**-**	**-**
Placements with and advances to banks, central banks and other financial institutions	**24,111,020**	**166,147**	**17,771,606**	**2,368,307**	**2,267,913**	**719,801**	**817,246**	**-**
Trading assets	**1,730,185**	**1,724,376**	**-**	**-**	**-**	**-**	**-**	**5,809**
Securities designated at fair value through profit or loss	**704,072**	**-**	**69**	**64,233**	**-**	**597,390**	**-**	**42,380**
Loans and advances to customers and other accounts	**87,631,845**	**1,386,676**	**3,698,779**	**6,956,728**	**19,574,213**	**33,065,265**	**20,497,816**	**2,452,368**
Available-for-sale securities	**17,329,595**	**-**	**2,501,242**	**466,758**	**8,788,962**	**4,129,497**	**1,403,164**	**39,972**
Tax recoverable	**19**	**-**	**-**	**-**	**19**	**-**	**-**	**-**
Undated assets	**1,199,641**	**-**	**-**	**-**	**-**	**-**	**-**	**1,199,641**
Total assets	**143,279,854**	**13,850,676**	**23,971,696**	**9,856,026**	**30,631,107**	**38,511,953**	**22,718,226**	**3,740,170**
Liabilities								
Deposits and balances of banks and other financial institutions	**1,054,513**	**372,938**	**153,076**	**72,342**	**456,157**	**-**	**-**	**-**
Deposits from customers	**112,055,649**	**32,819,231**	**44,844,772**	**17,430,434**	**15,398,154**	**1,563,058**	**-**	**-**
Trading liabilities	**1,545,430**	**1,545,430**	**-**	**-**	**-**	**-**	**-**	**-**
Certificates of deposit issued	**5,119,989**	**-**	**-**	**249,975**	**2,138,862**	**2,545,944**	**185,208**	**-**
Debt securities issued	**150,600**	**-**	**27,500**	**24,900**	**98,200**	**-**	**-**	**-**
Loan capital	**7,901,530**	**-**	**-**	**-**	**-**	**3,928,591**	**3,972,939**	**-**
Current taxation	**93,510**	**-**	**-**	**-**	**93,510**	**-**	**-**	**-**
Other liabilities	**2,749,147**	**-**	**375,673**	**-**	**-**	**-**	**-**	**2,373,474**
Undated liabilities	**5,866**	**-**	**-**	**-**	**-**	**-**	**-**	**5,866**
Total liabilities	**130,676,234**	**34,737,599**	**45,401,021**	**17,777,651**	**18,184,883**	**8,037,593**	**4,158,147**	**2,379,340**
Asset - liability gap		**(20,886,923)**	**(21,429,325)**	**(7,921,625)**	**12,446,224**	**30,474,360**	**18,560,079**	

At 31 December 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	Over 5 years HK$'000	Undated HK$'000
Assets								
Cash and balances with banks, central banks and other financial institutions	6,898,339	6,898,339	-	-	-	-	-	-
Placements with and advances to banks, central banks and other financial institutions	15,562,509	-	5,597,470	2,493,722	4,624,414	1,722,686	1,124,217	-
Trading assets	1,783,875	1,153,554	-	-	-	624,148	-	6,173
Securities designated at fair value through profit or loss	580,636	-	-	-	63,711	475,562	-	41,363
Loans and advances to customers and other accounts	74,069,969	1,319,957	2,226,003	6,002,769	11,414,903	32,234,900	19,203,257	1,668,180
Available-for-sale securities	20,073,727	-	1,071,505	4,225,478	5,707,930	7,278,883	1,689,139	100,792
Tax recoverable	24,036	-	-	-	24,036	-	-	-
Undated assets	1,129,694	-	-	-	-	-	-	1,129,694
Total assets	120,122,785	9,371,850	8,894,978	12,721,969	21,834,994	42,336,179	22,016,613	2,946,202
Liabilities								
Deposits and balances of banks and other financial institutions	2,794,355	163,292	2,453,705	-	177,358	-	-	-
Deposits from customers	94,240,980	40,779,186	25,172,680	14,237,694	12,985,597	1,065,823	-	-
Trading liabilities	1,108,009	1,108,009	-	-	-	-	-	-
Certificates of deposit issued	3,693,598	-	-	914,981	2,179,676	598,941	-	-
Debt securities issued	71,800	-	-	71,800	-	-	-	-
Loan capital	3,916,017	-	-	-	-	3,916,017	-	-
Current taxation	11,564	-	-	-	11,564	-	-	-
Other liabilities	2,054,037	-	16,377	-	-	-	-	2,037,660
Undated liabilities	1,718	-	-	-	-	-	-	1,718
Total liabilities	107,892,078	42,050,487	27,642,762	15,224,475	15,354,195	5,580,781	-	2,039,378
Asset - liability gap		(32,678,637)	(18,747,784)	(2,502,506)	6,480,799	36,755,398	22,016,613	

(31) 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					
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Interest income	**-**	193	**-**	-	**14,635**	15,049	**204**	521	**17,393**	6
Interest expense	**(5,834)**	(49,596)	**(1,309)**	(2,034)	**(15,638)**	(44,555)	**(4,097)**	(6,273)	**(17,965)**	(10,839)
Other operating income	**-**	-	**197**	197	**-**	-	**22,463**	19,697	**1,703**	-
Operating expenses	**-**	-	**(2,356)**	(7,097)	**(2,304)**	(2,222)	**(3,999)**	(443)	**-**	-
Trading gain/(loss) on derivatives	**-**	-	**-**	-	**(628)**	-	**-**	-	**41,968**	5,181
					At 30 June 2010/31 December 2009					
Assets										
Available-for-sale securities	**-**	-	**-**	-	**317,394**	325,528	**-**	-	**155,570**	1,165,097
Derivative financial instruments	**87**	4,650	**-**	-	**-**	28	**-**	-	**123,987**	21,866
Other receivables	**-**	-	**-**	-	**4,285**	2,223	**38**	-	**23,023**	20,517
Liabilities										
Derivative financial instruments	**86**	19,427	**-**	-	**628**	786	**-**	-	**71,990**	20,495
Other payables	**1,827**	984	**207**	200	**19,426**	18,081	**636**	267	**27,527**	15,911
Loan capital	**-**	-	**-**	-	**801,818**	798,728	**-**	-	**2,998,473**	1,008,104
Lending activities:										
At 30 June/31 December	**-**	-	**-**	-	**660,316**	581,155	**140,000**	-	**1,065,161**	458,845
Average for the period/year	**-**	-	**-**	-	**620,918**	733,566	**110,000**	142,500	**760,933**	363,887
Acceptance of deposits:										
At 30 June/31 December	**5,297,652**	5,154,298	**437,992**	427,321	**13,557,395**	3,301,728	**3,618,660**	2,235,971	**211,677**	75,502
Average for the period/year	**3,389,086**	6,991,621	**430,586**	440,627	**7,587,620**	3,513,868	**3,302,134**	2,875,098	**157,701**	90,254
Off-statement of financial position items										
Acceptances, guarantees and letter of credit - contract amounts	**-**	-	**-**	-	**35,123**	-	**3,000**	3,000	**624**	624
Derivative financial instruments - notional amounts	**450,000**	2,299,517	**-**	-	**46,020**	92,133	**-**	-	**19,098,657**	10,526,421

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

Note:

(i) Associates of the Group 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.

(31) 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 **2010** **HK$'000**	2009 HK$'000
Short-term employee benefits	**20,087**	25,324
Post-employment benefits	**1,200**	1,099
	21,287	26,423

Total remuneration is included in "staff costs" (note 11(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.

	2010 **HK$'000**	2009 HK$'000
At 1 January	**14,655**	8,739
At 30 June 2010/31 December 2009	**17,181**	14,655
Maximum amount during the period/year	**17,872**	17,050

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

(32) 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 notional amounts of these instruments indicate the volume of outstanding transactions and do not represent amounts at risk.

The following is a summary of the notional amounts of each significant type of derivatives entered into by the Group:

	At 30 June 2010				At 31 December 2009			
	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	**-**	**-**	**109,908,148**	**109,908,148**	-	-	50,623,365	50,623,365
Swaps	**-**	**78,000**	**50,612,776**	**50,690,776**	-	78,000	54,795,678	54,873,678
Options purchased	**-**	**-**	**1,620,781**	**1,620,781**	-	-	852,046	852,046
Options written	**-**	**-**	**1,649,730**	**1,649,730**	-	-	1,007,133	1,007,133
Interest rate derivatives								
Forwards and futures	**-**	**-**	**7,372,059**	**7,372,059**	-	-	155,093	155,093
Swaps	**8,307,026**	**-**	**49,697,979**	**58,005,005**	2,957,352	-	49,698,116	52,655,468
Equity derivatives								
Swaps	**-**	**-**	**301,200**	**301,200**	-	-	143,600	143,600
	8,307,026	**78,000**	**221,162,673**	**229,547,699**	2,957,352	78,000	157,275,031	160,310,383

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

	At 30 June 2010			At 31 December 2009		
	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	**933,578**	**817,249**	**738,586**	727,768	807,456	633,920
Currency derivatives	**788,363**	**725,746**	**1,582,086**	425,382	300,149	650,228
Equity derivatives	**2,435**	**2,435**	**12,917**	404	404	5,478
	1,724,376	**1,545,430**	**2,333,589**	1,153,554	1,108,009	1,289,626
	(note 16)	**(note 22)**		(note 16)	(note 22)	

The credit risk-weighted amount is the amount which has been calculated in accordance with the Banking (Capital) Rules on capital adequacy and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 150% (31 December 2009: 0% to 150%) for contingent liabilities and commitments, and from 0% to 150% (31 December 2009: 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.

(32) 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:

	At 30 June 2010		At 31 December 2009	
	Fair value assets HK$'000	**Fair value liabilities HK$'000**	Fair value assets HK$'000	Fair value liabilities HK$'000
Interest rate contracts	**155,498**	**69,853**	35,733	127,324

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 end of the reporting period:

	At 30 June 2010 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	**65,377,064**	**25,558,361**	**35,746,380**	**4,072,323**
Currency derivatives	**163,869,435**	**145,727,144**	**18,142,291**	**-**
Equity derivatives	**301,200**	**301,200**	**-**	**-**
	229,547,699	**171,586,705**	**53,888,671**	**4,072,323**

	At 31 December 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	52,810,561	12,855,130	39,955,431	-
Currency derivatives	107,356,222	104,970,265	2,385,957	-
Equity derivatives	143,600	143,600	-	-
	160,310,383	117,968,995	42,341,388	-

(33) Contingent Assets, 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:

	At 30 June 2010 HK$'000	At 31 December 2009 HK$'000
Direct credit substitutes	**5,640,140**	4,580,235
Transaction-related contingencies	**453,901**	614,836
Trade-related contingencies	**1,871,823**	1,299,902
Forward forward deposits placed	**3,641,115**	-
Other commitments:		
- which are unconditionally cancellable or automatically cancellable due to deterioration in the creditworthiness of the borrower	**19,669,426**	19,531,304
- with an original maturity of not more than 1 year	**8,386,394**	4,066,281
- with an original maturity of more than 1 year	**5,902,822**	3,140,984
	45,565,621	33,233,542
Credit risk-weighted amounts	**10,243,555**	6,588,920

Contingent liabilities and commitments are credit-related instruments which include forward 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 2009: 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:

	At 30 June 2010 HK$'000	At 31 December 2009 HK$'000
Authorised and contracted for	**90,954**	35,286
Authorised but not contracted for	**10,350**	900
	101,304	36,186

(c) Contingent liability in respect of legal claim

The Bank and its subsidiaries did not involve in any legal actions that would be material to the financial position of the Group.

(34) Comparative figures

The comparative figures of loans and advances to customers have been restated to conform with current year's presentation to include trade bills as loans and advances to customers. Further details of these changes are disclosed in note 18.

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

(A) Summary of Financial Position

	At 30 June 2010 HK$'000	At 31 December 2009 HK$'000
Loans and advances to customers and trade bills	**86,357,652**	73,250,584
Impairment allowances	**638,746**	624,227
Total assets	**143,279,854**	120,122,785
Total deposits	**117,175,638**	97,934,578
Total equity attributable to equity shareholders of the Bank	**12,603,620**	12,230,707
Financial ratios		
Capital adequacy ratio	**18.0%**	16.4%
Core capital ratio	**10.3%**	11.9%
Average liquidity ratio for the period/year ended* (six months ended 30 June 2009: 49.4%)	**39.7%**	48.8%
Loans to deposits	**73.7%**	74.8%
Loans to total assets	**60.3%**	61.0%
Cost to income	**47.2%**	49.9%
Return on assets	**0.9%**	0.8%
Return on average total equity attributable to equity shareholders of the Bank	**9.3%**	8.7%

* 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

	At 30 June 2010 HK$'000	At 31 December 2009 HK$'000
Core capital		
Paid up ordinary share capital	**7,283,341**	7,283,341
Share premium	**282,930**	282,930
Reserves	**3,685,202**	3,082,578
Profit and loss account	**580,602**	950,994
Less: Net deferred tax assets	**(138,915)**	(99,637)
Total core capital before deductions	**11,693,160**	11,500,206
Less: Deductions from core capital	**(816,318)**	(720,880)
Total core capital after deductions	**10,876,842**	10,779,326
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)	**151**	9,918
Regulatory reserve for general banking risks	**750,225**	587,892
Collectively assessed impairment allowances	**311,974**	313,096
Perpetual subordinated debt	**1,982,430**	1,977,356
Term subordinated debt	**5,919,100**	1,938,661
Total supplementary capital before deductions	**8,963,880**	4,826,923
Total eligible supplementary capital before deductions	**8,891,360**	4,826,923
Less: Deductions from supplementary capital items	**(816,318)**	(720,880)
Total supplementary capital after deductions	**8,075,042**	4,106,043
Total capital base after deductions	**18,951,884**	14,885,369
Total deductions from the core capital and supplementary capital	**1,632,636**	1,441,760
Risk-weighted amount		
- credit risk	**99,042,148**	84,297,234
- market risk	**2,092,725**	2,315,613
- operational risk	**4,086,863**	3,935,475
	105,221,736	90,548,322

The capital adequacy ratio ("CAR") and core capital ratio at 30 June 2010 and 31 December 2009, 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

Unaudited Supplementary Financial Information

(C) Segmental Information on Loans and Advances to Customers - By Geographical Areas

	At 30 June 2010				
	Loans and advances to customers HK$'000	**Overdue loans and advances to customers HK$'000**	**Impaired loans and advances to customers HK$'000**	**Individual impairment allowances HK$'000**	**Collective impairment allowances HK$'000**
Hong Kong	**62,821,103**	**320,911**	**379,127**	**131,814**	**224,263**
Mainland China	**13,782,605**	**54,415**	**195,202**	**39,652**	**44,134**
USA	**1,494,527**	**-**	**-**	**-**	**9,531**
Others	**8,259,417**	**48,678**	**822,907**	**155,306**	**34,046**
	86,357,652	**424,004**	**1,397,236**	**326,772**	**311,974**

	At 31 December 2009				
	Loans and advances to customers HK$'000	Overdue loans and advances to customers HK$'000	Impaired loans and advances to customers HK$'000	Individual impairment allowances HK$'000	Collective impairment allowances HK$'000
Hong Kong	51,070,380	261,836	383,367	130,818	217,646
Mainland China	12,860,500	52,244	54,070	1,492	52,646
USA	1,740,451	-	38,195	24,053	8,437
Others	7,579,253	256,587	828,505	154,774	34,361
	73,250,584	570,667	1,304,137	311,137	313,090

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

	At 30 June 2010		At 31 December 2009	
	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	**94,397**	**0.11**	23,682	0.03
- 1 year or less but over 6 months	**30,965**	**0.03**	121,699	0.17
- over 1 year	**298,642**	**0.35**	425,286	0.58
	424,004	**0.49**	570,667	0.78
Secured overdue loans and advances	**216,784**		186,700	
Unsecured overdue loans and advances	**207,220**		383,967	
	424,004		570,667	
Market value of collateral held against the secured overdue loans and advances	**825,206**		969,663	
Individual impairment allowance made	**142,565**		121,110	

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 at 30 June 2010 and 31 December 2009.

(E) Other Overdue Assets

	At 30 June 2010 HK$'000	At 31 December 2009 HK$'000
Available-for-sale securities which have been overdue for:		
- over 1 year	**13,865**	14,519

(F) Rescheduled Loans

	At 30 June 2010		At 31 December 2009	
	HK$'000	**% of total loans and advances to customers**	HK$'000	% of total loans and advances to customers
Rescheduled loans	**290,277**	**0.34**	136,982	0.19

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 at 30 June 2010 and 31 December 2009.

(G) Repossessed Assets

	At 30 June 2010 HK$'000	At 31 December 2009 HK$'000
Included in loans and advances to customers and other accounts	**32,389**	48,498

The amount represents the estimated market value of the repossessed assets at 30 June 2010 and 31 December 2009.

Unaudited Supplementary Financial Information

(H) Cross-Border Claims

Cross-border claims are on-statement of financial position 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:

	At 30 June 2010			
	Banks and other financial institutions HK$'000	**Public sector entities HK$'000**	**Others HK$'000**	**Total HK$'000**
Asia and Pacific excluding Hong Kong	**16,146,682**	**231,242**	**15,747,808**	**32,125,732**
of which Australia	**3,225,300**	**866**	**475,010**	**3,701,176**
of which Mainland China	**6,630,453**	**58,052**	**12,195,776**	**18,884,281**
Western Europe	**15,848,472**	**204,958**	**3,073,624**	**19,127,054**
of which France	**4,342,813**	**-**	**664,941**	**5,007,754**
of which Germany	**2,398,129**	**-**	**23,193**	**2,421,322**
of which Netherlands	**1,979,823**	**-**	**685,190**	**2,665,013**
of which United Kingdom	**4,180,545**	**631**	**791,768**	**4,972,944**

	At 31 December 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	12,258,959	161,789	14,642,430	27,063,178
of which Australia	3,641,571	2,392	429,004	4,072,967
of which Mainland China	3,445,286	70,670	11,560,682	15,076,638
Western Europe	16,876,515	217,357	3,589,064	20,682,936
of which France	2,008,770	-	737,922	2,746,692
of which Germany	1,178,037	-	24,060	1,202,097
of which Netherlands	2,341,431	-	683,923	3,025,354
of which United Kingdom	5,912,778	738	1,484,513	7,398,029

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.

	At 30 June 2010			
	On-statement of financial position exposure HK$'000	**Off-statement of financial position exposure HK$'000**	**Total HK$'000**	**Individual impairment allowances HK$'000**
Mainland China entities	**15,310,675**	**5,760,635**	**21,071,310**	**49,502**
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	**23,063,617**	**14,049,433**	**37,113,050**	**38,137**
	38,374,292	**19,810,068**	**58,184,360**	**87,639**

	At 31 December 2009			
	On-statement of financial position exposure HK$'000	Off-statement of financial position exposure HK$'000	Total HK$'000	Individual impairment allowances HK$'000
Mainland China entities	15,236,777	5,392,627	20,629,404	11,406
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	14,702,545	9,587,187	24,289,732	37,949
	29,939,322	14,979,814	44,919,136	49,355

(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 Group has been entrusted with the ongoing responsibilities of identifying, quantifying, monitoring and mitigating the risks, comprising group credit risk, market risk, operational risk, risk assets management, methodology & global risk management, and policy & portfolio risk management. The Group continually modifies and enhances its risk management practices and infrastructure in line with the market, product offering and international best practice. The Group's internal auditor also performs regular independent audits to ensure due compliance with internal policies and regulatory requirements.

In the first quarter of 2009, a comprehensive Risk Management Plan ("RMP") was put in place with the gradual implementation of various initiatives under Basel II, credit risk, operational risk, market risk and management information systems to upgrade and promote ongoing enhancement of 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 Group is exposed to credit risk through its lending, trading and capital markets activities. The Group 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 statement of financial position 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 Group's risk appetite, the borrower's creditworthiness, credit risk classification, and the framework for making lending decisions. The Group 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 Group's credit risk management practices are designed to preserve the independence and integrity of the risk assessment process. The Group 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.

(J) Risk Management (cont'd)

(ii) Liquidity risk management

Liquidity risk is the risk that the Group may not be able to fund an increase in assets or meet obligations as they fall due without incurring unacceptable losses.

The liquidity risk management framework comprises the followings:

– The management of the Group's liquidity risk is governed by the Liquidity Management Policy, endorsed by the Financial Management Department and approved by the Credit & Risk Management Committee ("CRMC").

– The CRMC is delegated by the Board of Directors to oversee the Group's liquidity risk management. Its main responsibilities are to review and approve policies, set strategies, and define risk appetite and tolerance limits.

– The Asset and Liability Committee ("ALCO"), delegated by the CRMC, is the governing body responsible for formulating and implementing policies, strategies, guidelines and limit structure. It also identifies, measures and monitors liquidity profile to ensure current and future funding requirements are met. Scenario analysis and stress testing will be worked out by Financial Management Department and reviewed by ALCO on regular basis. A Contingency Funding Plan, which is also developed by Central Treasury, is reviewed and approved by ALCO on regular basis.

– Daily liquidity management is managed by Central Treasury, within the limit approved, to monitor funding requirement. Audit Group performs periodic reviews to ensure liquidity risk management functions are carried out effectively.

Liquidity management is conducted on Group level, Bank level, individual overseas branches and subsidiaries. Financial subsidiaries and overseas branches are responsible for implementing their own liquidity management policies under the framework established by ALCO and local regulatory requirements. Their liquidity situation would also be monitored as a whole by the ALCO. Counterparty limits are set for overseas branches and subsidiaries in respect of the funding support extended to them. The Group 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 the HKMA.

The objective of liquidity management is to meet obligations payable under normal and emergency circumstances, to fund asset growth and to comply with statutory liquidity ratio. To achieve this, the following liquidity management processes are in place:

– Projecting cash flows under normal and various stress scenarios, using the net mismatch gap between assets and liabilities to estimate the prospective net funding requirement;

– Monitoring statement of financial position liquidity and advances to deposit ratios against internal and regulatory requirements;

– Ensuring sound and diversified range of funding sources, through monitoring the structure, the stability and the core level of the deposit portfolio;

– Projecting liquidity ratio for short to medium term to permit early detection of liquidity issues and ensure the ratio is within statutory requirement and internal trigger;

– Projecting high level funding requirement and funding structure during annual budget process to ensure sufficient funding and appropriate funding mix;

– Conducting risk assessment which includes liquidity risk before launching new business initiatives;

– Maintaining high quality liquid assets comprising cash and investment grade securities, as cushion against unexpected funding needs. Standby facilities are also arranged to provide unexpected and material outflows;

– Maintaining access to interbank money market to activate facilities;

– Maintaining debt financing plan; and

– Maintaining proper contingency plan, which includes setting early warning signals (including internal and market indicators) and describe actions to be taken in the event of stress crisis, so as to minimise adverse long-term implications for business.

The Group funds its operations through a diversified funding source primarily from our core retail and corporate customer deposits. At the same time, it also participates in wholesale funding through the issuances of HKD and USD certificates of deposit ("CDs") so as to secure a stable source of term funding. At 30 June 2010, a total of HK$4.08 billion equivalent (31 December 2009: HK$3.38 billion equivalent) was raised through several successful CD issuances. Deposit tenor mix and debt maturities are regularly monitored to ensure an appropriate funding maturity mix.

An appropriate level of liquidity ratio was always maintained to ensure that the Group could handle sudden drains in market liquidity due to adverse or unexpected economic events. In the first six months of 2010, the Group's average liquidity ratio was 39.7% (for the year ended 2009: 48.8%). The Group 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.

The Group has always maintained sufficient cash and liquid position as well as a pool of high quality assets as liquidity cushion that can be liquidated in the event of emergency.

(J) Risk Management (cont'd)

(iii) Market risk management

Market risk arises from all market risk sensitive financial instruments, including securities, foreign exchange contracts, equity and derivative instruments, as well as from available-for-sale securities or structural positions. The Group separates exposures to market risk mainly into trading and available-for-sale ("AFS") portfolios. Trading portfolios include positions arising from proprietary position-taking and other mark-to-market positions designated to the trading book. AFS portfolios include positions that primarily arise from the Group's investments in securities, which neither are intended to be held to maturity nor purchased with trading purposes. The change in valuation for the trading portfolios from market risks affects the income statement while that for the AFS portfolios from market risks affects the investment revaluation reserve. The Group is necessary to ensure impacts on both the income statement and the reserves from market risks are under proper and prudent controls. The objectives of market risk management are to:

- identify, monitor and control market risk exposures through the measurement of the risks; the establishment of position limits, sensitivities limits and value at risk ("VAR") limits based on the Group's Tier 1 capital base; and communication of risks to senior management;

- support business growth with reference to a risk controlled framework; and

- ensure a proper balance between risk and return.

Market risk framework

The Group has a clear market risk appetite through the establishment of a limit structure, early warnings alerts and policies for the trading and AFS portfolios. Limits are categorised into the hierarchy of policy limits, business limits, and transaction limits. This market risk appetite has been approved by the ALCO and endorsed by the Board through the CRMC. The hierarchy of the limited structure is set up to control on position size, profit and loss and sensitivities from the portfolio level to individual trader level. All business units with market risks are required to be in strict compliance with the policies and the limits. Treasury is the primary business unit that involves in market risk exposures. Market risk department is an independent risk measurement and control unit, which is overseen by the Head of Market Risk who reports to the Director of Risks. Market Risk Department uses a set of quantitative techniques to identify, measure, and control the market risks, which are reported to ALCO and to the Board through the CRMC on a regular basis. These techniques include sensitivity analysis, VAR and stress tests, which are measured relative to the Group's capital base.

The following table provides an overview of the types of quantitative measures in various market risk reports:

	Trading Portfolios	AFS Portfolios
Risk type	**Risk measures**	**Risk measures**
Foreign exchange	VAR	-
Interest rate	VAR and sensitivity	VAR and sensitivity
Commodity	VAR	-
Equity	VAR	Sensitivity
Credit spread	-	VAR and sensitivity
Portfolio type	VAR, sensitivity and stress test	VAR, sensitivity and stress test

The Group's approval process for new products is controlled by the "New Product Evaluation and Approval Policy" approved by CRMC. According to this policy, new products are subject to risk clearances by various functional units, including Financial Management Department, Operations & Technology Management Department, Risk Management Group, Legal Department and Compliance Department. After obtaining the functional clearances, the sponsoring Business Head shall submit the Product Evaluation Proposal for the joint approval of Director of Risks and Chief Executive Officer ("CEO")/Alternate Chief Executive Officer ("ACEO").

Methodology and characteristics of market risk model

The followings explain the types of quantitative risk measures the Group adopts:

Sensitivity analysis

Sensitivity measures are used to monitor the market risk positions for each type of risk exposures. For example, present value of a basis point movement in interest rates and present value of a basis point movement in credit spreads for credit spread risk are used for monitoring purposes.

(J) Risk Management (cont'd)

(iii) Market risk management (cont'd)

Methodology and characteristics of market risk model (cont'd)

Value at risk

VAR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The model is designed to capture the different risk types including interest rate risk, foreign exchange risk, credit spread risk, equity risk, commodity risk and volatility risk.

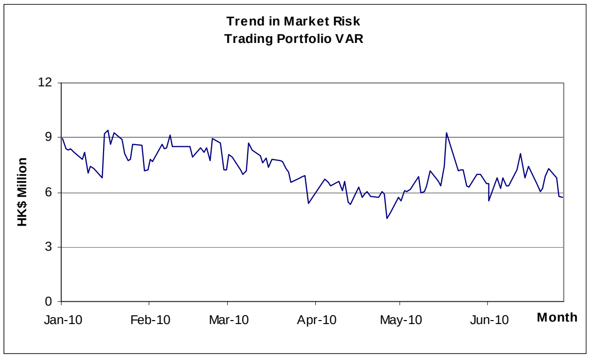
The VAR models used by the Group are based predominantly on historical simulation and Monte Carlo simulation is also used as a reference. These models derive plausible future scenarios from historical market rates and prices, taking into account correlation amongst different markets and rates such as interest rates and foreign exchange rates. The models also incorporate the effect of embedded options of the underlying exposures.

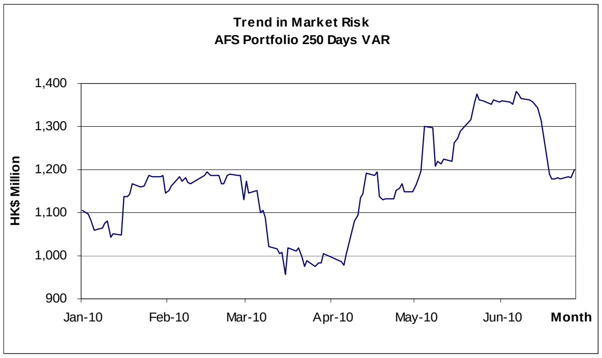
The historical simulation model used by the Group include the following elements:

- potential market movements are calculated with reference to data from the last two years for the trading portfolios and AFS portfolios, including historical market rates, prices and the associated volatilities;

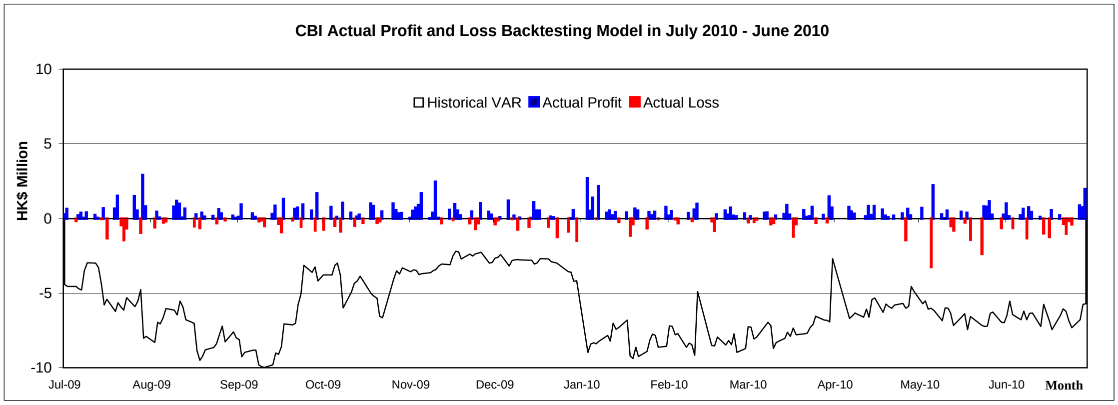
- for the trading portfolio, VAR is calculated with a 99-per cent confidence level and for a 1-day holding period;

- for the AFS portfolio, VAR is calculated with a 99-per cent confidence level and for a 250-day holding period; and





- back testing started in year 2009 and the Group routinely validates the accuracy of its VAR model for its trading portfolios by comparing the actual and hypothetical daily profit and loss results, adjusted for items including fees and commissions, against the corresponding VAR numbers. Statistically, the Group would expect to see losses in excess of VAR only one per cent of the time over a one-year period. The actual number of excesses over this period can therefore be used to gauge how well the model is performing. For the year from 2 July 2009 to 30 June 2010, there is no exception occurred under back-testing, which corresponded to the green zone as specified by the HKMA and the international Basel principles.



While VAR calculated under this approach can serve as a good guide for market risk under normal market conditions, it has its limitations. For example, the use of historical data as a proxy may not encompass all possible potential events and the events beyond the 99 per cent confidence interval are not considered. In order to mitigate such limitation, Market Risk Department provides ALCO with the stress test results reflecting potential extreme events on the market risk exposures for the trading and AFS portfolios.

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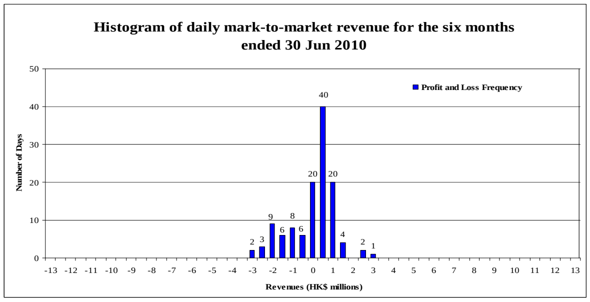
(J) Risk Management (cont'd)

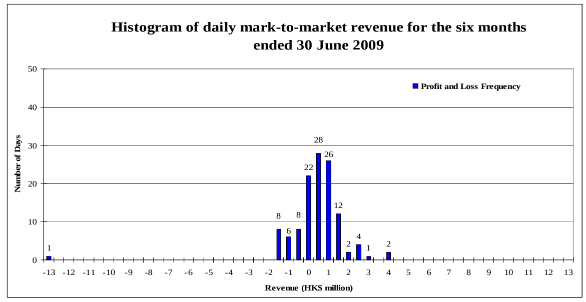
(iii) Market risk management (cont'd)

Methodology and characteristics of market risk model (cont'd)

Value at risk (cont'd)

For the six months ended 30 June 2010, the average daily mark-to-market revenue from the Bank's trading portfolio and fund investments (excluding structured investment vehicles) was a loss of HK$232,000 (six months ended 30 June 2009: a gain of HK$149,000). The standard deviation of the daily revenue was HK$1,136,000 (six months ended 30 June 2009: HK$1,609,000). The graphs below show the histograms of the Group's daily mark-to-market revenue for the six months ended 30 June 2010 and 2009 respectively.





The tables below show the VAR statistics for the trading book and AFS portfolio.

Market Risk for the Trading Portfolio - One day VAR 99%

	Six months ended 30 June 2010				Six months ended 30 June 2009			
	Maximum	**Minimum**	**Mean**	**At 30 June 2010**	Maximum	Minimum	Mean	At 30 June 2009
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000	HK$'000
Foreign exchange risk	**3,577**	**263**	**1,240**	**335**	5,384	706	1,501	1,843
Interest rate risk	**10,712**	**2,747**	**7,370**	**5,907**	14,028	2,587	6,401	6,518
Total VAR	**9,368**	**4,548**	**7,186**	**5,707**	9,851	3,116	6,493	4,278

Market Risk for the AFS Portfolio

	Six months ended 30 June 2010				September - December 2009			
	Maximum	**Minimum**	**Mean**	**At 30 June 2010**	Maximum	Minimum	Mean	At 31 December 2009
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000	HK$'000
Interest rate risk	**704,930**	**394,240**	**549,534**	**665,935**	821,000	617,000	710,000	624,000
Credit spread risk	**1,290,596**	**881,034**	**1,086,969**	**1,108,743**	1,019,000	941,000	972,000	974,000
Total 250-day VAR	**1,381,291**	**956,317**	**1,167,476**	**1,198,803**	1,205,000	1,070,000	1,135,000	1,137,000

Note: Calculation of market risk VAR for the AFS portfolio started from September 2009.

Stress testing

Stress testing is implemented to mitigate the weaknesses in the VAR model in order to capture the remote but plausible events. The Group uses the following scenarios for market risk stress testing:

- sensitivity scenarios, which consider the impact of any single risk factor or a set of factors that are unlikely to be captured by the VAR model, such as the break of HKD and USD currency peg; and

- historical scenarios, which incorporate historical observation of market moves during previous stress periods which would not be captured by the VAR model such as the impact on valuation under the recent credit crisis scenario.

Stress testing results provide ALCO with an assessment of the financial impact from such events that would have on the Group's income statement and reserve. The daily losses for the trading portfolio and the yearly negative reserve impact for the AFS portfolios experienced in the six months ended 30 June 2010 were within the stress loss scenarios reported to ALCO.

Credit spread risk

During the financial crisis started in the middle of year 2007, in addition to interest rate risk and extreme market volatilities, the crisis was also characterised by significant widening in credit spreads, which had heavily affected the valuation for the AFS portfolios. In addition, the extreme market conditions have made the availability of market prices for some of the securities infrequent and, to a certain extent, less reliable, which had further increased the challenge and complexity for the portfolio valuation for some of the securities in the AFS portfolio.

In order to strengthen the risk control for the AFS portfolios, Market Risk Department has established in September 2009 a framework that enables the estimation for the fair values of option adjusted spreads in order to calculate the fair values for illiquid securities, as well as the calculation of a 250-day credit spread VAR, credit spread sensitivity risk statistics, stress testing and the establishment for a limit structure and early alert indicators. The objective for the choice of the 250-day credit spread VAR statistics is to measure the potential adverse impact on the Group's reserve on an annual basis.

(J) Risk Management (cont'd)

(iii) Market risk management (cont'd)

(a) Currency risk

The Group's foreign exchange risk stems from taking foreign exchange positions from commercial dealings, investments in foreign currency securities and operations of the Group and its overseas branches and subsidiaries. Foreign exchange positions of the Group are subject to exposure limits approved by ALCO. Methods adopted to measure foreign currency risk exposure against corresponding limits include individual currency positions, overall foreign exchange positions and sensitivities such as Greeks (for foreign exchange options). For the six months ended 30 June 2010, the Group's average daily trading profit and loss from foreign exchange positions was a gain of HK$77,000 (six months ended 30 June 2009: a gain of HK$117,000) with a standard deviation of HK$249,000 (six months ended 30 June 2009: HK$259,000).

Significant foreign currency exposures at the end of the reporting period were as follows:

	At 30 June 2010			
Equivalent in HK$'000	**USD**	**RMB**	**Others**	**Total**
Spot assets	**53,234,233**	**4,578,982**	**1,775,783**	**59,588,998**
Spot liabilities	**(34,563,532)**	**(4,108,889)**	**(10,423,041)**	**(49,095,462)**
Forward purchases	**71,980,528**	**46,784,472**	**13,282,585**	**132,047,585**
Forward sales	**(90,450,750)**	**(46,836,189)**	**(4,631,394)**	**(141,918,333)**
Net option position	**-**	**-**	**-**	**-**
Net long position	**200,479**	**418,376**	**3,933**	**622,788**
Net structural position	**-**	**229,597**	**48,548**	**278,145**

	At 31 December 2009			
Equivalent in HK$'000	USD	RMB	Others	Total
Spot assets	45,028,620	4,005,549	5,021,632	54,055,801
Spot liabilities	(30,864,229)	(3,005,965)	(8,275,088)	(42,145,282)
Forward purchases	45,809,607	23,535,611	10,403,994	79,749,212
Forward sales	(59,942,753)	(23,487,681)	(7,159,542)	(90,589,976)
Net option position	-	-	-	-
Net long/(short) position	31,245	1,047,514	(9,004)	1,069,755
Net structural position	-	227,211	48,542	275,753

The net options position is calculated using Model User Approach which has been approved by the HKMA.

(b) Interest rate risk

The Group's ALCO oversees all interest rate risks arising from the interest rate profile of the Group's assets and liabilities. The Group has interest rate risk exposure from both of its banking and trading books. The interest rate risk in the banking book is caused by maturity gaps, basis risks among different interest rate benchmarks, yield curve movements, interest rate re-pricing risks and risks from embedded options, if any. The Group's management of the interest rate risk in the banking book is governed by the Interest Rate Risk Management Policy for banking book. Treasury and Markets Group manages the interest rate risk in the banking book according to the Policy.

To mitigate interest rate risk, the Group 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 Group has also adopted hedge accounting principles, under which the fair value changes of the AFS/NTL and the corresponding fair value changes of the hedging derivative instruments offset with each other.

The Group's management of the interest rate risk in the trading book is guided by the Interest Rate Risk Management Policy for Trading Book. The Group mainly uses present value of a basis point movement to measure its interest rate risk exposure in the trading book. For the six months ended 30 June 2010, the Group's average daily trading profit and loss from interest rate positions was a gain of HK$53,000 (six months ended 30 June 2009: a gain of HK$32,000) with a standard deviation of HK$691,000 (six months ended 30 June 2009: HK$1,593,000).

(J) Risk Management (cont'd)

(iv) Capital management

The Group's primary objectives when managing capital are as follows:

- To comply with the capital requirements set by the banking regulators in the markets where the entities within the Group operate;
- To maintain a strong capital base to support the development of its business; and
- To safeguard the Group's ability to continue as an going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The HKMA sets and monitors capital requirements for the Group as a whole. An individual banking subsidiary bank is directly regulated by its local banking supervisor. In implementing current capital requirements, the HKMA requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets. The Group adopts the standardised approach to calculate market risk in its trading portfolios, risk weightings for credit risk and basic indicator approach for operational risk. Banking operations are categorised as either trading or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-statement of financial position exposures.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might otherwise be possible with greater gearing and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Group monitors its capital structure on the basis of the capital adequacy ratio and there have been no material changes in the Group's policy on the management of capital during the period.

The capital adequacy ratios at 30 June 2010 are computed on the consolidated basis of the Group and certain subsidiaries as specified by the HKMA for its regulatory purposes, and are in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the period ended 30 June 2010 and the year ended 31 December 2009, well above the minimum required ratio set by the HKMA.

(J) Risk Management (cont'd)

(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. It is present in virtually all the Group's transactions and activities. The objective of operational risk management is to ensure that operational risk arising therefrom is consistently and comprehensively identified, assessed, mitigated/controlled, monitored and reported.

At the Group, the authority for operational risk oversight is delegated by the Board of Directors to the CRMC. The Group's operational risk management framework is approved and reviewed periodically and the Group's senior management is responsible for implementing the framework.

The primary responsibility for the day-to-day management of current, new and emerging operational risks lies with the line management of the functional units where the risk arises. This is supported by the independent Operational Risk Unit within the Risk Management Group, which designs and implements the operational risk management methodology tools.

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

- The Group Operational Risk Management Policy, which includes the operational risk management framework, has been established and approved.

- Various operational risk tools, such as self-assessment exercises, key risk indicators and incident reporting, for assisting the functional units in identifying, assessing and reporting operational risks, have been developed and are being rolled out.

- Material operational risk exposures are managed through a framework of policies, procedures, and processes.

- 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 jobs.

- New products and services are evaluated by various functional units before they are approved by the Group'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 loss of operating site and major failure of data centre caused by fire or other events. Bank Run Drill for sudden and massive customer withdrawal due to market rumours or other reasons is tested biennially.

- The examination and evaluation of the adequacy and effectiveness of the Group's internal control system is independently conducted by the Audit Group on an on-going basis. The audits cover all material controls, including financial, operational and compliance controls as well as risk management functions.

The Group is in the process of fine-tuning its operational risk management framework, with the guidance from its strategic partner Banco Bilbao Vizcaya Argentina, S.A. ("BBVA"), and by virtue of a tripartite agreement amongst the Group, China CITIC Bank Corporation Limited and BBVA. The new model will assist the Group to further improve its ability in identifying and quantifying operational risk, monitor how operational risk is evolving and set up alert signals, record the historical loss data and subdivide all the operational risks into the seven risk categories promoted under Basel II.

The aforesaid tools are expected to enable the Group to migrate, on a progressive basis, from the current Basic Indicator Approach to the Standardised Approach and eventually Advanced Measurement Approach and benefit from a reduction in regulatory capital in the future.

(J) Risk Management (cont'd)

(vi) Legal risk management

The Group 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 and regulatory risk is under control. Any significant failings are reported by the compliance function to the Group's Audit Committee and senior management.

The Legal Department ("LD") and Compliance Department ("CD") have been key partners in the business, providing legal and compliance advice and support to all parts of the Group. In the first half of 2010, LD and CD were 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 the midst of this activity, CD has also been heavily involved in monitoring and ensuring compliance with fast changing regulatory requirements in the area of investor protection. LD and CD in the second half of 2010 will continue to provide the advice and support that the Group 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 Group's efforts to develop, uphold and implement strategic decisions related to its long-term growth and development. Reputational risk management refers to the Group'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 Group meets regularly to monitor and oversee the Group's strategic and reputational risks. High priority is placed by senior management to ensure that the Group'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 Group 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 Group's strategies, and measurable targets are assigned to ensure executional excellence. Great care is also taken to protect the Group'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, and etc.

Unaudited Supplementary Financial Information

(K) Additional Information on Structured Investments

Collateralised Debt Obligations ("CDO")

Since 2007, the Group has held the only one cash-flow CDO, which referred to the US$120.0 million (equivalent to HK$930.0 million) capital notes issued by Farmington Finance Limited ("Farmington") and it was restructured from the structured investment vehicles of Victoria Finance Limited in November 2007. At 30 June 2010, the long-term funding obtained by Farmington was rated "CCC-" while the US$114.0 million (equivalent to HK$883.5 million) Farmington senior capital note was rated "CC". The remaining US$6.0 million (equivalent to HK$46.5 million) junior capital note was not rated.

The capital notes are accounted for as available-for-sale securities by the Group and their book carrying value at 30 June 2010 was US$60.3 million (31 December 2009: US$77.6 million) equivalent to HK$469.4 million (31 December 2009: HK$601.8 million) based on their net present value of 52.1% (31 December 2009: 66.9%) as determined by discounting the projected cash flows of the underlying investment portfolio assuming the investment vehicle will be held until all underlying assets mature.

At 30 June 2010, the underlying investment portfolio of Farmington continued to meet the cash flows projection yet, the credit quality of the portfolio showed some deterioration which is considered to be in line with the general credit markets. However, the portfolio is well diversified amongst some 400 assets in diverse classes, with approximately 50% rated A- or above, 27% rated between B- to A-, and 23% rated CCC+ or below. The portfolio of Farmington consists of approximately 6% in debt securities of financial institutions, approximately 9% in monoline guaranteed financial institution securities, approximately 38% in residential prime mortgage-backed securities, and the remaining 47% in other structured credit securities. At 30 June 2010, the weighted average life of the whole portfolio was 4.45 years. Reinvestment was resumed in January 2009 and ended in November 2009. The Group considered the portfolio's direct exposure to sub-prime related mortgage backed securities is not to be significant.

At 30 June 2010, the Group has entered into two credit default swap ("CDS") 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 these 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 2009: US$456.0 million) equivalent to HK$3,536.1 million (31 December 2009: HK$3,536.1 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 ended 30 June 2010.

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 in first priority.

Other than the above Farmington CDO investments, the Group has not made nor does it hold any other CDO investments at 30 June 2010.

Report of the Chief Executive Officer

Operating Environment

Hong Kong’s economy gained further traction in the first half of 2010 with a booming property sector and increased business activities. The local credit market witnessed stronger growth as a result and the banking industry saw a recovery in fee-based incomes, backed by a revival of interest in wealth management products amidst improved economic and employment conditions. The interest spread benefitted from the favourable gap between the Prime Lending Rate (“Prime”) and Hong Kong Interbank Offered Rate (“HIBOR”) while the Chinese central government’s further liberalisation of the RMB business enhanced Hong Kong’s prospects as an offshore RMB centre, altogether creating a more benign operating environment for banks in Hong Kong.

However, just when the US economy was showing signs of easing from the repercussions of the financial tsunami, the outbreak of Europe’s debt crisis swiftly introduced new uncertainties to the global economic recovery. China’s implementation of macro control measures since the start of the year to combat an overheated economy and increased inflationary pressure impacted the high liquidity condition of the Hong Kong market. Competition for deposits among local banks intensified since May and June, effectively pushing up the cost of funding and giving rise to concerns over rising operating costs in the face of inflationary pressure.

CITIC Bank International Limited (“CBI” or the “Bank”) capitalised on the local economy’s buoyancy in the first half of 2010 to drive quality loan growth and to enhance profitability. With the official renaming as CITIC Bank International in May that marked a new starting point, the Bank continued to deepen cross-border business collaboration with its parent bank, China CITIC Bank Corporation Limited (“CNCB”) for better synergy effect. To realise its role as CNCB Group’s offshore platform to pursue international expansion, CBI is gearing towards opening its first branch in the ASEAN region – with a commitment to strengthening its financial and intellectual capital for a successful penetration into the Asian market.

Business Performance

Earnings

CBI actively sought new business development in the first half of 2010 against the backdrop of a favourable economic setting in Mainland China and Hong Kong. In particular, the Bank strengthened its collaboration with CNCB to provide timely financial solutions to meet cross-border business needs of Mainland customers. The tremendous synergy effect generated by deepened collaboration between the two banks resulted in significant loan and income growth. During this period, the Bank's net interest income and non-interest income increased by 26.4% and 13.2% respectively. Its operating profit before impairment also rose 22.0% year-on-year to HK$809 million, reflecting the Bank's continued growth momentum in revenue generation.

Over the past year or so, the Bank strived to upgrading its risk management standards. Leveraging on the advanced technology of its strategic shareholder, Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA"), the Bank put in place a comprehensive Risk Management Plan to further improve its asset quality. This, coupled with improvement in Hong Kong's overall economic environment, contributed to a significant reduction in the Bank's impairment provisions. In the first half of 2010, the Bank's net impairment losses significantly reduced by 45.4% year-on-year to HK$120 million. Coupled with HK$13 million in revaluation gain on investment properties, the Bank's profit before tax increased by 39.5% to HK$701 million while its profit attributable to shareholders surged by 38.0% to HK$587 million as compared to the same period in the previous year.

Net Interest Income

In the first half of 2010, the Bank's net interest income rose 26.4% to HK$1,005 million, partly due to its conscientious efforts to resuming quality loan growth and the positive effect of the repricing of the corporate loan portfolio. The favourable Prime-HIBOR spread also benefitted the Bank's Prime-based loan portfolio. In addition, in 2009, the Bank successfully resolved a legacy impaired loan that occurred several years ago allowing for part of the related interest income to be booked in the first half of this year, which also helped to increase the Bank's net interest income. All of these reassuring factors contributed to improve the Bank's net interest margin by 20 basis points year-on-year to 1.69%.

Non-Interest Income

During this period, the Bank's non-interest income grew by 13.2% year-on-year to HK$526 million. The growth was partially due to a restoration of customers' demand for wealth management products, resulting in a 41.6% year-on-year growth in wealth management related income. In addition, the Bank also recorded a 8.1% year-on-year growth in trade bills commission income and a significant 95.2% year-on-year growth in related income arising from the cross-selling of treasury products by Treasury and Markets Group's close collaboration with Wholesale Banking Group and Retail Banking Group. All of these factors were key drivers for the growth in non-interest income.

Operating Expenses

In the first half of 2010, the Bank progressively pursued business development and made headway in preparation for network expansion in Asia. As a result, more resources have been allocated to manpower, system and equipment. Coupled with upward adjustment pressure on wages and rental of premises, the Bank's operating expenses rose 20.9% year-on-year to HK$722 million. Nonetheless, helped by the strong growth in operating income, the Bank's cost to income ratio stood at 47.2%, which was slightly improved as compared to the first half of last year.

Impairment Allowances

As the overall economic environment improved and the Bank upgraded its risk management standards, the Bank registered a net charge in impairment losses on loans and advances and other accounts totalling HK$120 million during the period, representing a significant 45.4% reduction as compared to the first half of last year. The net charge on individually assessed loans reduced by 48.9% year-on-year to HK$124 million, while the net charge on collectively assessed loans reduced by 85.9% to HK$8 million as compared to the first half of last year. Bad debt recoveries reduced by 85.2% year-on-year to HK$12 million.

Asset Quality

Asset, Loan, and Deposit Sizes

In the first half of 2010, the Bank achieved outstanding results in renewing its drive to grow quality lending. As at end-June 2010, the Bank's total loans grew by 17.9% to HK$86.4 billion as compared to 2009 year-end while its total assets increased by 19.3% to HK$143.3 billion. Meanwhile, under the prolonged low-interest-rate environment, Retail Banking Group and Wholesale Banking Group worked closely with Treasury and Markets Group to introduce an expanded variety of customer-driven deposit products which received encouraging response from customers. During this period, total deposits grew by 19.7% to HK$117.2 billion.

In July 2010, the Bank became the first Hong Kong financial institution to issue offshore RMB Certificate of Deposit ("CD"). The total issue size of the one-year RMB CD was RMB500 million, carrying a coupon of 2.68%. This RMB CD issuance not only enhanced the Bank's RMB working capital for trade finance but also optimised the Bank's RMB asset and liability position. Diversifying RMB related investment products can also contribute to the development of Hong Kong as an offshore RMB centre.

Asset Quality Indicators

As at end-June 2010, impaired loans ratio dropped to 1.62% from 2.46% as at end-June 2009 and 1.78% as at end-December 2009. Besides, the Bank's retail assets quality continued to perform better than industry average.

Financial Position

To support its rapid business growth and in preparation for its Asian expansion, the Bank issued US$500 million 10-year subordinated debts carrying a coupon of 6.875% in June 2010. The issuance of sub-debts further enhanced the Bank's capital strength. As at end-June 2010, the Bank's capital adequacy ratio reached 18.0%, representing an improvement by 1.6 percentage points from 2009 year-end. Meanwhile, despite tightening market liquidity, the roll-out of a series of successful customer deposit promotional campaigns and active asset and liability management programmes enabled the Bank to maintain its average liquidity ratio and loans to deposits ratio at the healthy levels of 39.7% and 73.7% respectively as at end-June 2010.

CBI's Key Financial Ratios

	30 June 2010	**31 December 2009**
Capital adequacy	18.0%	16.4%
Core capital adequacy	10.3%	11.9%
Average liquidity	39.7%	48.8%
Loans to deposits	73.7%	74.8%
Loans to total assets	60.3%	61.0%
Impaired loans	1.62%	1.78%
Coverage[1]	42.6%	48.5%
Loan loss coverage	45.7%	47.9%
Mainland loans to total customer advances	16.0%	17.6%

[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")

As Hong Kong's economic momentum gathered pace, RBG continued to record robust results during the first half of 2010. Impressive growth was posted in its retail loan portfolio due to strong economic activity and improved business optimism. The total retail lending amounted to HK$30.5 billion, up 12.6% as compared to 2009 year-end. On the other hand, various deposit products of different tenor and currencies launched to meet customer needs in the prolonged low-interest-rate environment were well received. Retail deposits edged up 7.2% to HK$52.3 billion in the period. Coupled with the favourable Prime-HIBOR spread, net interest income rose by 17.5% year-on-year to HK$422 million. Improved market sentiment induced significant increases in stock broking commission as well as sales revenues of funds and insurance products. As a result, non-interest income recorded a significant 36.1% year-on-year growth to HK$190 million.

RBG's continuous focus on operating efficiency paid off during the period as the total operating expenses were maintained at a comfortable level similar to the same period last year. Despite an expanding loan book, asset quality remained high with the improving economy, rising asset prices, lower bankruptcies and brighter employment prospects. This led to a net writeback of HK$0.5 million. Profit before tax was up by 77.9% year-on-year to HK$327 million.

RBG leveraged on the Bank's renaming as CITIC Bank International to launch a new corporate identity and a range of wealth management products with an innovative approach to meet different customer needs under the prevailing low-interest-rate environment. This resulted in encouraging growth in CITIC*first* customer base. As at end-June 2010, the total number of CITIC*first* customers increased by 6.0% since 2009 year-end to over 15,700. Meanwhile, total customer assets under management by CITIC*first* grew by 6.8% to reach HK$45.7 billion.

As part of its continuous efforts to realise the Bank's vision to become the "China Bank of Choice", a series of RMB related wealth management products such as RMB non-deliverable forward ("NDF") contracts and Mainland's A-share-linked private placement fund were rolled out to cope with increased customer demand in a timely manner. RBG is also in active discussion with CNCB to explore cooperation in offering cross-border solutions to individual customers.

Wholesale Banking Group ("WBG")

WBG registered encouraging results in the first six months of 2010 through enhancing cross-border business capabilities, deepening collaboration with CNCB and expanding global market products and solutions in partnership with the Treasury and Markets Group. Operating income and profit before tax grew by 35.9% and 178.0% year-on-year to HK$647 million and HK$360 million, respectively. Net interest income achieved a sustained growth as net interest margin increased by 27 basis points year-on-year with rigorous application of risk-based pricing on loans.

While closely managing costs, WBG made significant progress in growing its non-lending business. Treasury income more than doubled compared to the same period last year.

Benefited from an enhanced risk management framework with clearly-defined risk appetite, loan loss provisions were much lower than the same period a year ago. Significant decreases were recorded in both individually assessed loan provisions and collectively assessed loan provisions.

China Banking

A major breakthrough came to place between the Bank and CNCB in cross-border business cooperation in the first half of 2010. A series of new initiatives were implemented to enhance collaboration including the establishment of a key performance indicators system on cross-border cooperation for CNCB branches and a group-level committee for coordinating onshore and offshore financial cooperation and the formulation of workflows between the two banks.

The partnership has been significantly strengthened by these initiatives. In the first half of this year, approved new facilities and loan drawdown amount arising from CNCB business referrals surged by 606% and 322% year-on-year, respectively. They emerged as one of the driving forces behind the Bank's loan growth. CBI also collaborated with more CNCB branches to provide RMB NDF services for Mainland customers. Given the strong demand for cross-border business, the volume of RMB NDF transactions in the first half of 2010 was close to four times of that in the same period last year.

To accelerate the cross-border RMB trade settlement business, the Chinese central government has expanded the pilot scheme to 20 provinces and cities from just five cities previously. The Bank grasped the opportunity to extend cooperation with CNCB and was among the first batch of Hong Kong banks concluding cross-border RMB trade settlement transactions in the newly-expanded pilot provinces and cities. CBI was also the first Hong Kong bank to conduct RMB settlement business for service trade, demonstrating the Bank's strong capabilities in cross-border business. Currently, the Bank ranks among the top three players of the cross-border RMB trade settlement business market in Hong Kong.

The Bank made an encouraging progress towards establishing collaboration with CITIC Group subsidiaries as well as their upstream and downstream companies, thus generating substantial deposit business opportunities for the Bank. CITIC Ka Wah Bank (China) Limited has strengthened its function as an onshore business platform for the Bank's cooperation with CNCB and other CITIC Group subsidiaries by enhancing its sales and marketing capability for cross-border business.

Treasury and Markets Group ("TMG")

With the contagious effects of Europe's debt crisis and the volatile investment market across the globe in the first half of 2010, TMG adopted a more prudent approach in managing the Bank's investment portfolio. The increased funding cost also put pressure on the return of the Bank's investment portfolio. As a result, TMG recorded a decrease of 12.3% and 18.7% year-on-year in operating income and profit before tax to HK$170 million and HK$118 million, respectively, in the first half of this year.

During the period, TMG continued to actively expand its marketing team and strengthen its capabilities. Close cooperation was established with WBG for cross-selling treasury products to CNCB customers in tandem with the Bank's role as the offshore platform for CNCB. The growth in RMB NDF business was particularly strong and customers were able to benefit from the onshore and offshore business platforms of the CNCB Group throughout the process. With the cross-selling efforts, TMG posted a 95.2% year-on-year growth in total sales income to HK$69 million during the period.

In the area of central treasury management, the remaining portable alpha notes left over after the closure of fund investment business in 2008 were unwound during the period to avoid undue volatility. The Bank's fixed income investment portfolio was reduced in size given the market volatility and narrowed margins. This effectively reduced the Bank's available-for-sale ("AFS") securities portfolio to HK$17.3 billion at end-June 2010 from HK$20.1 billion at 2009 year-end.

Risk Management

Despite signs of gradual economic recovery, the Risk Management Group continues to proactively strengthen underwriting standards, implement rigorous risk reviews, manage vulnerable portfolios, develop appropriate risk-based pricing models and economic capital measurements, and refine the Bank's investment strategy to align with the Bank's defined market risk appetite.

The Bank's risk policies and procedures are subject to a high degree of oversight. The Credit and Risk Management Committee ("CRMC") is empowered by the Board to oversee and approve risk systems, policies and exposures of the Bank. The Credit Committee ("CC") is a sub-committee of the CRMC, charged to actively manage the credit risk of the Bank. The Asset and Liability Committee ("ALCO") is responsible for the implementation and maintenance of the overall risk management framework relating to balance sheet structure, market risks, funding and liquidity management. Risk management practices and controls are in place to identify, quantify, monitor and mitigate the risks of the Bank, including credit risk, market risk, operational risk, liquidity risk, interest rate risk, strategic risk and reputational risk. In addition, the Internal Audit Group conducts regular independent reviews of the Bank's risk management practices to ensure compliance with internal policies as well as regulatory requirements.

Leveraging on BBVA's world-class risk management capabilities, the Bank put in place a comprehensive Risk Management Plan ("RMP") since 2009. This has made remarkable progress and contribution to upgrade the Bank's risk management practices and capabilities. The ultimate objective of the RMP is to eventually create a risk infrastructure able to manage and control the risks of the Bank to facilitate value creation and to preserve its financial strength.

The strategic collaboration among the Bank, CNCB and BBVA was well underway with substantial focus on achieving synergies in the risk management discipline. The ongoing risk knowledge sharing and skills transfer have contributed significantly to the establishment of a more advanced risk management model and best practices. This formidable alliance has enabled the Bank to better capture opportunities from the growing economic pre-eminence of the Greater China and Asian region.

Risk management remains a fundamental and integral part of the Bank's business activities. The Bank continues to enhance its risk management practices and infrastructure in line with the market, product offering and international best practices so as to respond effectively and coherently in different stressed scenarios, particularly given the persisting climate of economic uncertainties.

Future Outlook

Europe's debt crisis that surfaced in the first half of 2010 had caused substantial volatility in the investment market and threatened the global economy's tentative recovery. While coordinated global efforts have emerged to contain the debt crisis, the global economy is likely to endure lingering uncertainty in the second half of the year.

Despite the unstable external factors, Hong Kong continued to achieve positive economic performance, riding on its well-established and time-tested financial system as well as Mainland China's strong economic growth. More importantly, Hong Kong as a prospective offshore RMB centre gained an added lift when the Chinese central government stepped up its efforts in liberalising rules and practices for RMB business in view of the rising global importance of the Chinese currency. It is expected that a new range of RMB related products and services accompanied by related financial activities will follow as a result, generating tremendous business opportunities for the banking industry in Hong Kong.

The Bank will seize the great potential of RMB business in Hong Kong by investing more resources in RMB-related product development. The partnership with CNCB will be further strengthened by integrating with its extensive Mainland network and customer base to grow RMB business in Hong Kong and across the border.

In an effort to further strengthen its business presence in Hong Kong and prepare for growing cross-border businesses, the Bank is progressively extending its retail network to 30 branches by the end of this year. The Bank's headquarters will be relocated to International Commerce Centre above the Airport Railway's Kowloon Station that will consolidate its corporate office and a number of business and support units under one roof to create better efficiency and drive future business development.

Going forward, CBI will strive to realise the business strategy behind its new identity by enhancing its role as CNCB Group's offshore platform for international expansion and driving progressive growth in the Asian market. The establishment of Asian footprint will enhance CBI's capability to better serve Hong Kong and Mainland customers with business needs and aspirations in the region. With the strengths of its parent bank, CNCB and its strategic shareholder, BBVA, as well as the prudent strategy under the leadership of CBI's management and the total commitment of workforce, the Bank is ready to take on the opportunities offered by a vibrant, dynamic and rising Asia together with its customers.

Chan Hui Dor Lam Doreen
Chief Executive Officer
Hong Kong, 11 August 2010