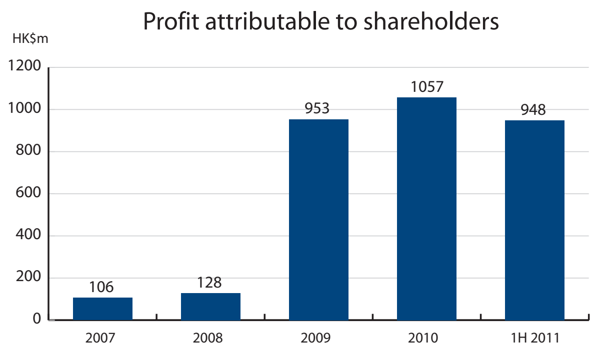
Building Strength, Gathering Pace

中信銀行國際
CITIC BANK INTERNATIONAL

2011 Interim Results Highlights

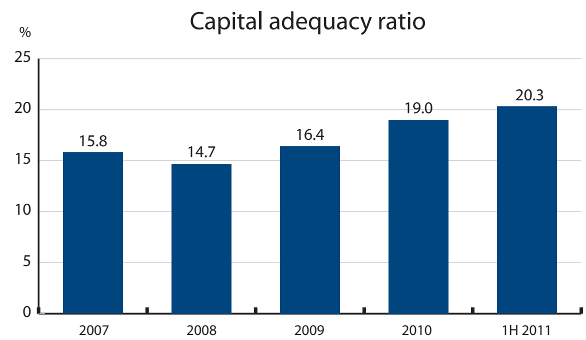
Results Highlights

- Operating income up by 18.1% to HK$1,808 million, mainly driven by 75.1% surge in non-interest income to HK$921 million
- Net write-back of impairment losses on loans and advances and other accounts amounted to HK$73 million
- Profit attributable to shareholders up by 61.6% to a historical high of HK$948 million for half-year



Robust Financial Position

- Focused efforts on enhancing asset and liability management resulted in moderate total loan growth of 5.7% to HK$93.9 billion
- Despite intense market competition, total deposits grew by 1.9% to HK$122.7 billion
- Capital adequacy ratio improved by more than 1 percentage point to 20.3%



Core Performance

- **Retail Banking Group:** CITIC*first* customer base expanded by 11.3% to 18,900 with HK$53.9 billion client assets under management. Official launch of private banking service in April serves as an extension of CNCB private banking platform in Hong Kong
- **Wholesale Banking Group:** Record profit before tax and reduced balance sheet dependence with non-lending fee income (including treasury income) to total income increased to 37.8% from 15.7% in 2010
- **China Banking:** Gained foothold in RMB and cross-border businesses through strong collaboration with CNCB and CITIC Group companies, acting as an offshore financing and product solutions' platform
- **Treasury & Markets Group:** Fee income from cross-selling of treasury products up 185.5% to HK$198 million, driven by strong sales of RMB products

CNCB – China CITIC Bank Corporation Limited

中信銀行國際
CITIC BANK INTERNATIONAL

CITIC BANK INTERNATIONAL LIMITED

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

ANNOUNCEMENT OF 2011 INTERIM RESULTS

The Board of Directors of CITIC Bank International Limited ("the Bank") is pleased to announce the unaudited consolidated results of the Bank and its subsidiaries ("the Group") for the six months ended 30 June 2011. 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 2011 - unaudited

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2011	2010
		HK$'000	HK$'000
Interest income	4	**1,585,304**	1,374,416
Interest expense		**(698,790)**	(369,660)
Net interest income		**886,514**	1,004,756
Fee and commission income		**280,402**	341,244
Fee and commission expense		**(17,579)**	(14,913)
Net fee and commission income	5	**262,823**	326,331
Net trading income	6	**374,455**	154,420
Net gain from financial instruments designated at fair value through profit or loss	7	**10,088**	14,857
Net hedging loss	8	**(655)**	(730)
Net gain on disposal of available-for-sale securities	9	**3,347**	15,561
Other operating income	10	**270,930**	15,696
Operating income		**1,807,502**	1,530,891
Operating expenses	11	**(780,104)**	(722,128)
Operating profit before impairment		**1,027,398**	808,763
Impairment losses written back/ (charged for) on loans and advances and other accounts	12	**73,007**	(120,249)
Impairment losses written back on available-for-sale securities		**-**	6
Impairment written back/ (losses)		**73,007**	(120,243)
Operating profit		**1,100,405**	688,520
Net gain on disposal of property and equipment		**10**	62
Revaluation gain on investment properties		**27,774**	12,690
Profit before taxation		**1,128,189**	701,272
Income tax	13	**(180,081)**	(114,565)
Profit for the period		**948,108**	586,707
Attributable to equity shareholders of the Bank		**948,108**	586,707

Consolidated Statement of Comprehensive Income
for the six months ended 30 June 2011 - unaudited

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2011	2010
	HK$'000	HK$'000
Profit for the period	**948,108**	586,707
Other comprehensive income for the period (after tax and reclassification adjustments)		
Exchange differences on translation of financial statements of overseas subsidiaries	**25,727**	-
Available-for-sale securities		
- change in fair value	**78,787**	(238,167)
- transfer to income statement on disposal	**(4,147)**	(17,874)
- transfer (to)/ from deferred tax	**(12,448)**	42,247
	87,919	(213,794)
Total comprehensive income for the period	**1,036,027**	372,913
Attributable to equity shareholders of the Bank	**1,036,027**	372,913

Consolidated Statement of Financial Position

at 30 June 2011 - unaudited

(Expressed in Hong Kong dollars)

	Note	**At 30 June 2011 HK$'000**	At 31 December 2010 HK$'000
Assets			
Cash and balances with banks, central banks and other financial institutions	14	**18,430,660**	21,225,122
Placements with and advances to banks, central banks and other financial institutions	15	**18,228,311**	12,229,126
Trading assets	16	**1,702,462**	1,633,657
Securities designated at fair value through profit or loss	17	**870,751**	646,508
Loans and advances to customers and other accounts	18	**95,621,531**	90,714,680
Available-for-sale securities	19	**18,878,667**	20,857,745
Property and equipment	20		
- Investment property		**187,024**	159,250
- Other property and equipment		**629,394**	582,496
Tax recoverable	24(a)	**628**	59,744
Deferred tax assets	24(b)	**82,262**	100,573
Total assets		**154,631,690**	148,208,901
Equity and liabilities			
Deposits and balances of banks and other financial institutions		**4,681,420**	1,850,372
Deposits from customers	21	**112,890,743**	113,466,113
Trading liabilities	22	**1,281,819**	1,477,528
Certificates of deposit issued	23	**9,794,865**	6,985,054
Debt securities issued	25	**478,389**	231,900
Current taxation	24(a)	**82,655**	18,972
Deferred tax liabilities	24(b)	**1,164**	2,197
Other liabilities	26	**3,168,731**	3,061,233
Loan capital	27	**7,864,074**	7,763,729
Total liabilities		**140,243,860**	134,857,098
Equity			
Share capital	28(a)	**7,283,341**	7,283,341
Reserves	28(b)	**7,104,489**	6,068,462
Total equity attributable to equity shareholders of the Bank		**14,387,830**	13,351,803
Total equity and liabilities		**154,631,690**	148,208,901

Consolidated Statement of Changes in Equity
for the six months ended 30 June 2011 - unaudited

(Expressed in Hong Kong dollars)

	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 2011	**7,283,341**	**282,930**	**6,589**	**100,000**	**22,415**	**4,718**	**(232,010)**	**11,802**	**73,636**	**5,798,382**	**6,068,462**	**13,351,803**
Changes in equity for the six months ended 30 June 2011:												
Profit for the period	-	-	-	-	-	-	-	-	-	**948,108**	**948,108**	**948,108**
Other comprehensive income for the period	-	-	-	-	**25,727**	-	**62,192**	-	-	-	**87,919**	**87,919**
Total comprehensive income for the period	-	-	-	-	**25,727**	-	**62,192**	-	-	**948,108**	**1,036,027**	**1,036,027**
At 30 June 2011	**7,283,341**	**282,930**	**6,589**	**100,000**	**48,142**	**4,718**	**(169,818)**	**11,802**	**73,636**	**6,746,490**	**7,104,489**	**14,387,830**
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:												
Profit for the period	-	-	-	-	-	-	-	-	-	586,707	586,707	586,707
Other comprehensive income for the period	-	-	-	-	-	-	(213,794)	-	-	-	(213,794)	(213,794)
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 July 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
Changes in equity for the six months ended 31 December 2010:												
Profit for the period	-	-	-	-	-	-	-	-	-	469,950	469,950	469,950
Other comprehensive income for the period	-	-	-	-	22,430	3,204	252,599	-	-	-	278,233	278,233
Total comprehensive income for the period	-	-	-	-	22,430	3,204	252,599	-	-	469,950	748,183	748,183
Transfer from retained profits	-	-	-	-	-	-	-	5,235	16,537	(21,772)	-	-
Release of reserve upon disposal of property	-	-	-	-	-	(19,418)	-	-	-	19,418	-	-
At 31 December 2010	7,283,341	282,930	6,589	100,000	22,415	4,718	(232,010)	11,802	73,636	5,798,382	6,068,462	13,351,803

Condensed Consolidated Cash Flow Statement
for the six months ended 30 June 2011 - unaudited

(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2011	2010
	Note	**HK$'000**	HK$'000
Cash generated from operations		**3,713,606**	13,891,971
Income tax paid		**(50,287)**	(5,939)
Net cash generated from operating activities		**3,663,319**	13,886,032
Net cash used in investing activities		**(85,717)**	(45,764)
Net cash (used in)/ generated from financing activities		**(317,269)**	3,678,906
Net increase in cash and cash equivalents		**3,260,333**	17,519,174
Cash and cash equivalents at 1 January		**30,903,532**	11,988,356
Cash and cash equivalents at 30 June	29	**34,163,865**	29,507,530

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 2010 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2011 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 2010 accounts except for the following:

The HKICPA has issued 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:

- HKAS 24 (revised 2009), *Related party disclosure*
- Improvements to HKFRSs (2010)
- HK(IFRIC) 19, *Extinguishing financial liabilities with equity instruments*
- Amendments to HK(IFRIC) 14, HKAS 19 - *The limit on a defined benefit asset, minimum funding requirements and their interaction - Prepayments of a minimum funding requirement*

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

The amendments to HK(IFRIC) 14 have had no material impact on the Group's financial statements as they were consistent with policies already adopted by the Group. HK(IFRIC) 19 has not yet had a material impact on the Group's financial statements as these changes will first be effective as and when the Group enters a relevant transaction (for example, a debtor for equity swap).

The remaining developments related primarily to clarification of certain disclosure requirements applicable to the Group's financial statements. These developments have had no material impact on the contents of this interim financial report.

(3) Segment Reporting

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

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

Retail banking business mainly comprises deposit account services, residential mortgage, other consumer lending, 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

	Six months ended 30 June 2011				
	Wholesale banking HK$'000	Retail banking HK$'000	Treasury and markets HK$'000	Others HK$'000	Consolidated HK$'000
Net interest income/(expense)	458,055	390,195	(104,723)	142,987	886,514
Other operating income	144,263	436,169	335,966	1,243	917,641
Net gain on disposal of available-for-sale securities	5	-	3,342	-	3,347
Operating income	602,323	826,364	234,585	144,230	1,807,502
Operating expenses	(116,185)	(229,649)	(29,737)	(404,533)	(780,104)
Inter-segment income/(expenses)	(83,070)	(110,202)	(33,477)	226,749	-
Operating profit/(loss) before impairment	403,068	486,513	171,371	(33,554)	1,027,398
Impairment losses written back/(charged for) on loans and advances and other accounts	68,474	5,479	-	(946)	73,007
Operating profit/(loss)	471,542	491,992	171,371	(34,500)	1,100,405
Net (loss)/ gain on disposal of property and equipment	-	(4)	-	14	10
Revaluation gain on investment properties	-	-	-	27,774	27,774
Profit/(loss) before taxation	471,542	491,988	171,371	(6,712)	1,128,189
Income tax	-	-	-	(180,081)	(180,081)
Profit/(loss) for the period	471,542	491,988	171,371	(186,793)	948,108
Other segment items:					
Depreciation	(4,600)	(7,086)	(54)	(30,535)	(42,275)
	At 30 June 2011				
Other segment items:					
Segment assets	59,085,772	34,008,764	61,920,197	(383,043)	154,631,690
Segment liabilities	61,836,593	59,114,887	22,238,345	(2,945,965)	140,243,860
Capital expenditure incurred during the period	44,909	17,559	1,365	24,434	88,267

(3) Segment Reporting (cont'd)

(a) Reportable segments (cont'd)

	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 (loss)/gain on disposal of property and equipment	(31)	(17)	-	110	62
Revaluation gain on investment properties	-	-	-	12,690	12,690
Profit/ (loss) 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 31 December 2010				
Other segment items:					
Segment assets	56,094,264	31,841,713	56,515,297	3,757,627	148,208,901
Segment liabilities	59,455,273	57,108,175	18,700,806	(407,156)	134,857,098
Capital expenditure incurred during the year	22,269	36,684	11,738	40,332	111,023

(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			
	2011	2010	**2011**	2010
	Profit before taxation	Profit/ (Loss)before taxation	**Operating income**	Operating income
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**1,039,767**	650,448	**1,611,468**	1,407,605
Mainland China	**68,065**	44,660	**126,974**	93,582
USA	**3,284**	(540)	**22,594**	16,618
Others	**6,209**	(276)	**46,400**	13,208
Inter-segment items	**10,864**	6,980	**66**	(122)
	1,128,189	701,272	**1,807,502**	1,530,891

	At 30 June 2011	At 31 December 2010	**At 30 June 2011**	At 31 December 2010
	Total assets	Total assets	**Total liabilities**	Total liabilities
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**146,915,838**	142,400,913	**133,100,194**	129,529,906
Mainland China	**10,373,982**	9,016,339	**8,913,376**	7,642,692
USA	**1,908,996**	1,558,498	**1,815,897**	1,452,247
Others	**6,049,299**	1,077,551	**6,020,604**	1,054,452
Inter-segment items	**(10,616,425)**	(5,844,400)	**(9,606,211)**	(4,822,199)
	154,631,690	148,208,901	**140,243,860**	134,857,098

(4) Interest Income

	Six months ended 30 June	
	2011	2010
	HK$'000	HK$'000
Listed securities	**19,012**	47,283
Unlisted securities	**210,985**	178,817
Others	**1,355,307**	1,148,316
	1,585,304	1,374,416

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 2011 and 30 June 2010.

Included in the above is interest income accrued on impaired financial assets of HK$16,877,000 (six months ended 30 June 2010: HK$12,831,000), which includes interest income on unwinding of discount on loan impairment losses of HK$6,728,000 (six months ended 30 June 2010: HK$714,000) for the six months ended 30 June 2011.

(5) Net Fee and Commission Income

	Six months ended 30 June	
	2011	2010
	HK$'000	HK$'000
Fee and commission income:		
Bills commission	**53,308**	35,008
Cards related income	**9,726**	10,261
General banking services	**35,646**	27,366
Insurance	**62,516**	61,660
Investment and structured investment products	**56,657**	46,700
Loans, overdrafts and facilities fee	**62,188**	159,920
Others	**361**	329
	280,402	341,244
Fee and commission expense	**(17,579)**	(14,913)
	262,823	326,331
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	**71,914**	170,181
- Fee and commission expense	**(7,070)**	(7,045)
	64,844	163,136

(6) Net Trading Income

	Six months ended 30 June 2011 HK$'000	2010 HK$'000
Gains less losses from dealing in foreign currencies	**193,783**	115,880
Gains less losses from trading securities	**1,302**	(27,228)
Gains less losses from other dealing activities	**191,795**	75,087
Interest income on trading assets		
- Unlisted	**-**	77
Interest expense on trading liabilities	**(12,425)**	(9,396)
	374,455	154,420

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

	Six months ended 30 June 2011 HK$'000	2010 HK$'000
Net gain	**2,215**	5,527
Interest income		
- Listed	**2,481**	2,477
- Unlisted	**9,235**	6,853
Interest expense	**(3,843)**	-
	10,088	14,857

(8) Net Hedging Loss

	Six months ended 30 June 2011 HK$'000	2010 HK$'000
Net loss on fair value hedge	**655**	730

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

	Six months ended 30 June 2011 HK$'000	2010 HK$'000
Net revaluation gain transferred from reserves	**4,147**	17,874
Net loss arising in current period	**(800)**	(2,313)
	3,347	15,561

(10) Other Operating Income

	Six months ended 30 June 2011 HK$'000	2010 HK$'000
Dividend income from available-for-sale equity securities		
- Listed	**29**	48
- Unlisted	**2,500**	3,260
Rental income from investment properties less direct outgoings of HK$64,000 (six months ended 30 June 2010: HK$66,000)	**2,762**	2,066
Others (note)	**265,639**	10,322
	270,930	15,696

Note:
Following the Lehman Brothers Special Financing Inc. ("Lehman Brothers"), the Trustee, the Receivers (as agents of the Issuer and without personal liability) and others reached into the Conditional Agreement on 28 March 2011 to settle opposing claims asserted by Lehman Brothers in respect of the recovery of collateral for Lehman Brothers Minibonds, the Conditional Agreement has been approved and proceeded to full implementation during the period ended 30 June 2011. The Bank had repurchased the Lehman Brothers Minibonds from customers during the years of 2008 and 2009. As a holder of the Lehman Brothers Minibonds, the Bank has been entitled to receive distributions under the Conditional Agreement.

Taking into account of the recovery payments of the Lehman Brothers Minibonds under the Conditional Agreement, the payments by the Bank pursuant to the Ex-gratia Payment Scheme and the increased funding under the Expenses Funding Agreement, the Bank has written back the amount of approximately HK$229,000,000 to the income statement during the period ended 30 June 2011, which represented the substantial recovery of the LB Minibonds compensation provisions of approximately HK$298,000,000 made in the years of 2008 and 2009.

(11) Operating Expenses

	Six months ended 30 June 2011 HK$'000	2010 HK$'000
(a) Staff costs		
Salaries and other staff costs	**454,924**	447,297
Retirement costs	**29,198**	24,514
	484,122	471,811
(b) Depreciation		
Depreciation of property and equipment		
- Assets held for use under operating leases	**6,650**	4,321
- Other assets	**35,625**	30,995
	42,275	35,316
(c) Other operating expenses		
Property and equipment expenses (excluding depreciation)		
- Rental of property	**75,817**	51,060
- Others	**50,517**	40,957
Auditors' remuneration	**2,831**	2,492
Advertising	**12,289**	20,792
Communication, printing and stationery	**33,118**	29,077
Legal and professional fee	**14,233**	16,547
Others	**64,902**	54,076
	253,707	215,001
Total operating expenses	**780,104**	722,128

Included in other operating expenses are minimum lease payment under operating leases of HK$839,000 (six months ended 30 June 2010: HK$649,000) for hire of equipment and HK$72,833,000 (six months ended 30 June 2010: HK$48,724,000) for hire of property and other assets for the six months ended 30 June 2011.

(12) Impairment losses written back/ (charged for) on loans and advances and other accounts

	Six months ended 30 June	
	2011	2010
	HK$'000	HK$'000
Impairment losses written back/ (charged for)		
- Loans and advances	**13,047**	(57,173)
- Other accounts	**59,960**	(63,076)
	73,007	(120,249)
Impairment losses written back/ (charged for) on loans and advances and other accounts		
- Individual assessment	**53,981**	(116,303)
- Collective assessment	**19,026**	(3,946)
	73,007	(120,249)
of which:		
- Additions	**(12,124)**	(147,330)
- Releases	**64,225**	14,950
- Recoveries	**20,906**	12,131
	73,007	(120,249)

(13) Income Tax in the Consolidated Income Statement

	Six months ended 30 June	
	2011	2010
	HK$'000	HK$'000
Current tax - Hong Kong Profits Tax		
Provision for the period	**162,804**	98,914
Under-provision in respect of prior periods	**4,723**	-
	167,527	98,914
Current tax - Overseas		
Provision for the period	**9,878**	13,897
Over-provision in respect of prior periods	**(2,318)**	(1,369)
	7,560	12,528
Deferred tax		
Origination of temporary differences	**4,994**	3,123
	180,081	114,565

The provision for Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 June 2010: 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 2011 HK$'000	At 31 December 2010 HK$'000
Cash in hand	**171,954**	185,482
Balances with central banks	**640,073**	906,542
Balances with banks	**17,142,378**	9,208,301
Balances with other financial institutions	**476,255**	10,924,797
	18,430,660	21,225,122

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

	At 30 June 2011 HK$'000	At 31 December 2010 HK$'000
Placements with banks	**13,772,507**	8,127,133
Advances to banks	**4,455,804**	4,101,993
	18,228,311	12,229,126
Maturing:		
- Within one month	**11,224,270**	6,879,447
- Between one month and one year	**5,791,578**	4,019,890
- Over one year	**1,212,463**	1,329,789
	18,228,311	12,229,126

There were no impaired advances to banks and other financial institutions at 30 June 2011 and 31 December 2010, nor were there any individually assessed impairment allowances made for them on these two respective dates.

(16) Trading Assets

	At 30 June 2011 HK$'000	At 31 December 2010 HK$'000
Equity securities	**2,891**	3,029
Investment funds	**2,813**	4,162
Trading securities	**5,704**	7,191
Positive fair values of derivatives (note 32(b))	**1,696,758**	1,626,466
	1,702,462	1,633,657
Issued by:		
Corporate entities	**5,704**	7,191
Analysed by place of listing:		
Listed outside Hong Kong	**2,891**	3,029
Unlisted	**2,813**	4,162
	5,704	7,191

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

	At 30 June 2011 HK$'000	At 31 December 2010 HK$'000
Certificates of deposit held	**197,389**	-
Debt securities	**673,362**	646,508
	870,751	646,508
Issued by:		
Sovereigns	**30,793**	29,729
Banks and other financial institutions	**701,749**	485,181
Corporate entities	**138,209**	131,598
	870,751	646,508
Analysed by place of listing:		
Listed outside Hong Kong	**80,480**	81,992
Unlisted	**790,271**	564,516
	870,751	646,508

(18) Loans and Advances to Customers and Other Accounts

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

	At 30 June 2011 HK$'000	At 31 December 2010 HK$'000
Gross loans and advances to customers	**93,919,650**	88,818,235
Impairment allowances		
- Individually assessed	**(264,192)**	(297,634)
- Collectively assessed	**(339,932)**	(359,960)
	93,315,526	88,160,641
Accrued interest and other accounts	**2,308,226**	2,619,750
Impairment allowances		
- Individually assessed	**(2,221)**	(65,711)
	2,306,005	2,554,039
	95,621,531	90,714,680
Included in loans and advances to customers are:		
Trade bills	**5,749,839**	1,658,060
Impairment allowances		
- Collectively assessed	**(1,209)**	(655)
	5,748,630	1,657,405

During the period ended 30 June 2011, an held-for-sale asset with a carrying value of HK$174,602,000 included in other accounts, which was acquired through recovery of an impaired loan, had been disposed of to an independent party through a share transfer agreement. Accordingly, the Group received an amount of approximately HK$268,500,000 net of related transaction costs. A reversal of impairment loss of approximately HK$58,078,000 and a net gain of approximately of HK$25,382,000 were recognised in the income statement.

(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 2011		At 31 December 2010	
	Gross loans and advances to customers HK$'000	**% of gross loans and advances to customers covered by collateral**	Gross loans and advances to customers HK$'000	% of gross loans and advances to customers covered by collateral
Industrial, commercial and financial				
- Property development	**4,000**	**100**	313,400	100
- Property investment	**12,397,083**	**99**	11,585,272	98
- Financial concerns	**3,721,023**	**59**	4,386,559	45
- Stockbrokers	**33,000**	**100**	182,000	7
- Wholesale and retail trade	**4,733,762**	**73**	9,189,862	34
- Manufacturing	**6,814,897**	**50**	9,490,999	39
- Transport and transport equipment	**2,816,676**	**74**	2,940,451	71
- Recreational activities	**275,700**	**74**	261,747	80
- Information technology	**16,965**	**43**	16,370	41
- Others	**2,434,748**	**52**	2,692,537	47
Individuals				
- Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**24,563**	**100**	25,806	100
- Loans for the purchase of other residential properties	**10,573,630**	**100**	10,912,294	100
- Credit card advances	**239,821**	**-**	267,441	-
- Others	**5,048,514**	**95**	4,430,096	95
Gross loans and advances for use in Hong Kong	**49,134,382**	**82**	56,694,834	69
Trade finance	**10,186,954**	**22**	7,360,087	25
Gross loans and advances for use outside Hong Kong	**34,598,314**	**39**	24,763,314	36
Gross loans and advances to customers	**93,919,650**	**60**	88,818,235	56

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

(c) Impaired loans and advances to customers

	At 30 June 2011 HK$'000	At 31 December 2010 HK$'000
Gross impaired loans and advances to customers	**1,199,079**	1,230,812
Impairment allowances - Individually assessed	**(264,192)**	(297,634)
	934,887	933,178
Gross impaired loans and advances as a % of total loans and advances to customers	**1.28%**	1.39%

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

Individually assessed impairment allowances were made after taking into account the realisable value of collateral in respect of such loans and advances of HK$330,467,000 (31 December 2010: HK$282,912,000) for the Group. This collateral mainly comprises mortgage interest over residential or commercial properties and cash placed 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 2011		
	Individual impairment allowances HK$'000	**Collective impairment allowances HK$'000**	**Impaired loans and advances to customers HK$'000**
Property investment	**-**	**1,048**	**-**
Loans for the purchase of other residential properties	**-**	**67**	**7,337**
Trade finance	**64,752**	**60,281**	**139,564**
Gross loans and advances for use outside Hong Kong	**140,539**	**84,025**	**896,548**
	205,291	**145,421**	**1,043,449**

	At 31 December 2010		
	Individual impairment allowances HK$'000	Collective impairment allowances HK$'000	Impaired loans and advances to customers HK$'000
Property investment	-	1,975	-
Wholesale and retail trade	18,337	69,472	43,769
Manufacturing	59,219	94,796	130,950
Loans for the purchase of other residential properties	865	85	13,793
Gross loans and advances for use outside Hong Kong	153,582	70,766	919,941
	232,003	237,094	1,108,453

(19) Available-for-sale Securities

	At 30 June 2011 HK$'000	At 31 December 2010 HK$'000
Certificates of deposit held	**2,385,533**	1,480,621
Debt securities	**13,990,563**	16,727,106
Treasury bills (including Exchange Fund Bills)	**2,459,667**	2,610,576
Equity securities	**42,904**	39,442
	18,878,667	20,857,745
Issued by:		
Sovereigns	**2,615,603**	2,771,218
Banks and other financial institutions	**12,542,601**	14,480,134
Corporate entities	**3,720,463**	3,606,393
	18,878,667	20,857,745
Analysed by place of listing:		
Listed outside Hong Kong	**196,351**	1,608,651
Unlisted	**18,682,316**	19,249,094
	18,878,667	20,857,745
Fair value of individually impaired debt securities	**139**	124

(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 2011	**159,250**	**641,814**	**785,450**	**1,586,514**
Additions	**-**	**-**	**88,267**	**88,267**
Disposals	**-**	**-**	**(2,185)**	**(2,185)**
Surplus on revaluation	**27,774**	**-**	**-**	**27,774**
Exchange adjustments	**-**	**-**	**2,349**	**2,349**
At 30 June 2011	**187,024**	**641,814**	**873,881**	**1,702,719**
The analysis of cost or valuation of the above assets is as follows:				
Cost	**-**	**624,217**	**873,881**	**1,498,098**
Valuation				
- 1985	**-**	**17,597**	**-**	**17,597**
- 2011	**187,024**	**-**	**-**	**187,024**
	187,024	**641,814**	**873,881**	**1,702,719**
At 1 January 2010	183,192	1,011,270	705,317	1,899,779
Additions	-	-	111,023	111,023
Disposals	(38,800)	(369,456)	(30,823)	(439,079)
Surplus on revaluation	14,858	-	-	14,858
Exchange adjustments	-	-	(67)	(67)
At 31 December 2010	159,250	641,814	785,450	1,586,514
The analysis of cost or valuation of the above assets is as follows:				
Cost	-	624,217	785,450	1,409,667
Valuation				-
- 1985	-	17,597	-	17,597
- 2010	159,250	-	-	159,250
	159,250	641,814	785,450	1,586,514
Accumulated depreciation:				
At 1 January 2011	**-**	**243,490**	**601,278**	**844,768**
Charge for the period	**-**	**7,043**	**35,232**	**42,275**
Written back on disposals	**-**	**-**	**(2,173)**	**(2,173)**
Exchange adjustments	**-**	**-**	**1,431**	**1,431**
At 30 June 2011	**-**	**250,533**	**635,768**	**886,301**
At 1 January 2010	-	301,148	570,292	871,440
Charge for the year	-	22,628	52,150	74,778
Written back on disposals	-	(80,286)	(20,880)	(101,166)
Exchange adjustments	-	-	(284)	(284)
At 31 December 2010	-	243,490	601,278	844,768
Net book value:				
At 30 June 2011	**187,024**	**391,281**	**238,113**	**816,418**
At 31 December 2010	159,250	398,324	184,172	741,746

(21) Deposits from Customers

	At 30 June 2011 HK$'000	At 31 December 2010 HK$'000
Demand deposits and current deposits	**13,148,200**	14,818,265
Savings deposits	**22,386,158**	24,472,934
Time, call and notice deposits	**77,356,385**	74,174,914
	112,890,743	113,466,113

(22) Trading Liabilities

	At 30 June 2011 HK$'000	At 31 December 2010 HK$'000
Negative fair value of derivatives (note 32(b))	**1,281,819**	1,477,528

(23) Certificates of Deposit Issued

	At 30 June 2011 HK$'000	At 31 December 2010 HK$'000
Designated at fair value through profit or loss	**776,552**	775,217
Non-trading	**9,018,313**	6,209,837
	9,794,865	6,985,054

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

The carrying amount of certificates of deposit issued designated at fair value through profit or loss at 30 June 2011 was HK$1,552,000 higher than the contractual amount at maturity (31 December 2010: HK$217,000 higher than the contractual amount at maturity), which was mainly attributable to changes in benchmark interest rate.

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

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

	At 30 June 2011 HK$'000	At 31 December 2010 HK$'000
Provision for Hong Kong Profits Tax for the period/year	**162,804**	88,073
Provisional Profits Tax paid	**(40,749)**	(136,551)
	122,055	(48,478)
Balance of Profits Tax provision relating to prior years	**(45,889)**	-
	76,166	(48,478)
Provision for overseas taxation	**5,861**	7,706
	82,027	(40,772)
Of which:		
Tax recoverable	**(628)**	(59,744)
Current taxation	**82,655**	18,972
	82,027	(40,772)

(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:

Deferred tax arising from:	**Depreciation allowances in excess of related depreciation HK$'000**	**Impairment allowances for loans and advances HK$'000**	**Revaluation adjustments for properties HK$'000**	**Revaluation adjustments for available-for-sale securities HK$'000**	**Tax losses HK$'000**	**Others HK$'000**	**Total HK$'000**
At 1 January 2011	**13,347**	**(58,464)**	**13,153**	**(45,854)**	**(385)**	**(20,173)**	**(98,376)**
Charged/(credited) to consolidated income statement (note 13)	**2,370**	**1,828**	**1,393**	**-**	**(20)**	**(577)**	**4,994**
Charged to reserves	**-**	**-**	**-**	**12,448**	**-**	**-**	**12,448**
Exchange and other adjustments	**(7)**	**(1)**	**(1)**	**-**	**-**	**(155)**	**(164)**
At 30 June 2011	**15,710**	**(56,637)**	**14,545**	**(33,406)**	**(405)**	**(20,905)**	**(81,098)**
At 1 January 2010	8,679	(52,038)	14,163	(53,514)	(1,414)	(15,513)	(99,637)
Charged/(credited) to consolidated income statement	4,663	(6,308)	2,194	-	1,029	(4,261)	(2,683)
Charged/(credited) to reserves	-	-	(3,204)	7,660	-	-	4,456
Exchange and other adjustments	5	(118)	-	-	-	(399)	(512)
At 31 December 2010	13,347	(58,464)	13,153	(45,854)	(385)	(20,173)	(98,376)

	At 30 June 2011 HK$'000	At 31 December 2010 HK$'000
Net deferred tax assets recognised on the consolidated statement of financial position	**(82,262)**	(100,573)
Net deferred tax liabilities recognised on the consolidated statement of financial position	**1,164**	2,197
	(81,098)	(98,376)

(c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$5,300,000 at 30 June 2011 (31 December 2010: HK$5,300,000), 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 2011 HK$'000	At 31 December 2010 HK$'000
Non-trading debt securities issued	**478,389**	231,900

(26) Other Liabilities

	At 30 June 2011 HK$'000	At 31 December 2010 HK$'000
Items in the course of transmission to other financial institutions	**1,676**	725
Accruals and other payables	**3,167,055**	3,060,508
	3,168,731	3,061,233

(27) Loan Capital

	At 30 June 2011 HK$'000	At 31 December 2010 HK$'000
Subordinated notes with US$250 million 9.125% *	**1,964,998**	1,972,153
Subordinated notes with US$250 million 1.75%+LIBOR rate **	**1,945,662**	1,943,529
Subordinated notes with US$500 million 6.875% ***	**3,953,414**	3,848,047
	7,864,074	7,763,729

* 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 2011 HK$'000	At 31 December 2010 HK$'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 2011, 30 June 2011 and 31 December 2010:		
7,283,341,176 (2010: 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 shareholders' meetings of the Bank. All ordinary shares rank equally with regard to the Bank's residual assets.

(ii) Shares issued during the period

There was no shares issuance during the period ended 30 June 2011.

(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 Mainland China, the Bank's wholly-owned PRC subsidiary bank, CITIC Bank International (China) Limited ("CBI (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 banking regulations of Mainland China, CBI (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 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 2011, HK$1,082,951,000 (31 December 2010: HK$732,504,000) 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 2011 HK$'000	At 30 June 2010 HK$'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	**18,430,660**	10,573,477
Placements with and advances to banks, central banks and other financial institutions with original maturity within three months	**13,336,626**	18,610,607
Treasury bills and certificates of deposit held with original maturity within three months:		
- Available-for-sale securities	**2,396,579**	323,446
	34,163,865	29,507,530
(ii) Reconciliation with the consolidated statement of financial position		
Cash and balances with banks, central banks and other financial institutions	**18,430,660**	10,573,477
Placements with and advances to banks, central banks and other financial institutions	**18,228,311**	24,111,020
Treasury bills and certificates of deposit held:		
- Available-for-sale securities	**4,845,200**	1,789,318
Amounts shown in the consolidated statement of financial position	**41,504,171**	36,473,815
Less : Amounts with an original maturity of over three months	**(7,340,306)**	(6,966,285)
Cash and cash equivalents in the consolidated cash flow statement	**34,163,865**	29,507,530

(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 2011

	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	18,430,660	18,430,660	-	-	-	-	-	-
Placements with and advances to banks, central banks and other financial institutions	18,228,311	-	11,224,270	2,964,891	2,826,687	650,818	561,645	-
Trading assets	1,702,462	1,696,758	-	-	-	-	-	5,704
Securities designated at fair value through profit or loss	870,751	-	391,742	100,386	273,274	60,850	-	44,499
Loans and advances to customers and other accounts	95,621,531	2,178,487	5,081,409	11,683,506	22,895,079	29,289,309	21,627,862	2,865,879
Available-for-sale securities	18,878,667	-	2,092,034	2,541,826	4,126,739	8,540,634	1,534,391	43,043
Tax recoverable	628	-	-	-	628	-	-	-
Undated assets	898,680	-	-	-	-	-	-	898,680
Total assets	154,631,690	22,305,905	18,789,455	17,290,609	30,122,407	38,541,611	23,723,898	3,857,805
Liabilities								
Deposits and balances of banks and other financial institutions	4,681,420	1,280,673	2,400,310	232,324	467,411	300,702	-	-
Deposits from customers	112,890,743	35,534,359	50,935,704	16,374,600	5,500,902	4,545,178	-	
Trading liabilities	1,281,819	1,281,819	-	-	-	-	-	-
Certificates of deposit issued	9,794,865	-	601,875	43,000	5,688,982	3,272,882	188,126	-
Debt securities issued	478,389	-	10,900	21,000	57,357	389,132	-	-
Loan capital	7,864,074	-	-	-	1,964,998	1,945,661	3,953,415	-
Current taxation	82,655	-	-	-	82,655	-	-	-
Other liabilities	3,168,731	253,774	1,675	-	-	-	-	2,913,282
Undated liabilities	1,164	-	-	-	-	-	-	1,164
Total liabilities	140,243,860	38,350,625	53,950,464	16,670,924	13,762,305	10,453,555	4,141,541	2,914,446
Asset - liability gap		(16,044,720)	(35,161,009)	619,685	16,360,102	28,088,056	19,582,357	

At 31 December 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	21,225,122	21,225,122	-	-	-	-	-	-
Placements with and advances to banks, central banks and other financial institutions	12,229,126	-	6,879,447	1,891,304	2,128,586	542,144	787,645	-
Trading assets	1,633,657	1,626,466	-	-	-	-	-	7,191
Securities designated at fair value through profit or loss	646,508	-	-	-	503,062	100,015	-	43,431
Loans and advances to customers and other accounts	90,714,680	1,744,503	3,723,930	9,863,830	20,473,993	31,099,247	20,828,444	2,980,733
Available-for-sale securities	20,857,745	-	1,035,522	6,152,194	5,957,813	6,162,270	1,510,379	39,567
Tax recoverable	59,744	-	-	-	59,744	-	-	-
Undated assets	842,319	-	-	-	-	-	-	842,319
Total assets	148,208,901	24,596,091	11,638,899	17,907,328	29,123,198	37,903,676	23,126,468	3,913,241
Liabilities								
Deposits and balances of banks and other financial institutions	1,850,372	369,489	438,061	272,094	301,725	469,003	-	-
Deposits from customers	113,466,113	39,291,199	44,577,905	19,039,528	7,031,421	3,526,060	-	-
Trading liabilities	1,477,528	1,477,528	-	-	-	-	-	-
Certificates of deposit issued	6,985,054	-	-	227,550	3,766,852	2,808,437	182,215	-
Debt securities issued	231,900	-	-	12,500	219,400	-	-	-
Loan capital	7,763,729	-	-	-	-	3,915,682	3,848,047	-
Current taxation	18,972	-	-	-	18,972	-	-	-
Other liabilities	3,061,233	253,436	725	-	-	-	-	2,807,072
Undated liabilities	2,197	-	-	-	-	-	-	2,197
Total liabilities	134,857,098	41,391,652	45,016,691	19,551,672	11,338,370	10,719,182	4,030,262	2,809,269
Asset - liability gap		(16,795,561)	(33,377,792)	(1,644,344)	17,784,828	27,184,494	19,096,206	

(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 (note(iii))		Fellow subsidiaries		Associates (note (i))		Related companies (note (ii))	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
					Six months ended 30 June					
Interest income	**-**	-	**-**	-	**10,281**	14,635	**3,873**	204	**66,344**	17,393
Interest expense	**(1,680)**	(5,834)	**(1,681)**	(1,309)	**(46,636)**	(15,638)	**(9,317)**	(4,097)	**(78,857)**	(17,965)
Other operating income	**-**	-	**131**	197	**-**	-	**22,050**	22,463	**-**	1,703
Operating expenses	**-**	-	**(4,932)**	(2,356)	**(2,305)**	(2,304)	**(1,487)**	(3,999)	**-**	-
Trading gain/(loss) on derivatives	**316**	-	**-**	-	**14,619**	(628)	**-**	-	**(6,716)**	41,968
					At 30 June 2011/ 31 December 2010					
Assets										
Available-for-sale securities	**-**	-	**-**	-	**-**	316,667	**-**	-	**1,052,611**	1,107,819
Derivative financial instruments	**866**	342	**-**	-	**14,701**	7,708	**-**	-	**117,726**	37,678
Other receivables	**-**	-	**253,774**	253,436	**2,045**	4,023	**2,604**	1,453	**26,351**	28,046
Liabilities										
Derivative financial instruments	**550**	1,050	**-**	-	**82**	23	**-**	-	**125,885**	135,196
Other payables	**172**	10	**6,271**	229	**39,049**	43,760	**4,246**	2,232	**45,196**	33,239
Loan capital	**-**	-	**-**	-	**880,212**	800,734	**-**	-	**2,988,451**	2,934,659
Lending activities:										
At 30 June/31 December	**-**	-	**-**	-	**385,917**	367,365	**296,498**	321,150	**8,767,777**	2,710,230
Average for the period/year	**-**	-	**-**	-	**376,777**	508,704	**360,452**	189,689	**6,808,291**	1,457,530
Acceptance of deposits:										
At 30 June/31 December	**573,534**	601,915	**437,515**	429,995	**4,047,958**	11,651,779	**3,125,927**	3,215,155	**184,185**	303,968
Average for the period/year	**578,379**	2,981,786	**431,362**	430,798	**6,755,666**	10,067,516	**3,126,381**	3,100,452	**162,386**	171,827
					At 30 June 2011/ 31 December 2010					
Off-statement of financial position items										
Acceptances, guarantees and letter of credit - contract amounts in receivable/ (payable)	**-**	-	**3,295,172**	889,359	**-**	(161)	**-**	(3,000)	**-**	-
Derivative financial instruments - notional amounts	**793,760**	1,904,823	**-**	-	**1,048,407**	446,707	**-**	-	**26,583,185**	20,909,228

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) Related companies referred to shareholders of the immediate parent, which exercise significant influence on the immediate parent.

(iii) Regarding the Group's capital notes investments issued by Farmington Finance Limited ("Farmington") which were fully impaired in 2010, the Group had entered into two credit default swaps ("CDS") with a notional value of US$456 million (equivalent to HK$ 3,548.9 million) in previous years 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.

In 2010, the Group had entered into a sub-underwriting agreement with its immediate parent, CITIC International Financial Holdings Limited ("CIFH"), where CIFH agreed to undertake any potential CDS loss to be borne by the Group under the CDS arrangement to the senior loan provider. This would be in the form of a reimbursement to the Group, up to an amount not exceeding US$147 million (equivalent to HK$1,142.8 million). During the period ended 30 June 2011, the Group has entered into another sub-underwriting agreement with CIFH, where CIFH agreed to undertake any CDS potential loss up to an additional amount not exceeding US$309 million (equivalent to HK$2,404.8 million). The total maximum potential CDS loss to be undertaken by CIFH of the two sub-underwriting agreements amounted to US$456 million (equivalent to HK$3,548.9 million). In consideration of CIFH's agreements herein for the above two sub-underwriting agreements, the Group has agreed to pay CIFH annual fees in an amount of approximately USD0.5million (equivalent to HK$4.2 million) for the period ended 30 June 2011.

During the period ended 30 June 2011, the Group started to negotiate with the senior loan provider on the settlement arrangement for the two CDS, but no conclusion has been reached yet. Subsequent to 30 June 2011, the senior loan provider arranged with the trustee to liquidate the Farmington investments as collaterals of the term loan by public auction in early August 2011. According to a notice of demand issued on 25 August 2011, the senior loan provider demands the Group to settle the CDS for an amount totalling US$208,648,560.66 (approximately HK$1,623.8 million). Due to the sub-underwriting arrangements with CIFH, there will be no net impact to the income statement of the Group.

(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	
	2011	2010
	HK$'000	HK$'000
Short-term employee benefits	**26,046**	20,087
Post-employment benefits	**1,254**	1,200
	27,300	21,287

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.

	2011	2010
	HK$'000	HK$'000
At 1 January	**9,416**	14,655
At 30 June 2011/ 31 December 2010	**14,064**	9,416
Maximum amount during the period/year	**14,668**	18,167

No impairment losses have been recorded against balances outstanding during the period with key management personnel, and no individually assessed impairment allowance has 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 2011				At 31 December 2010			
	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	**-**	**-**	**107,063,970**	**107,063,970**	-	-	109,088,547	109,088,547
Swaps	**-**	**287,216**	**69,954,507**	**70,241,723**	-	78,000	48,492,288	48,570,288
Options purchased	**-**	**-**	**14,291,391**	**14,291,391**	-	-	5,526,754	5,526,754
Options written	**-**	**-**	**14,235,406**	**14,235,406**	-	-	5,580,800	5,580,800
Interest rate derivatives								
Forwards and futures	**-**	**-**	**1,690,979**	**1,690,979**	-	-	-	-
Swaps	**6,134,455**	**775,000**	**45,258,241**	**52,167,696**	6,898,787	775,000	47,412,028	55,085,815
Options purchased	**-**	**-**	**274,598**	**274,598**	-	-	277,147	277,147
Options written	**-**	**-**	**274,598**	**274,598**	-	-	277,147	277,147
Equity derivatives								
Swaps	**-**	**-**	**178,514**	**178,514**	-	-	463,800	463,800
	6,134,455	**1,062,216**	**253,222,204**	**260,418,875**	6,898,787	853,000	217,118,511	224,870,298

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 2011			At 31 December 2010		
	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	**627,431**	**523,905**	**526,103**	700,257	657,502	627,776
Currency derivatives	**1,063,076**	**751,663**	**3,596,640**	919,819	813,636	2,303,093
Equity derivatives	**6,251**	**6,251**	**1,077**	6,390	6,390	22,037
	1,696,758	**1,281,819**	**4,123,820**	1,626,466	1,477,528	2,952,906
	(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 2010: 0% to 150%) for contingent liabilities and commitments, and from 0% to 150% (31 December 2010: 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 2011		At 31 December 2010	
	Fair value assets HK$'000	**Fair value liabilities HK$'000**	Fair value assets HK$'000	Fair value liabilities HK$'000
Interest rate contracts	**139,208**	**-**	56,119	46,342

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 2011 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	**54,407,871**	**16,593,389**	**33,743,159**	**4,071,323**
Currency derivatives	**205,832,490**	**128,058,673**	**77,773,817**	**-**
Equity derivatives	**178,514**	**178,514**	**-**	**-**
	260,418,875	**144,830,576**	**111,516,976**	**4,071,323**

	At 31 December 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	55,640,109	18,496,864	33,076,187	4,067,058
Currency derivatives	168,766,389	134,565,724	34,200,665	-
Equity derivatives	463,800	463,800	-	-
	224,870,298	153,526,388	67,276,852	4,067,058

(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 2011 HK$'000	At 31 December 2010 HK$'000
Direct credit substitutes	**5,182,324**	5,514,355
Transaction-related contingencies	**1,113,280**	394,540
Trade-related contingencies	**3,119,654**	1,840,502
Other commitments:		
- which are unconditionally cancellable or automatically cancellable due to deterioration in the creditworthiness of the borrower	**26,139,121**	21,470,921
- with an original maturity of not more than 1 year	**7,326,541**	9,295,373
- with an original maturity of more than 1 year	**3,451,597**	5,984,814
	46,332,517	44,500,505
Credit risk-weighted amounts	**9,278,015**	9,130,072

Contingent liabilities and commitments are credit-related instruments which include 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 2010: 0% to 150%).

As at 30 June 2011, the Group had a contingent asset of US$423.4 million (equivalent to HK$3,295.2 million) (31 December 2010: US$114.4 million (equivalent to HK$889.4 million)) for any potential CDS loss to be borne by the Group which could be reimbursed from its immediate parent, CIFH, in accordance with the terms of the two sub-underwriting agreements as disclosed in note 31(a) (iii) to the interim review report.

(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 2011 HK$'000	At 31 December 2010 HK$'000
Authorised and contracted for	**34,857**	43,885
Authorised but not contracted for	**15,400**	19,519
	50,257	63,404

(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.

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

(A) Summary of Financial Position

	At 30 June 2011 HK$'000	At 31 December 2010 HK$'000
Loans and advances to customers and trade bills	**93,919,650**	88,818,235
Impairment allowances	**604,124**	657,594
Total assets	**154,631,690**	148,208,901
Total deposits	**122,685,608**	120,451,167
Total equity attributable to equity shareholders of the Bank	**14,387,830**	13,351,803
Financial ratios		
Capital adequacy ratio	**20.3%**	19.0%
Core capital ratio	**11.9%**	11.2%
Average liquidity ratio for the period/year ended* (six months ended 30 June 2010: 39.7%)	**42.3%**	44.7%
Loans to deposits	**76.6%**	73.7%
Loans to total assets	**60.7%**	59.9%
Cost to income	**43.2%**	48.3%
Return on assets	**1.1%**	0.8%
Return on average total equity attributable to equity shareholders of the Bank	**12.1%**	8.2%

* 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 2011 HK$'000	At 31 December 2010 HK$'000
Core capital		
Paid up ordinary share capital	**7,283,341**	7,283,341
Share premium	**282,930**	282,930
Reserves	**4,785,785**	3,991,655
Profit and loss account	**948,021**	1,056,657
Less: Net deferred tax assets	**(81,098)**	(98,376)
Total core capital before deductions	**13,218,979**	12,516,207
Less: Deductions from core capital	**(4,593)**	(514,786)
Total core capital after deductions	**13,214,386**	12,001,421
Supplementary capital		
Regulatory reserve for general banking risks	**1,043,780**	732,504
Collectively assessed impairment allowances	**339,932**	359,960
Perpetual subordinated debt	**1,964,998**	1,972,153
Term subordinated debt	**5,899,076**	5,791,576
Total supplementary capital before deductions	**9,247,786**	8,856,193
Total eligible supplementary capital before deductions	**9,247,786**	8,856,193
Less: Deductions from supplementary capital items	**(4,593)**	(514,786)
Total supplementary capital after deductions	**9,243,193**	8,341,407
Total capital base after deductions	**22,457,579**	20,342,828
Total deductions from the core capital and supplementary capital	**9,186**	1,029,572
Risk-weighted amount		
- credit risk	**102,528,851**	99,703,001
- market risk	**2,425,563**	2,195,788
- operational risk	**5,698,713**	5,000,600
	110,653,127	106,899,389

The capital adequacy ratio ("CAR") and core capital ratio at 30 June 2011 and 31 December 2010, 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 Bank International (China) Limited
CKWB-SN Limited
Ka Wah International Services Limited
KWB Investment Limited
Ka Wah International Merchant Finance Limited

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 2011				
	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	**61,256,152**	**318,293**	**341,394**	**113,747**	**220,053**
Mainland China	**22,658,905**	**57,113**	**57,113**	**1,349**	**99,698**
USA	**1,389,665**	**-**	**-**	**-**	**2,128**
Others	**8,614,928**	**739,365**	**800,572**	**149,096**	**18,053**
	93,919,650	**1,114,771**	**1,199,079**	**264,192**	**339,932**

	At 31 December 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	59,947,840	307,795	349,791	133,449	229,106
Mainland China	19,626,028	78,498	56,132	1,461	90,087
USA	1,795,773	-	-	-	5,528
Others	7,448,594	744,438	824,889	162,724	35,239
	88,818,235	1,130,731	1,230,812	297,634	359,960

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 2011		At 31 December 2010	
	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	**85,040**	**0.09**	56,383	0.06
- 1 year or less but over 6 months	**24,998**	**0.03**	808,971	0.91
- over 1 year	**1,004,733**	**1.07**	265,377	0.30
	1,114,771	**1.19**	1,130,731	1.27
Secured overdue loans and advances	**273,599**		207,008	
Unsecured overdue loans and advances	**841,172**		923,723	
	1,114,771		1,130,731	
Market value of collateral held against the secured overdue loans and advances	**529,141**		384,033	
Individual impairment allowance made	**235,707**		241,294	

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.

Eligible collateral, which held in respect of the overdue loans and advances, is "Eligible Physical Collateral" which mainly comprises 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.

There were no advances to banks and other financial institutions which were overdue for over 3 months at 30 June 2011 and 31 December 2010.

(E) Other Overdue Assets

	At 30 June 2011 HK$'000	At 31 December 2010 HK$'000
Available-for-sale securities which have been overdue for:		
- over 1 year	**13,436**	13,421

(F) Rescheduled Loans

	At 30 June 2011		At 31 December 2010	
	HK$'000	**% of total loans and advances to customers**	HK$'000	% of total loans and advances to customers
Rescheduled loans	**254,868**	**0.27**	283,179	0.32

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 2011 and 31 December 2010.

(G) Repossessed Assets

	At 30 June 2011 HK$'000	At 31 December 2010 HK$'000
Included in loans and advances to customers and other accounts	**15,888**	4,000

The amount represents the estimated market value of the repossessed assets at 30 June 2011 and 31 December 2010.

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(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 2011			
	Banks and other financial institutions HK$'000	**Public sector entities HK$'000**	**Others HK$'000**	**Total HK$'000**
Asia and Pacific excluding Hong Kong	**24,369,463**	**235,031**	**21,656,521**	**46,261,015**
of which Mainland China	**18,719,524**	**69,779**	**17,438,951**	**36,228,254**
Western Europe	**13,479,099**	**2,875**	**2,846,998**	**16,328,972**
of which France	**3,551,540**	**-**	**11,973**	**3,563,513**
of which Spain	**1,827,739**	**-**	**1,032,164**	**2,859,903**
of which United Kingdom	**3,952,454**	**1,044**	**650,491**	**4,603,989**

	At 31 December 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	16,406,753	236,008	21,761,227	38,403,988
of which Australia	2,970,715	1,950	733,512	3,706,177
of which Mainland China	8,362,781	66,054	18,290,877	26,719,712
Western Europe	10,087,353	2,401	2,141,922	12,231,676
of which France	1,285,045	-	6,614	1,291,659
of which Netherlands	951,367	-	719,951	1,671,318
of which Spain	1,112,956	-	215,048	1,328,004
of which Switzerland	1,161,563	-	158,524	1,320,087
of which United Kingdom	2,580,236	971	567,109	3,148,316

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(I) Non-bank Mainland China Exposures

Non-bank Mainland China exposures are 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 2011			
	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	**16,535,110**	**8,271,273**	**24,806,383**	**11,048**
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	**26,039,618**	**14,802,498**	**40,842,116**	**35,600**
	42,574,728	**23,073,771**	**65,648,499**	**46,648**

	At 31 December 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	16,096,399	7,878,958	23,975,357	11,048
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	26,151,097	14,784,059	40,935,156	35,600
	42,247,496	22,663,017	64,910,513	46,648

(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, risk assets management, methodology & global risk management, and risk infrastructure & operational 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.

The comprehensive Risk Management Plan ("RMP") put in place since 2009 continues to implement 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. Internal Audit Department 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 2011, a total of HK$10 billion equivalent (31 December 2010: HK$7 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 2011, the Group's average liquidity ratio was 42.3% (for the year ended 2010: 44.7%). 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 limit 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	Not applicable
Interest rate	VaR and sensitivity	VaR and sensitivity
Commodity	VaR	Not applicable
Equity	VaR	Sensitivity
Credit spread	Not applicable	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 Approval Process". In this process, products meeting the new product definition will have to go through a "New Product Approval Process" in which all risk areas will be assessed by RMG. The decision to approve or disapprove the new product will be granted by RMG upon the completion of in-depth risk analysis.

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.

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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

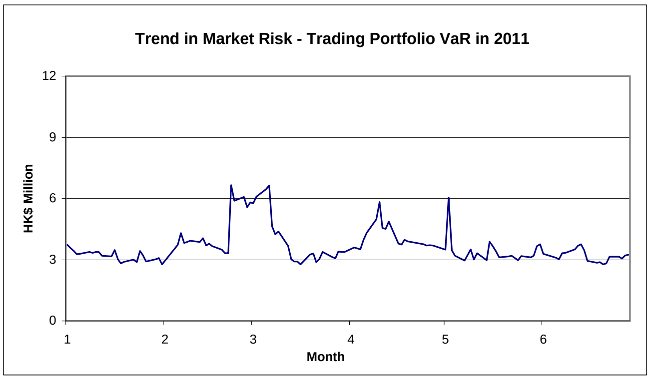
VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The model is designed to capture the different risk types including interest rate risk, foreign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

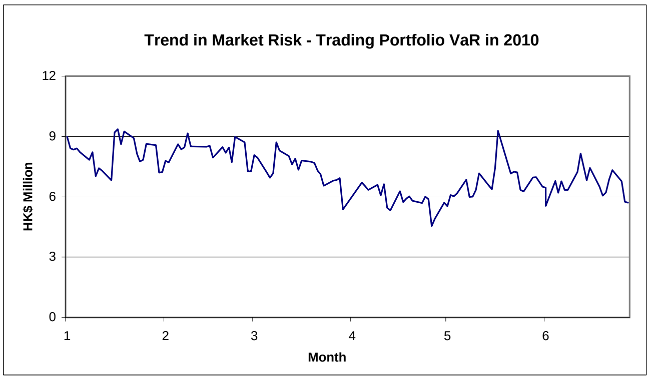
The VaR models used by the Group are based predominantly on historical simulation and Monte Carlo simulation is also used as a reference. These models derive plausible future scenarios from historical market rates and prices, taking into account correlation amongst different markets and rates such as 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:

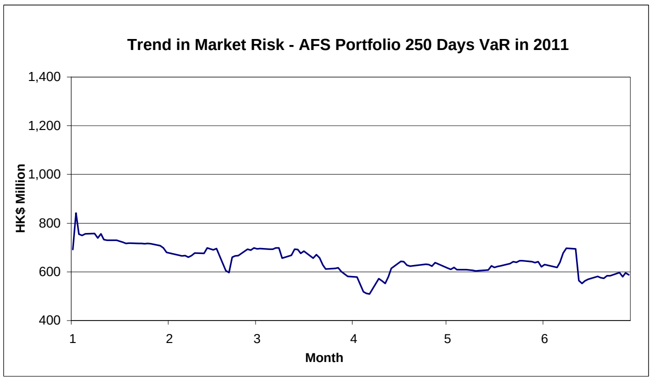
- potential market movements are calculated with reference to data from the last two years for the trading portfolios and AFS portfolios, including historical market rates, prices and the associated volatilities;

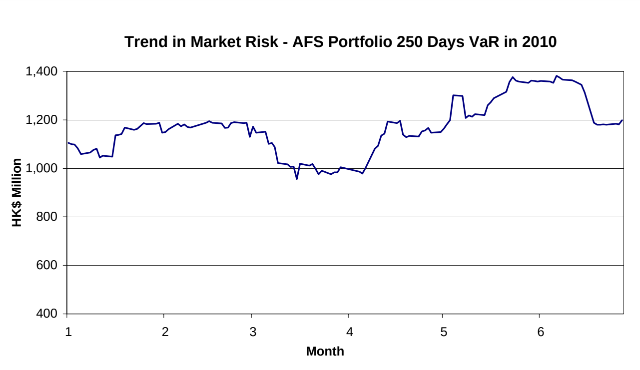
- for the trading portfolio, VaR is calculated with a 99-per cent confidence level and for a 1-day holding period;





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





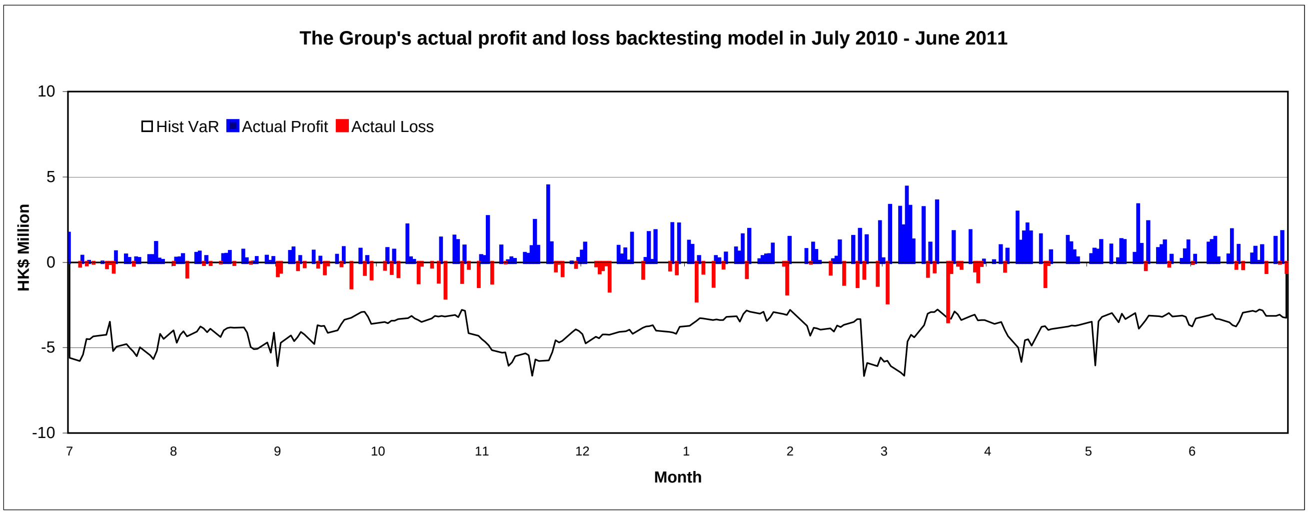
(J) Risk Management (cont'd)

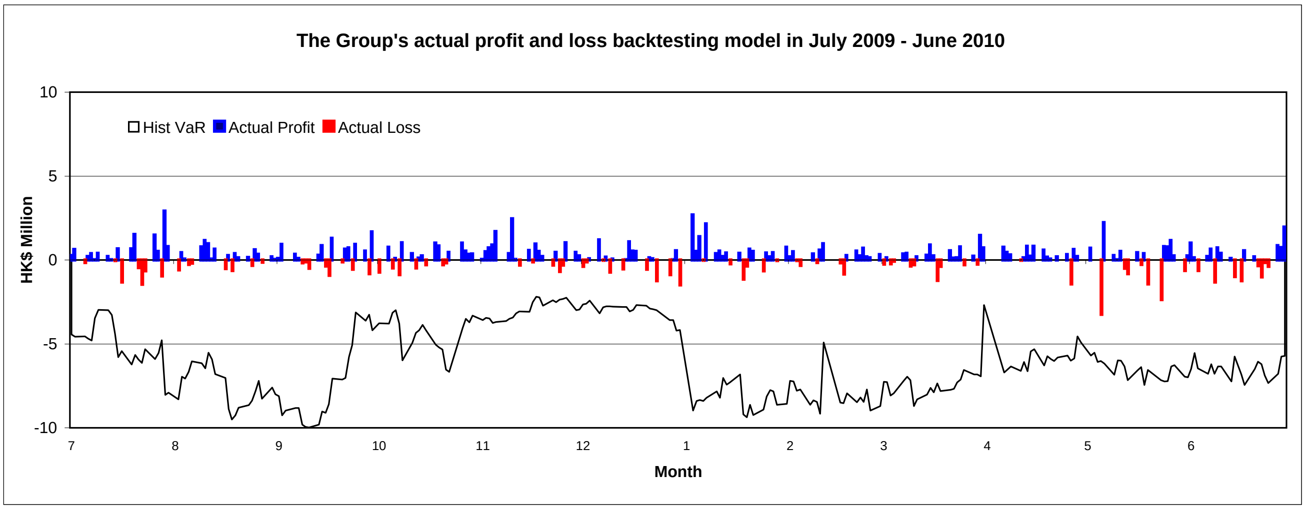
(iii) Market risk management (cont'd)

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

Value at risk (cont'd)

- backtesting, 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 1 July 2010 to 30 June 2011, there is one exception (2 July 2009 to 30 June 2010: 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.

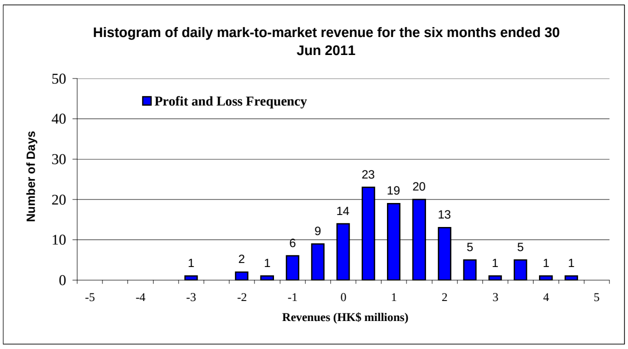
(J) Risk Management (cont'd)

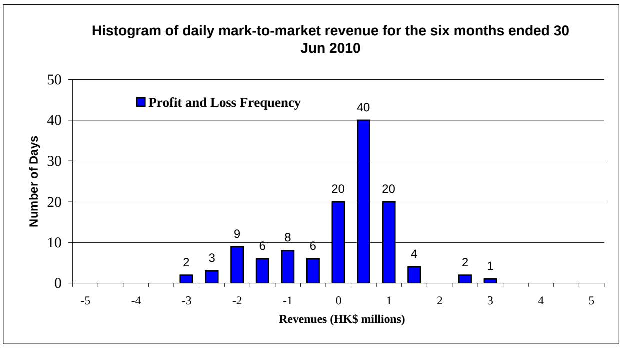
(iii) Market risk management (cont'd)

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

Value at risk (cont'd)

For the six months ended 30 June 2011, the average daily mark-to-market revenue from the Group's trading portfolio and fund investments (excluding structured investment vehicles) was a gain of HK$661,000 (six months ended 30 June 2010: a loss of HK$232,000). The standard deviation of the daily revenue was HK$1,271,000 (six months ended 30 June 2010: HK$1,136,000). The graphs below show the histograms of the Group's daily mark-to-market revenue for the six months ended 30 June 2011 and 2010 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 2011				Six months ended 30 June 2010			
	Maximum	**Minimum**	**Mean**	**At 30 June 2011**	Maximum	Minimum	Mean	At 30 June 2010
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000	HK$'000
Foreign exchange risk	**4,103**	**880**	**1,973**	**1,831**	3,577	263	1,240	335
Interest rate risk	**6,055**	**646**	**1,934**	**1,577**	10,712	2,747	7,370	5,907
Total VaR	**6,662**	**2,767**	**3,676**	**3,246**	9,368	4,548	7,186	5,707

Market Risk for the AFS Portfolio

	Six months ended 30 June 2011				Six months ended 30 June 2010			
	Maximum	**Minimum**	**Mean**	**At 30 June 2011**	Maximum	Minimum	Mean	At 30 June 2010
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000	HK$'000
Interest rate risk	**215,650**	**150,654**	**190,064**	**152,396**	704,930	394,240	549,534	665,935
Credit spread risk	**739,489**	**483,767**	**596,314**	**523,404**	1,290,596	881,034	1,086,969	1,108,743
Total 250-day VaR	**840,933**	**509,523**	**649,791**	**588,474**	1,381,291	956,317	1,167,476	1,198,803

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 HK dollar and US dollar 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 2011 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 and has developed 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 2011, the Group's average daily trading profit and loss from foreign exchange positions was a gain of HK$387,000 (six months ended 30 June 2010: a gain of HK$77,000) with a standard deviation of HK$848,000 (six months ended 30 June 2010: HK$249,000).

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

	At 30 June 2011			
Equivalent in HK$'000	**USD**	**RMB**	**Others**	**Total**
Spot assets	**51,611,026**	**24,705,485**	**5,552,009**	**81,868,520**
Spot liabilities	**(32,618,869)**	**(21,751,813)**	**(13,557,464)**	**(67,928,146)**
Forward purchases	**72,702,935**	**44,648,769**	**20,536,981**	**137,888,685**
Forward sales	**(90,926,884)**	**(47,054,531)**	**(12,538,601)**	**(150,520,016)**
Net option position	**(11,547)**	**-**	**16,916**	**5,369**
Net long position	**756,661**	**547,910**	**9,841**	**1,314,412**
Net structural position	**-**	**601,875**	**48,545**	**650,420**

	At 31 December 2010			
Equivalent in HK$'000	USD	RMB	Others	Total
Spot assets	52,053,543	13,545,912	3,866,923	69,466,378
Spot liabilities	(35,441,270)	(9,597,738)	(10,928,279)	(55,967,287)
Forward purchases	68,147,181	42,123,945	13,801,988	124,073,114
Forward sales	(84,304,550)	(45,427,531)	(6,753,175)	(136,485,256)
Net option position	(1,011)	-	6,369	5,358
Net long/(short) position	453,893	644,588	(6,174)	1,092,307
Net structural position	-	236,058	48,489	284,547

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 ("the 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 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 2011, the Group's average daily trading profit and loss from interest rate positions was a gain of HK$222,000 (six months ended 30 June 2010: a gain of HK$53,000) with a standard deviation of HK$999,000 (six months ended 30 June 2010: HK$691,000).

(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 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 2011 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 2011 and the year ended 31 December 2010, 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 risks are 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.

It is the primary responsibility of the line management of business and functional units for the day-to-day management of existing, new and emerging operational risks. Operational Risk Management Team, an independent unit within the Risk Management Group, designs and promotes the implementation of the operational risk management methodology and tools as well as furnish senior management with Operational risk reports.

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

- The Group’s operational risk management framework is established and governed by the Group Operational Risk Management Policy.

- The Group’s operational risk incidents and losses are monitored and reported through the Incident Reporting System and the relevant management reports to the senior management.

- The Group’s potential operational risk factors are assessed through the Operational Risk Self Assessment exercises to be conducted by business and functional units to facilitate their identifying, assessing and mitigating the potential operational risk.

- The operational risk profile of the Group’s operation units is evaluated and monitored through the Key Risk Indicators (“KRI”) Report.

- New Product Approval (“NPA”) Process is in place to ensure that new products and services of the Group are identified and analysed by various functional units to ensure that adequate staff, processes, and technology are in place and risks related to the new products and services are fully identified, analysed, understood and addressed before approval by the Group’s senior management prior to the launching.

- 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.

- 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 Internal Audit Department on an on-going basis. The audits cover all material controls, including financial, operational and compliance controls as well as risk management functions.

Leveraged on the expertise and guidance from Banco Bilbao Vizcaya Argentina, S.A. (“BBVA”), the strategic investor of the Group, the Group has been rigorously enhancing its operational risk management framework, with objectives to achieve an International Standard on Operational Risk Management. The Group will continuously review and enhance its key operational risk management tools, encompassing the Loss Database, Self-Assessment and KRI to ensure adequate quantitative metrics are in place to facilitate the Group in monitoring both the existing and potential magnitude of operational risk inherent in its operations.

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, enhance its systems and processes to create awareness of new requirements and implement changes as necessary. Policies and procedures, reflecting relevant legal and regulatory requirements, are regularly reviewed. Policies and procedures are promulgated through internal communications and are often accompanied by relevant training. There is a strong process in place to ensure legal and regulatory risks are identified, monitored and mitigated. Any significant failings are reported by the legal and compliance functions to the Group's Audit Committee, Credit and Risk Management 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 2011, LD and CD were actively involved in launching new products and new business, strategically important transactions and commercial agreements, outsourcing arrangements as well as day-to-day matters arising from the Group business that is diverse both geographically and in scope. CD has also been heavily involved in monitoring and ensuring compliance with fast changing regulatory requirements in the areas of investor and customer data protection. LD and CD in the second half of 2011 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.

Report of the Chief Executive Officer

Operating Environment

Hong Kong's economy continued to forge ahead in the first half of 2011. The credit market grew significantly on strong domestic consumption and robust business activity. Improved economic and employment conditions led to increased demand for wealth management products, with credit quality staying at a relatively high level. The rapid development of the offshore RMB market in Hong Kong, backed by the Chinese central government's strong policy support, resulted in sharp growth in RMB-related business and trade transactions. All these factors combined to create a favourable operating environment for banks in Hong Kong.

However, Europe's debt crisis escalated again and the US economy remained sluggish, raising uncertainties over the global economic recovery. China's continuous macro policy adjustment measures to combat an overheated economy impacted liquidity in Hong Kong. The cost of funding increased considerably as a result of intensified competition for deposits among local banks. These unfavourable conditions, together with an increasingly tight employment market and rising inflation, presented new challenges to the banking industry.

CITIC Bank International Limited ("CBI" or "the Bank") seized the opportunities arising from Hong Kong's robust economy and the rapid growth of offshore RMB business in the first half of 2011 to drive business expansion and enhance profitability. Two major business moves were executed according to the Bank's strategic directions during the period. In early April, the Bank officially opened its Singapore Branch gaining a strategic foothold for expansion into the ASEAN region. CBI also pioneered a brand-new private banking service in Hong Kong in late April, establishing a one-stop onshore and offshore private banking platform together with its parent bank, China CITIC Bank Corporation Limited ("CNCB"). Not only have these strategic moves embodied the Bank's role as CNCB Group's offshore platform for international expansion, but will also facilitate CBI's venture into new businesses of great potential for steady and continuous growth in the long run.

Business Performance

Earnings

CBI actively sought new business development in the first half of 2011 against the backdrop of a favourable economic setting in Mainland China and Hong Kong. In particular, leveraging on its leadership in RMB business to grasp the opportunities arising from the rapid development of Hong Kong's offshore RMB businesses, the Bank strengthened collaboration with CNCB to capitalise on its extensive network and customer base in Mainland China. This collaboration enabled CBI to provide timely and diversified RMB products and services that effectively met the investment and hedging needs of customers and propelled an increase in non-interest income. This in turn helped offset the adverse impact of the drop in net interest income on rising funding costs, and also supported continuous growth in the Bank's overall income and earnings. During the period, the Bank's operating income rose by 18.1% year-on-year to HK$1,808 million, while its operating profit before impairment increased by 27.0% to HK$1,027 million.

The Bank has strived to upgrade its risk management standards over the past two years by leveraging on the management expertise of its strategic shareholder, Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA"). It has put in place a comprehensive Risk Management Plan which effectively improved asset quality. This contributed to continuous improvement in impairment provisions. In the first half of 2011, the Bank registered a net write-back of HK$73 million in impairment provisions compared to net impairment losses of HK$120 million during the same period last year. In addition, with HK$28 million in revaluation gain on investment properties, the Bank's profit before taxation increased by 60.9% year-on-year to HK$1,128 million while profit attributable to shareholders surged by 61.6% to HK$948 million as compared to the same period last year. Both figures hit a historical high for the Bank's half-year business performance.

Net Interest Income

In the first half of 2011, the Bank maintained healthy loan growth with total loans up by 5.7% as compared to year-end 2010. Coupled with the continuous positive effect of the repricing of corporate loan portfolio, this helped to boost interest income by 15.3% year-on-year. However, fierce competition for customer deposits among local banks significantly pushed up funding costs. As a result, net interest income dropped by 11.8% to HK$887 million during the period. Net interest margin was also affected by rising deposit rates and contracted 46 basis points year-on-year to 1.23%.

Non-Interest Income

During the period, the Bank's non-interest income grew significantly by 75.1% year-on-year to HK$921 million. The growth was partly due to the effective cross-selling of treasury products by Treasury & Markets Group and close collaboration with Wholesale Banking Group and Retail Banking Group to meet surging demand for offshore RMB products, which drove related income up 185.5% year-on-year. In addition, customer demand for wealth management products continued to rebound, resulting in a 13.9% year-on-year increase in related income, while trade bills commission income grew significantly by 52.3%. All of these factors were key drivers for growth in non-interest income. Separately, the Bank, together with 15 other banks, reached an agreement with relevant parties on the Final Resolution Proposal for Lehman Brothers Minibonds in March this year. As a result of this agreement, the Bank made a one-off write-back from the recovery of Lehman Brothers Minibonds collateral, which was also reflected in its non-interest income during the period.

Operating Expenses

In the first half of 2011, the Bank progressively pursued various new business initiatives, and its Singapore Branch also officially came into operation. As a result, more resources have been allocated to manpower, systems, and equipment. Coupled with upward adjustment pressure on wages and rental of premises, operating expenses rose 8.0% year-on-year during the period to HK$780 million. Nonetheless, helped by strong growth in operating income, the Bank's cost to income ratio dropped to 43.2%, down from 47.2% recorded in the first half of 2010.

Impairment Allowances

Due to stringent asset quality control, the Bank registered a net write-back in loans and advances and other accounts totalling HK$73 million during the period. This compared with net impairment losses of HK$120 million during the same period last year. The net write-back in individually assessed loans and collectively assessed loans amounted to HK$37 million and HK$15 million respectively, compared with a net charge-off of HK$124 million and HK$8 million respectively during the same period last year. Bad debt recoveries increased by 72.3% year-on-year to HK$21 million.

Asset Quality

Asset, Loan, and Deposit Sizes

In view of the fierce competition for customer deposits among local banks, the Bank focused its efforts on enhancing its asset and liability management by aligning loan and deposit growth momentum in the first half of 2011 in order to improve yield and ensure ample liquidity. As at end-June 2011, total loans rose moderately by 5.7% to HK$93.9 billion as compared to year-end 2010, while total assets increased by 4.3% to HK$154.6 billion. Meanwhile, the Bank's roll-out of an expanded variety of customer-driven deposit products effectively alleviated the adverse impact caused by the competition for customer deposits among local banks. As a result, total deposits rose slightly by 1.9% to HK$122.7 billion as compared to year-end 2010.

Asset Quality Indicators

As at end-June 2011, the impaired loan ratio dropped to 1.28% from 1.62% as at end-June 2010 and 1.39% as at end-December 2010, reflecting the impact of stringent asset quality control. Separately, the quality of the Bank's mortgage portfolio also continued to perform better than the industry average.

Financial Position

To support its rapid business growth and respond to tighter regulation and rising capital requirements for the global banking sector, the Bank believes that maintaining its capital adequacy ratio at a relatively strong level is conducive to long-term development. As at end-June 2011, the capital adequacy ratio stood at 20.3%. This represented an increase of more than one percentage point compared to 19.0% recorded as at year-end 2010. Meanwhile, despite tightening market liquidity, the roll-out of a series of successful customer deposit 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 42.3% and 76.6% respectively as at end-June 2011.

CBI's Key Financial Ratios

	30 June 2011	**31 December 2010**
Capital adequacy	20.3%	19.0%
Core capital adequacy	11.9%	11.2%
Average liquidity	42.3%	44.7%
Loans to deposits	76.6%	73.7%
Loans to total assets	60.7%	59.9%
Impaired loans	1.28%	1.39%
Coverage[1]	46.3%	45.5%
Loan loss coverage	50.4%	53.4%
Mainland loans to total customer advances	24.1%	22.1%

[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")

Driven by rapid economic growth in Hong Kong and focused efforts on business expansion, RBG continued to deliver robust results in the first half of 2011. As at end-June 2011, total retail lending reached HK$33.5 billion, representing a 7.0% increase over year-end 2010. RBG's efforts to expand the Bank's branch network and strengthen its capabilities in alternative distribution channels contributed to a 3.4% growth in retail deposits to HK$54.1 billion during the period, despite fierce competition for customer deposits. Although net interest income declined 7.4% year-on-year to HK$390 million due to increasing funding costs, non-interest income surged 130.0% over the previous year to HK$436 million, on the back of the write-back from Lehman Brothers Minibonds and the outstanding performance of wealth management business, which registered significant revenue growth from currency-linked deposits, foreign exchange and unit trust products.

Operating expenses rose 19.5% year-on-year to HK$340 million, due primarily to increased investments in frontline manpower and branch network expansion in support of various new initiatives including the launch of private banking service. RBG's asset quality remained strong and there was a write-back of HK$5.5 million in credit cost for the first half of 2011. Overall, RBG delivered a 50.3% year-on-year growth in profit before taxation, which amounted to HK$492 million.

CITIC*first* customer base continued to record encouraging growth. As at end-June 2011, the total number of CITIC*first* customers expanded by 11.3% since year-end 2010 to about 18,900. Total customer assets under management by CITIC*first* grew by 8.5% to HK$53.9 billion.

The Bank officially launched its private banking service in April 2011 in a move to build a highly competitive CITIC private banking platform in Hong Kong. Riding on the solid strengths and market insights arising from the huge synergy created through the collaboration between the Bank and its parent, CNCB, its private banking service encompasses an array of premium wealth management solutions to meet the needs of high net worth individuals and entrepreneurs in Mainland China and Hong Kong. CBI Private Banking's Chinese roots continue to be reflected in an investment philosophy that values stability as the foundation of success. It has been warmly received by customers since its launch. Strategic targets set for private banking service including customer acquisition and assets under management were on track as at end-June 2011.

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

WBG followed through with the business model put in place in early 2010 and achieved record profit before taxation in the first half of 2011, with a 31.1% year-on-year growth. Delivering consistent results centred around new customer acquisition, core relationships strengthening, revenue diversification, product capability upgrade, operational efficiency and productivity enhancement, as well as prudent risk management.

Through the addition of new customers and the offering of market-responsive solutions to core relationships, WBG managed to place less reliance on conventional lending income and increase the contribution of non-lending fee income (including treasury income) to total income to 37.8% in the first half of 2011, up from 15.7% in 2010. Treasury income, in particular, was exceedingly strong and almost tripled when compared to the same period last year.

To remain customer centric in its service, WBG continued to invest in product development and delivery channels, with satisfactory progress made in Transaction Banking, Global Markets, and Structured Finance and Syndication. Close collaboration with CITIC Group entities and CNCB allowed WBG to develop timely and innovative products to capture the unique window of opportunity arising from cross-border business growth and RMB internationalisation. As at end-June 2011, WBG's RMB deposits increased by 264.5% when compared to year-end 2010, while RMB cross-border trade settlement was up by 366.0% year-on-year. Above all, WBG, in collaboration with BBVA, was successful in underwriting its first RMB bond in Hong Kong in February 2011.

WBG continued to manage and maximise its balance sheet resources within parameters established to strike a healthy balance between risk and return. Record profit before taxation was partly attributable to a reduction in credit cost resulting from improved risk management practices.

China Banking

In the first half of 2011, the Bank further strengthened cross-border business collaboration with its parent bank, CNCB and its ultimate parent company, CITIC Group, which led to a breakthrough in the development of RMB business and product innovation. During the period, a number of new RMB products were developed, including RMB refinancing for CNCB and other banks, RMB letter of credit ("LC") discounting for corporate clients, and RMB standby letter of credit ("SBLC") as a guarantee for foreign currency loans to corporate clients. The yield from RMB deposits with CNCB was also enhanced as a result.

As the international platform of CNCB, the Bank spearheaded SBLC loans and 3-in-1 loans via its New York Branch and Singapore Branch to CNCB clients, and distributed its exposure with CNCB to other banks through syndication and LC confirmation.

In its role as the offshore corporate banking platform for CITIC Group, the Bank completed a number of major transactions for CITIC Group's subsidiaries as well as their downstream and upstream companies in the first half of this year. These included a HK$500 million syndication deal for CITIC United Asia in partnership with Malay Bank and China Merchants Bank; 3 entrusted loans totalling RMB160 million on behalf of CITIC Capital Real Estate Funds III; 2 lease receivable purchasing loans totalling RMB150 million to the business partners of CITIC Fu Tong; and US$40 million worth of structured loans for projects undertaken by CITIC Private Equities.

CITIC Bank International (China) Limited continued to enhance its function as an onshore platform for the Bank's cross-border business. During the period, it strengthened its ties with the Bank's Hong Kong teams, and played an instrumental role in developing and concluding many of the aforementioned products and transactions. In particular, it developed a series of new products including Domestic LC Refinancing, Domestic LC Refinancing & Confirmation, Domestic RMB Telegraphic Transfer ("TT") Refinancing, and Domestic USD TT Refinancing, which resulted in the remarkable growth in its financial institutions business.

Treasury and Markets Group ("TMG")

TMG recorded encouraging results in the first half of 2011 with further expansion into RMB business and the provision of timely RMB products catering to specific needs of customers, riding on the spectacular growth of Hong Kong's offshore RMB market. Driven by sharp income growth from RMB product sales, the fee income from cross-selling of Global Markets Division's treasury products reached HK$198 million, up 185.5% year-on-year. As a result, TMG reported record profit before taxation of HK$171 million in the first half of this year, representing an increase of 45.5% over the same period last year.

In order to strengthen its distribution capability, TMG further expanded its structuring team to enrich product development for the Global Markets business during the period. A wide range of structured products developed by in-house specialists were introduced to customers. Sales revenue derived from structured products grew by 609.1% year-on-year, raising its contribution to 37.2% of the total revenue of Global Markets Division.

TMG successfully extended its debt capital market capabilities through close collaboration with its strategic shareholder, BBVA and acted as co-lead manager for the issue of two RMB dim sum bonds for its corporate clients in the first half of this year. The Bank also participated in Hong Kong's first RMB REIT IPO in partnership with CITIC Securities International as a nominee bank for the international tranche. Meanwhile, CBI actively expanded its presence in Hong Kong's offshore RMB ("CNH") market and became one of the most active market makers, taking a 15% share of the CNH interbank foreign exchange market.

In the area of central treasury management, rising funding costs and tightening of credit spreads adversely affected the performance of the Bank's investment securities portfolio during the period. On the positive side, TMG effectively raised returns on the Bank's RMB holdings with a series of strategic moves. In addition to further expansion of the RMB trade financing loan portfolio, the Bank took advantage of the tight liquidity conditions in China's onshore funding market to generate better interest returns from its RMB clearing balances with Mainland financial institutions.

Risk Management

The economic environment for the first half of 2011 was filled with uncertainties. Amidst this volatile climate, Risk Management Group focused its efforts on tightening underwriting practices, rigorous risk reviews, managing vulnerable portfolios, improving the Bank's investment strategy, and refining critical risk tools and methodologies through the implementation of its comprehensive Risk Management Plan ("RMP").

The Bank continued to leverage on the comprehensive risk management intelligence of its strategic shareholder, BBVA. The comprehensive RMP, which incorporates the expertise of BBVA, aims to create a world-class risk infrastructure to identify, quantify, monitor, and mitigate the risks of the Bank and facilitate value creation whilst preserving financial strength. The plan focuses on ensuring that appropriate tools, methodologies, and processes are in place in key risk areas to meet the highest possible standard on risk management under the Basel framework.

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 the strategies, risk systems, policies, and exposures of the Bank. 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 Department conducts regular independent reviews of the Bank's risk management practices to ensure compliance with internal policies as well as regulatory requirements.

The strategic collaboration between the Bank, CNCB, and BBVA, is well established with a substantial focus on achieving synergy in the risk management area. Ongoing risk knowledge sharing and skills transfer have contributed significantly to the establishment of a more advanced risk management model and best practices.

Future Outlook

With many developed economies in Europe and the US facing continuous internal economic uncertainties, global recovery will depend largely on the growth of emerging economies in Asia. China, being the largest economy in the region, will continue to see strong economic growth in spite of challenges from an overheated economy and rising inflation. The economic outlook for Hong Kong is also cautiously optimistic, given the city's resilience to external shocks with its sound and well-established financial system as well as the strong support of Mainland China.

More importantly, Hong Kong's development as an offshore RMB centre is taking shape and continues to gain momentum. The RMB market in Hong Kong is growing at a stunning pace as a result of the massive demand for offshore RMB products and services in Hong Kong and Mainland China as well as across the globe. This will provide a fresh impetus for the continuous development of Hong Kong's financial industry.

Looking forward, the Bank will continue to leverage its leadership in RMB business and invest 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 support of retail banking business development, the Bank will open more branches in the second half of this year to extend its retail branch network in Hong Kong. To further its overseas expansion, CBI is in the process of setting up a representative office in Australia. Trade and commercial activities between Australia and China have witnessed strong growth in recent years, giving rise to more cross-border business opportunities. After Singapore, Australia will become another stronghold for the Bank to drive CNCB Group's international expansion. The Bank is confident that its regional footprint and business growth strategies will significantly enhance its capability to better serve Hong Kong, Mainland China, and regional customers with business needs and aspirations in the region.

Chan Hui Dor Lam Doreen
Chief Executive Officer
Hong Kong, 29 August 2011