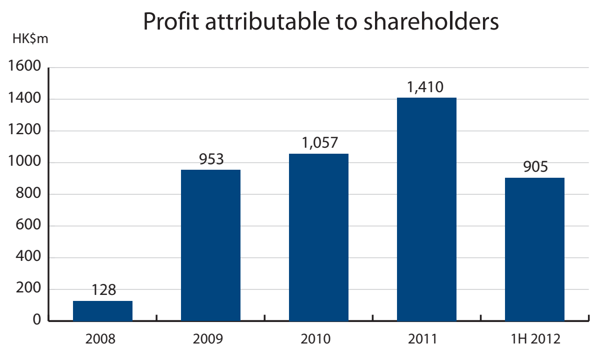
Continuing Transformation and Innovation

中信銀行國際
CITIC BANK INTERNATIONAL

2012 Interim Results Highlights

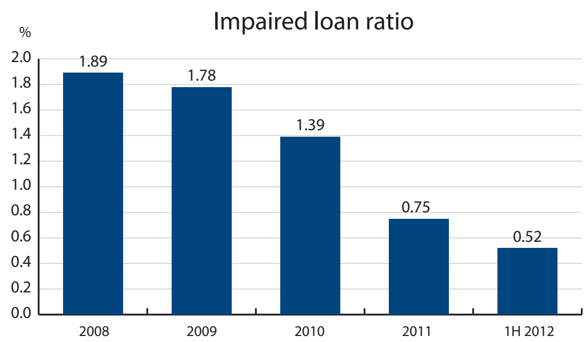
Results Highlights

- Net interest income up significantly by 24.0% to HK$1,099 million
- Non-interest income was HK$770 million. Excluding two one-off incomes in the first half of 2011, non-interest income would have increased by 15.6%
- Net impairment losses of merely HK$7 million
- Profit attributable to shareholders reached HK$905 million. Excluding the aforementioned two one-off incomes, profit attributable to shareholders would have increased by 31.2%



Robust Financial Position

- Total loans and total assets reached HK$93.8 billion and HK$171.4 billion respectively, keeping near par with year-end 2011 levels, as a result of prudent balance sheet management
- Total deposits of HK$139.2 billion, at a level similar to year-end 2011



- Capital adequacy ratio stood at 17.9%, far higher than the industry average
- Asset quality improved steadily, resulting in a further improved impaired loan ratio of 0.52%
- Moody's revised the Group's bank financial strength from stable to positive on continuous improvement in credit quality

Core Performance

- **Retail Banking Group:** CITIC*first* customer base exceeded 19,700 with total customer assets under management of around HK$50 billion; wealth management-related fees up 23.0%; launched a number of RMB deposit and insurance products, and became one of the first batch of distributors in RQFII fund sales
- **Wholesale and Cross-border Banking Group:** Amalgamation of Wholesale Banking Group and China Banking; initial success in capturing cross-border opportunities between Mainland China, Hong Kong and other Asian countries; record operating income and profit before tax up 41.2% and 36.1% respectively
- **Treasury and Markets Group:** Fee income from cross-selling of treasury products surged by 26.5%, buoyed by sustained growth in RMB product sales; bespoke structured products well-received with sales revenue accounting for 51% of the total revenue of Global Markets

CITIC BANK INTERNATIONAL LIMITED

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

ANNOUNCEMENT OF 2012 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 6 months ended 30 June 2012. 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 6 months ended 30 June 2012 - unaudited

(Expressed in Hong Kong dollars)

		6 months ended 30 June	
		2012	2011
	Note	**HK$'000**	HK$'000
Interest income	4	**2,389,100**	1,585,304
Interest expense		**(1,289,618)**	(698,790)
Net interest income		**1,099,482**	886,514
Fee and commission income		**349,221**	280,402
Fee and commission expense		**(17,782)**	(17,579)
Net fee and commission income	5	**331,439**	262,823
Net trading income	6	**431,689**	374,455
Net gain from financial instruments designated at fair value through profit or loss	7	**3,351**	10,088
Net hedging gain/(loss)	8	**455**	(655)
Net (loss)/gain on disposal of available-for-sale securities	9	**(18,991)**	3,347
Other operating income	10	**22,429**	270,930
Operating income		**1,869,854**	1,807,502
Operating expenses	11	**(820,014)**	(780,104)
Operating profit before impairment		**1,049,840**	1,027,398
Impairment losses (charged)/written back on loans and advances and other accounts	12	**(6,910)**	73,007
Operating profit		**1,042,930**	1,100,405
Net (loss)/gain on disposal of property and equipment		**(768)**	10
Revaluation gain on investment properties		**27,925**	27,774
Profit before taxation		**1,070,087**	1,128,189
Income tax	13	**(164,628)**	(180,081)
Profit for the period		**905,459**	948,108
Attributable to equity shareholders of the Bank		**905,459**	948,108

Consolidated Statement of Comprehensive Income
for the 6 months ended 30 June 2012 - unaudited

(Expressed in Hong Kong dollars)

	6 months ended 30 June	
	2012	2011
	HK$'000	HK$'000
Profit for the period	**905,459**	948,108
Other comprehensive income for the period (after tax and reclassification adjustments)		
Exchange differences on translation of financial statements of overseas subsidiaries	**(6,382)**	25,727
Available-for-sale securities		
- change in fair value	**332,175**	78,787
- transfer to income statement on disposal	**10,363**	(4,147)
- transfer from deferred tax	**(57,448)**	(12,448)
	278,708	87,919
Total comprehensive income for the period	**1,184,167**	1,036,027
Attributable to equity shareholders of the Bank	**1,184,167**	1,036,027

Consolidated Statement of Financial Position

at 30 June 2012 - unaudited

(Expressed in Hong Kong dollars)

	Note	**At 30 June 2012 HK$'000**	At 31 December 2011 HK$'000
ASSETS			
Cash and balances with banks, central banks and other financial institutions	14	**6,151,179**	12,944,105
Placements with and advances to banks, central banks and other financial institutions	15	**41,126,090**	35,838,843
Trading assets	16	**2,402,100**	2,079,683
Securities designated at fair value through profit or loss	17	**107,562**	355,677
Loans and advances to customers and other accounts	18	**96,790,155**	96,365,280
Available-for-sale securities	19	**23,939,312**	22,904,954
Property and equipment	20		
- Investment property		**215,527**	187,602
- Other property and equipment		**660,403**	644,520
Tax recoverable	24(a)	**21**	3,038
Deferred tax assets	24(b)	**50,246**	102,423
TOTAL ASSETS		**171,442,595**	171,426,125
EQUITY AND LIABILITIES			
Deposits and balances of banks and other financial institutions		**5,204,744**	5,121,298
Deposits from customers	21	**126,446,799**	127,040,396
Trading liabilities	22	**1,243,181**	1,331,198
Certificates of deposit issued	23	**12,756,298**	12,123,896
Debt securities issued	25	**387,795**	397,436
Current taxation	24(a)	**354,612**	122,264
Deferred tax liabilities	24(b)	**1,521**	1,496
Other liabilities	26	**4,438,197**	3,990,018
Loan capital	27	**6,320,084**	8,192,926
TOTAL LIABILITIES		**157,153,231**	158,320,928
EQUITY			
Share capital	28(a)	**7,283,341**	7,283,341
Reserves	28(b)	**7,006,023**	5,821,856
Total equity attributable to equity shareholders of the Bank		**14,289,364**	13,105,197
TOTAL EQUITY AND LIABILITIES		**171,442,595**	171,426,125

Consolidated Statement of Changes in Equity
for the 6 months ended 30 June 2012 - 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 2012	**7,283,341**	**282,930**	**6,589**	**100,000**	**72,213**	**4,718**	**(314,018)**	**20,862**	**122,740**	**5,525,822**	**5,821,856**	**13,105,197**
Changes in equity for the six months ended 30 June 2012:												
Profit for the period	-	-	-	-	-	-	-	-	-	**905,459**	**905,459**	**905,459**
Other comprehensive income for the period	-	-	-	-	**(6,382)**	-	**285,090**	-	-	-	**278,708**	**278,708**
Total comprehensive income for the period	-	-	-	-	**(6,382)**	-	**285,090**	-	-	**905,459**	**1,184,167**	**1,184,167**
At 30 June 2012	**7,283,341**	**282,930**	**6,589**	**100,000**	**65,831**	**4,718**	**(28,928)**	**20,862**	**122,740**	**6,431,281**	**7,006,023**	**14,289,364**
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 July 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
Changes in equity for the six months ended 31 December 2011:												
Profit for the period	-	-	-	-	-	-	-	-	-	462,105	462,105	462,105
Other comprehensive income for the period	-	-	-	-	24,071	-	(144,200)	-	-	-	(120,129)	(120,129)
Total comprehensive income for the period	-	-	-	-	24,071	-	(144,200)	-	-	462,105	341,976	341,976
Interim dividend declared and paid in respect of the current year	-	-	-	-	-	-	-	-	-	(1,624,609)	(1,624,609)	(1,624,609)
Transfer from retained profits	-	-	-	-	-	-	-	9,060	49,104	(58,164)	-	-
At 31 December 2011	7,283,341	282,930	6,589	100,000	72,213	4,718	(314,018)	20,862	122,740	5,525,822	5,821,856	13,105,197

Condensed Consolidated Cash Flow Statement
for the 6 months ended 30 June 2012 - unaudited
(Expressed in Hong Kong dollars)

	Note	6 months ended 30 June **2012** **HK$'000**	2011 HK$'000
Cash generated from operations		**6,595,129**	3,713,606
Income tax refund/(paid)		**65,478**	(50,287)
Net cash generated from operating activities		**6,660,607**	3,663,319
Net cash used in investing activities		**(63,111)**	(85,717)
Net cash used in financing activities		**(2,259,920)**	(317,269)
Net increase in cash and cash equivalents		**4,337,576**	3,260,333
Cash and cash equivalents at 1 January		**39,009,923**	30,903,532
Cash and cash equivalents at 30 June	29	**43,347,499**	34,163,865

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 32 to 50 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, *Interim Financial Reporting*, issued by the 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 2011 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2012 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 2011 accounts except for the following:

The HKICPA has issued a few amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following development is relevant to the Group's financial statements:

- Amendments to HKAS 12, *Income taxes - Deferred tax: Recovery of underlying assets*

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

Amendments to HKAS12 Income taxes - Deferred tax: Recovery of underlying assets

Following the amendments to HKAS 12 effective in 2012, deferred tax on investment property, carried at fair value under HKAS 40, *Investment property*, will be measured on the presumption that an investment property is recovered through sale. The presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

As a result, the Group has reviewed its investment properties and concluded that the related deferred tax has been measured on the presumption that their carrying amounts are recovered entirely through sale. As the Group considered that there is no material impact on the adoption of the amendments to HKAS 12, this accounting policy change has been applied prospectively. Accordingly, the deferred taxation impact of approximately HK$12,552,000 related to prior periods has been credited to the income statement in the current period.

(3) Segment reporting

Segment information is presented consistently with reportable segments which are regularly reviewed or evaluated internally by the 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 and cross-border banking business includes wholesale banking business in Hong Kong and overseas branches, and China banking. Wholesale banking mainly comprises corporate lending and syndicated loans, trade financing and cash management. Overseas branches include the management office unit in Hong Kong and the branches operated overseas. China banking mainly includes a branch and a subsidiary bank in China, and the China banking management office in Hong Kong.

Retail banking business mainly comprises deposit account services, residential mortgages, other consumer lending, credit card services and finance leases, wealth management services and private banking.

Treasury and markets covers provision of foreign exchange services, money market activities, management of investment securities and central cash management.

Others mainly comprises 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 the internal funds transfer pricing mechanism. Cost allocation is based on the direct costs incurred by the respective business segments and the apportionment of overheads on a reasonable basis to the business segments. Rental charges at market rate for the use 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

	6 months ended 30 June 2012				
	Wholesale and cross-border banking HK$'000	**Retail banking HK$'000**	**Treasury and markets HK$'000**	**Others HK$'000**	**Consolidated HK$'000**
Net interest income/(expense)	**870,978**	**439,853**	**(231,869)**	**20,520**	**1,099,482**
Other operating income	**178,906**	**244,801**	**353,585**	**12,071**	**789,363**
Net gain/ (loss) on disposal of available-for-sale securities	**2,454**	**-**	**(21,445)**	**-**	**(18,991)**
Operating income	**1,052,338**	**684,654**	**100,271**	**32,591**	**1,869,854**
Operating expenses	**(208,004)**	**(226,720)**	**(26,920)**	**(358,370)**	**(820,014)**
Inter-segment income/(expenses)	**(91,143)**	**(123,247)**	**(39,688)**	**254,078**	**-**
Operating profit/(loss) before impairment	**753,191**	**334,687**	**33,663**	**(71,701)**	**1,049,840**
Impairment losses (charged)/written back on loans and advances and other accounts	**(10,191)**	**2,277**	**-**	**1,004**	**(6,910)**
Operating profit/(loss)	**743,000**	**336,964**	**33,663**	**(70,697)**	**1,042,930**
Net loss on disposal of property and equipment	**(1)**	**(245)**	**-**	**(522)**	**(768)**
Revaluation gain on investment properties	**-**	**-**	**-**	**27,925**	**27,925**
Profit/(loss) before taxation	**742,999**	**336,719**	**33,663**	**(43,294)**	**1,070,087**
Income tax	**-**	**-**	**-**	**(164,628)**	**(164,628)**
Profit/(loss) for the period	**742,999**	**336,719**	**33,663**	**(207,922)**	**905,459**
Other segment items:					
Depreciation	**10,918**	**8,373**	**567**	**30,926**	**50,784**
	At 30 June 2012				
Other segment items:					
Segment assets	**84,720,581**	**34,820,988**	**66,270,302**	**(14,369,276)**	**171,442,595**
Segment liabilities	**85,899,257**	**64,242,349**	**23,271,151**	**(16,259,526)**	**157,153,231**
Capital expenditure incurred during the period	**20,754**	**26,582**	**1,262**	**18,246**	**66,844**

(3) Segment reporting (cont'd)

(a) Reportable segments (cont'd)

	6 months ended 30 June 2011				
	(Restated) (Note) Wholesale and cross-border banking HK$'000	Retail banking HK$'000	Treasury and markets HK$'000	(Restated) (Note) Others HK$'000	Consolidated HK$'000
Net interest income/(expenses)	588,339	390,195	(104,723)	12,703	886,514
Other operating income/(expenses)	156,987	436,169	335,966	(11,481)	917,641
Net gain on disposal of available-for-sale securities	5	-	3,342	-	3,347
Operating income	745,331	826,364	234,585	1,222	1,807,502
Operating expenses	(185,004)	(229,649)	(29,737)	(335,714)	(780,104)
Inter-segment income/(expenses)	(80,002)	(110,202)	(33,477)	223,681	-
Operating profit/(loss) before impairment	480,325	486,513	171,371	(110,811)	1,027,398
Impairment losses written back on loans and advances and other accounts	65,455	5,479	-	2,073	73,007
Operating profit/(loss)	545,780	491,992	171,371	(108,738)	1,100,405
Net gain/(loss) on disposal of property and equipment	(1)	(4)	-	15	10
Revaluation gain on investment properties	-	-	-	27,774	27,774
Profit/(loss) before taxation	545,779	491,988	171,371	(80,949)	1,128,189
Income tax	-	-	-	(180,081)	(180,081)
Profit/(loss) for the period	545,779	491,988	171,371	(261,030)	948,108
Other segment items:					
Depreciation	8,357	7,086	54	26,778	42,275

	At 31 December 2011				
Other segment items:					
Segment assets	84,193,786	33,863,664	62,546,194	(9,177,519)	171,426,125
Segment liabilities	83,059,215	64,256,967	22,206,581	(11,201,835)	158,320,928
Capital expenditure incurred during the year	62,388	31,401	16,127	39,102	149,018

Note:

As the wholesale banking business has been restructured in the first half of 2012, the new wholesale and cross-border banking business comprises the previous wholesale banking business and the China banking business which the China banking business was previously reported under "Others" segment. In response to this change, the comparatives for the period ended 30 June 2011 and at 31 December 2011, were restated for consistency.

(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, the location of the branches responsible for reporting the results or booking the assets and liabilities.

	6 months ended 30 June			
	2012	2011	**2012**	2011
	Profit before taxation	Profit/ (loss) before taxation	**Operating income**	Operating income
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**865,257**	1,039,767	**1,524,097**	1,611,468
Mainland China	**104,009**	68,065	**193,020**	126,974
United States	**37,799**	3,284	**39,356**	22,594
Singapore	**53,513**	8,135	**86,396**	31,591
Others	**9,494**	(1,926)	**26,970**	14,809
Inter-segment items	**15**	10,864	**15**	66
	1,070,087	1,128,189	**1,869,854**	1,807,502

	At 30 June 2012	At 31 December 2011	**At 30 June 2012**	At 31 December 2011
	Total assets	Total assets	**Total liabilities**	Total liabilities
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**158,609,729**	156,160,679	**144,931,453**	143,567,767
Mainland China	**16,789,390**	15,636,529	**15,165,132**	14,087,474
United States	**1,755,094**	2,486,245	**1,675,928**	2,424,020
Singapore	**7,869,921**	5,760,368	**7,827,705**	5,759,463
Others	**1,427,874**	1,602,848	**1,419,559**	1,609,798
Inter-segment items	**(15,009,413)**	(10,220,544)	**(13,866,546)**	(9,127,594)
	171,442,595	171,426,125	**157,153,231**	158,320,928

(4) Interest income

	6 months ended 30 June	
	2012	2011
	HK$'000	HK$'000
Listed securities	**1,663**	19,012
Unlisted securities	**225,140**	210,985
Others	**2,162,297**	1,355,307
	2,389,100	1,585,304

All interest income and interest expenses included in the income statement refer to the interest income on financial assets or interest expenses on financial liabilities that is not at fair value through profit or loss for the 6 months ended 30 June 2012 and 30 June 2011.

Included in the above is interest income accrued on impaired financial assets of HK$2,728,000 (6 months ended 30 June 2011: HK$16,877,000), which includes interest income on the unwinding of discount on loan impairment losses of HK$2,728,000 for the 6 months ended 30 June 2012 (6 months ended 30 June 2011: HK$6,728,000).

(5) Net fee and commission income

	6 months ended 30 June	
	2012	2011
	HK$'000	HK$'000
Fee and commission income:		
Bills commission	**60,798**	53,308
Card-related income	**12,776**	9,726
General banking services	**37,452**	35,646
Insurance	**102,191**	62,516
Investment and structured investment products	**42,732**	56,657
Loans, overdrafts and facilities fees	**92,960**	62,188
Others	**312**	361
	349,221	280,402
Fee and commission expense	**(17,782)**	(17,579)
	331,439	262,823
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	**105,736**	71,914
- Fee and commission expense	**(6,799)**	(7,070)
	98,937	64,844

(6) Net trading income

	6 months ended 30 June	
	2012	2011
	HK$'000	HK$'000
Gains less losses from dealing in foreign currencies	**134,144**	193,783
Gains less losses from trading securities	**246**	1,302
Gains less losses from other dealing activities	**315,767**	191,795
Interest income on trading assets		
- Unlisted	**30**	-
Interest expense on trading liabilities	**(18,498)**	(12,425)
	431,689	374,455

(7) Net gain from financial instruments designated at fair value through profit or loss

	6 months ended 30 June	
	2012	2011
	HK$'000	HK$'000
Net gain	**1,473**	2,215
Interest income		
- Listed	**921**	2,481
- Unlisted	**957**	9,235
Interest expense	**-**	(3,843)
	3,351	10,088

(8) Net hedging gain/(loss)

	6 months ended 30 June	
	2012	2011
	HK$'000	HK$'000
Net gain/(loss) on fair value hedge	**455**	(655)

(9) Net (loss)/gain on disposal of available-for-sale securities

	6 months ended 30 June	
	2012	2011
	HK$'000	HK$'000
Net revaluation (loss)/gain transferred from reserves	**(10,363)**	4,147
Net loss arising in current period	**(8,628)**	(800)
	(18,991)	3,347

(10) Other operating income

	6 months ended 30 June	
	2012	2011
	HK$'000	HK$'000
Dividend income from available-for-sale equity securities		
- Listed	**34**	29
- Unlisted	**3,700**	2,500
Rental income from investment properties		
less direct outgoings of HK$42,000 (6 months ended 30 June 2011: HK$64,000)	**2,440**	2,762
Others (Note)	**16,255**	265,639
	22,429	270,930

Note:

During the period ended 30 June 2011, the Bank wrote back approximately HK$229,000,000 to the income statements, which represented substantial recovery of the Lehman Brothers Minibonds compensation provisions of approximately HK$298,000,000 made in 2008 and 2009.

(11) Operating expenses

	6 months ended 30 June	
	2012	2011
	HK$'000	HK$'000
(a) Staff costs		
Salaries and other staff costs	**477,613**	454,924
Retirement costs	**32,435**	29,198
	510,048	484,122
(b) Depreciation		
Depreciation of property and equipment		
- Assets held for use under operating leases	**10,298**	6,650
- Other assets	**40,486**	35,625
	50,784	42,275
(c) Other operating expenses		
Property and equipment expenses (excluding depreciation) (Note)		
- Rental of property	**87,825**	75,817
- Others	**57,284**	50,517
Auditors' remuneration	**3,386**	2,831
Advertising	**4,615**	12,289
Communication, printing and stationery	**32,163**	33,118
Legal and professional fee	**9,986**	14,233
Others	**63,923**	64,902
	259,182	253,707
Total operating expenses	**820,014**	780,104

Note:

Included in other operating expenses are the minimum lease payment under operating leases of HK$845,000 (6 months ended 30 June 2011: HK$839,000) for hiring equipment and HK$84,372,000 (6 months ended 30 June 2011: HK$72,833,000) for hiring of property and other assets for the 6 months ended 30 June 2012.

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

	6 months ended 30 June	
	2012	2011
	HK$'000	HK$'000
Impairment losses (charged)/written back		
- Loans and advances	**(7,523)**	13,047
- Other accounts	**613**	59,960
	(6,910)	73,007
Impairment losses (charged)/written back on loans and advances and other accounts		
- Individual assessment	**(39,096)**	53,981
- Collective assessment	**32,186**	19,026
	(6,910)	73,007
of which:		
- Additions	**(66,482)**	(12,124)
- Releases	**49,564**	64,225
- Recoveries	**10,008**	20,906
	(6,910)	73,007

(13) Income tax in the consolidated income statement

	6 months ended 30 June	
	2012	2011
	HK$'000	HK$'000
Current tax - Hong Kong Profits Tax		
Provision for the period	**133,423**	162,804
(Over)/Under-provision in respect of prior periods	**(1,798)**	4,723
	131,625	167,527
Current tax - Overseas		
Provision for the period	**37,236**	9,878
Under/(Over)-provision in respect of prior periods	**1,175**	(2,318)
	38,411	7,560
Deferred tax		
Origination of temporary differences (note 24(b))	**(5,408)**	4,994
	164,628	180,081

The provision for Hong Kong Profits Tax is calculated at 16.5% (6 months ended 30 June 2011: 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 in the relevant countries.

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

	At 30 June 2012 HK$'000	At 31 December 2011 HK$'000
Cash in hand	**195,388**	202,274
Balances with central banks	**1,538,579**	1,120,805
Balances with banks	**2,019,628**	10,256,612
Balances with other financial institutions	**2,397,584**	1,364,414
	6,151,179	12,944,105

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

	At 30 June 2012 HK$'000	At 31 December 2011 HK$'000
Placements with banks	**30,816,491**	24,146,120
Advances to banks	**10,309,599**	11,692,723
	41,126,090	35,838,843
Maturing:		
- within 1 month	**19,501,316**	13,245,092
- between 1 month and 1 year	**21,612,447**	22,593,751
- in over 1 year	**12,327**	-
	41,126,090	35,838,843

There were no impaired advances to banks and other financial institutions at 30 June 2012 and 31 December 2011, nor were there any individually assessed impairment allowances made for them on these two respective dates.

(16) Trading assets

	At 30 June 2012 HK$'000	At 31 December 2011 HK$'000
Investment funds	**2,717**	2,965
Positive fair values of derivatives (note 33(b))	**2,399,383**	2,076,718
	2,402,100	2,079,683
Issued by:		
Corporate entities	**2,717**	2,965
Analysed by place of listing:		
Unlisted	**2,717**	2,965

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

	At 30 June 2012 HK$'000	At 31 December 2011 HK$'000
Certificates of deposit held	**29,991**	200,613
Debt securities	**77,571**	155,064
	107,562	355,677
Issued by:		
Sovereigns	**18,598**	18,835
Banks and other financial institutions	**42,240**	212,954
Corporate entities	**46,724**	123,888
	107,562	355,677
Analysed by place of listing:		
Listed outside Hong Kong	**-**	78,285
Unlisted	**107,562**	277,392
	107,562	355,677

(18) Loans and advances to customers and other accounts

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

	At 30 June 2012 HK$'000	At 31 December 2011 HK$'000
Gross loans and advances to customers	**93,841,752**	93,718,132
Impairment allowances		
- Individually assessed	**(195,012)**	(195,660)
- Collectively assessed	**(314,618)**	(346,898)
	93,332,122	93,175,574
Accrued interest and other accounts	**3,459,641**	3,191,927
Impairment allowances		
- Individually assessed	**(1,608)**	(2,221)
	3,458,033	3,189,706
	96,790,155	96,365,280
Included in loans and advances to customers are:		
Trade bills	**3,770,527**	3,046,382
Impairment allowances		
- Collectively assessed	**(237)**	(507)
	3,770,290	3,045,875

(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 2012		At 31 December 2011	
	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	**5,796**	**100**	4,000	100
- Property investment	**13,537,475**	**99**	12,905,620	99
- Financial concerns	**2,219,639**	**51**	2,951,325	58
- Stockbrokers	**33,000**	**100**	35,000	100
- Wholesale and retail trade	**9,009,381**	**82**	6,352,248	79
- Manufacturing	**5,214,914**	**62**	6,153,567	52
- Transport and transport equipment	**2,429,370**	**63**	2,532,195	78
- Recreational activities	**158,954**	**55**	269,183	72
- Information technology	**1,260**	**64**	1,456	66
- Others	**1,956,527**	**44**	2,557,801	46
Individuals				
- Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**21,245**	**100**	23,124	100
- Loans for the purchase of other residential properties	**9,857,575**	**100**	10,135,734	100
- Credit card advances	**286,321**	**-**	283,061	-
- Others	**5,676,773**	**94**	5,335,304	93
Gross loans and advances for use in Hong Kong	**50,408,230**	**85**	49,539,618	83
Trade finance	**11,847,899**	**23**	10,372,639	24
Gross loans and advances for use outside Hong Kong	**31,585,623**	**42**	33,805,875	42
Gross loans and advances to customers	**93,841,752**	**63**	93,718,132	62

(18) Loans and advances to customers and other accounts (cont'd)

(c) Impaired loans and advances to customers

	At 30 June 2012 HK$'000	At 31 December 2011 HK$'000
Gross impaired loans and advances to customers	**491,180**	700,601
Impairment allowances - Individually assessed	**(195,012)**	(195,660)
	296,168	504,941
Gross impaired loans and advances as a % of total loans and advances to customers	**0.52%**	0.75%

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$325,945,000 (31 December 2011: HK$534,858,000) for the Group. This collateral mainly comprises mortgage interest on 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 2012	
	Individual impairment allowances HK$'000	**Collective impairment allowances HK$'000**	**Impaired loans and advances to customers HK$'000**
Property investment	**-**	**205**	**-**
Loans for the purchase of other residential properties	**-**	**82**	**7,612**
Trade finance	**57,292**	**48,013**	**82,147**
Gross loans and advances for use outside Hong Kong	**131,678**	**162,325**	**300,923**
	188,970	**210,625**	**390,682**

		At 31 December 2011	
	Individual impairment allowances HK$'000	Collective impairment allowances HK$'000	Impaired loans and advances to customers HK$'000
Property investment	-	699	-
Loans for the purchase of other residential properties	-	62	11,154
Trade finance	50,799	41,892	108,460
Gross loans and advances for use outside Hong Kong	117,955	137,619	364,537
	168,754	180,272	484,151

(19) Available-for-sale securities

	At 30 June 2012 HK$'000	At 31 December 2011 HK$'000
Certificates of deposit held	**4,081,132**	2,176,591
Debt securities	**11,063,935**	14,020,172
Treasury bills (including Exchange Fund Bills)	**8,741,909**	6,661,256
Equity securities	**52,336**	46,935
	23,939,312	22,904,954
Issued by:		
Sovereigns	**9,565,238**	7,402,616
Banks and other financial institutions	**12,198,105**	12,410,202
Corporate entities	**2,175,969**	3,092,136
	23,939,312	22,904,954
Analysed by place of listing:		
Listed outside Hong Kong	**256,578**	197,455
Unlisted	**23,682,734**	22,707,499
	23,939,312	22,904,954
Fair value of individually impaired debt securities (Note)	**282,516**	214,878

Note:

During 2011, in response to the European debt crisis and the substantial drop in the fair value of debt securities issued by a European corporation, the Group's management decided to recognise an impairment to the profit or loss on the carrying value of these debt securities held by the Group. As a result, an investment revaluation reserve deficit of approximately HK$178 million was transferred to and recognised as an impairment loss in the income statement for the year ended 31 December 2011.

(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 2012	**187,602**	**641,814**	**934,266**	**1,763,682**
Additions	**-**	**-**	**66,844**	**66,844**
Disposals	**-**	**-**	**(35,801)**	**(35,801)**
Surplus on revaluation	**27,925**	**-**	**-**	**27,925**
Exchange adjustments	**-**	**-**	**519**	**519**
At 30 June 2012	**215,527**	**641,814**	**965,828**	**1,823,169**
The analysis of cost or valuation of the above assets is as follows:				
Cost	**-**	**624,217**	**965,828**	**1,590,045**
Valuation				
- 1985	**-**	**17,597**	**-**	**17,597**
- 2012	**215,527**	**-**	**-**	**215,527**
	215,527	**641,814**	**965,828**	**1,823,169**
At 1 January 2011	159,250	641,814	785,450	1,586,514
Additions	-	-	149,018	149,018
Disposals	-	-	(2,824)	(2,824)
Surplus on revaluation	28,352	-	-	28,352
Exchange adjustments	-	-	2,622	2,622
At 31 December 2011	187,602	641,814	934,266	1,763,682
The analysis of cost or valuation of the above assets is as follows:				
Cost	-	624,217	934,266	1,558,483
Valuation				
- 1985	-	17,597	-	17,597
- 2011	187,602	-	-	187,602
	187,602	641,814	934,266	1,763,682
Accumulated depreciation:				
At 1 January 2012	-	**257,577**	**673,983**	**931,560**
Charge for the period	**-**	**7,006**	**43,778**	**50,784**
Written back on disposals	**-**	**-**	**(35,033)**	**(35,033)**
Exchange adjustments	**-**	**-**	**(72)**	**(72)**
At 30 June 2012	**-**	**264,583**	**682,656**	**947,239**
At 1 January 2011	-	243,490	601,278	844,768
Charge for the year	-	14,087	73,667	87,754
Written back on disposals	-	-	(2,759)	(2,759)
Exchange adjustments	-	-	1,797	1,797
At 31 December 2011	-	257,577	673,983	931,560
Net book value:				
At 30 June 2012	**215,527**	**377,231**	**283,172**	**875,930**
At 31 December 2011	187,602	384,237	260,283	832,122

(21) Deposits from customers

	At 30 June 2012 HK$'000	At 31 December 2011 HK$'000
Demand deposits and current deposits	**16,216,704**	14,622,800
Savings deposits	**20,214,978**	20,749,497
Time, call and notice deposits	**90,015,117**	91,668,099
	126,446,799	127,040,396

(22) Trading liabilities

	At 30 June 2012 HK$'000	At 31 December 2011 HK$'000
Negative fair value of derivatives (note 33(b))	**1,243,181**	1,331,198

(23) Certificates of deposit issued

	At 30 June 2012 HK$'000	At 31 December 2011 HK$'000
Non-trading certificates of deposit issued	**12,756,298**	12,123,896

(24) Income tax in the consolidated statement of financial position

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

	At 30 June 2012 HK$'000	At 31 December 2011 HK$'000
Provision for Hong Kong Profits Tax for the period/ year	**133,423**	225,194
Tax credit to be claimed	**-**	(3,476)
Provisional Profits Tax paid	**-**	(24,023)
	133,423	197,695
Balance of Profits Tax provision relating to prior years	**197,695**	(96,359)
	331,118	101,336
Provision for overseas taxation	**23,473**	17,890
	354,591	119,226
Of which:		
Tax recoverable	**(21)**	(3,038)
Current taxation	**354,612**	122,264
	354,591	119,226

(b) Deferred tax assets and liabilities recognised

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

	Depreciation allowances in excess of related depreciation HK$'000	**Impairment allowances for loans and advances HK$'000**	**Revaluation adjustments for properties HK$'000**	**Revaluation adjustments for available-for-sale securities HK$'000**	**Tax losses HK$'000**	**Others HK$'000**	**Total HK$'000**
Deferred tax arising from:							
At 1 January 2012	**25,947**	**(55,778)**	**14,902**	**(62,648)**	**-**	**(23,350)**	**(100,927)**
Charged/(credited) to income statement (note 13)	**(1,223)**	**7,720**	**(12,552)**	**-**	**-**	**647**	**(5,408)**
Charged to reserves	**-**	**-**	**-**	**57,448**	**-**	**-**	**57,448**
Exchange and other adjustments	**91**	**56**	**1**	**(1)**	**-**	**15**	**162**
At 30 June 2012	**24,815**	**(48,002)**	**2,351**	**(5,201)**	**-**	**(22,688)**	**(48,725)**
At 1 January 2011	13,347	(58,464)	13,153	(45,854)	(385)	(20,173)	(98,376)
Charged/(credited) to income statement	12,609	2,687	1,750	-	385	(2,919)	14,512
Credited to reserves	-	-	-	(16,794)	-	-	(16,794)
Exchange and other adjustments	(9)	(1)	(1)	-	-	(258)	(269)
At 31 December 2011	25,947	(55,778)	14,902	(62,648)	-	(23,350)	(100,927)

	At 30 June 2012 HK$'000	At 31 December 2011 HK$'000
Net deferred tax assets recognised on the consolidated statement of financial position	**(50,246)**	(102,423)
Net deferred tax liabilities recognised on the consolidated statement of financial position	**1,521**	1,496
	(48,725)	(100,927)

(c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$1,768,000 at 30 June 2012 (31 December 2011: HK$5,309,000), as it is improbable 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 the current tax legislation.

(25) Debt securities issued

	At 30 June 2012 HK$'000	At 31 December 2011 HK$'000
Non-trading debt securities issued	**387,795**	397,436

(26) Other liabilities

	At 30 June 2012 HK$'000	At 31 December 2011 HK$'000
Items in the course of transmission to other financial institutions	**30,320**	-
Accruals and other payables	**4,407,877**	3,990,018
	4,438,197	3,990,018

(27) Loan capital

	At 30 June 2012 HK$'000	At 31 December 2011 HK$'000
Subordinated notes with US$250 million 9.125% *	-	1,950,007
Subordinated notes with US$250 million 1.75%+LIBOR rate **	**1,938,716**	1,941,913
Subordinated notes with US$500 million 6.875% ***	**4,381,368**	4,301,006
	6,320,084	8,192,926

* 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 have been qualified as Tier 2 capital. Full redemption of these 9.125% per annum perpetual subordinated notes was exercised by CKWH-UT2 Limited during the period ended 30 June 2012.

** On 11 December 2007, the Bank, under a US$2 billion Medium Term Note Programme ("the Programme"), issued subordinated floating 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 mature on 12 December 2017.

*** Under the Programme and the new Offering Circular which was 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 mature on 24 June 2020.

(28) Capital and reserves

(a) Share capital

(i) Authorised and issued share capital

	At 30 June 2012 HK$'000	At 31 December 2011 HK$'000
Authorised:		
8,000,000,000 ordinary shares at HK$1 each	**8,000,000**	8,000,000
Issued and fully paid:		
At 1 January 2012 and 30 June 2012:		
7,283,341,176 (1 January 2011 and 31 December 2011: 7,283,341,176) ordinary shares at 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 share issuance during the period ended 30 June 2012.

(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 the 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 direct transfer 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 2012, HK$1,374,534,000 (31 December 2011: HK$1,340,028,000) 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 2012 HK$'000	At 30 June 2011 HK$'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	**6,151,179**	18,430,660
Placements with and advances to banks, central banks and other financial institutions with original maturity within 3 months	**27,157,257**	13,336,626
Treasury bills and certificates of deposit held with original maturity within 3 months:		
- Available-for-sale securities	**10,039,063**	2,396,579
	43,347,499	34,163,865
(ii) Reconciliation with the consolidated statement of financial position		
Cash and balances with banks, central banks and other financial institutions	**6,151,179**	18,430,660
Placements with and advances to banks, central banks and other financial institutions	**41,126,090**	18,228,311
Treasury bills and certificates of deposit held:		
- Available-for-sale securities	**12,823,041**	4,845,200
Amounts shown in the consolidated statement of financial position	**60,100,310**	41,504,171
Less : Amounts with an original maturity of over 3 months	**(16,752,811)**	(7,340,306)
Cash and cash equivalents in the consolidated cash flow statement	**43,347,499**	34,163,865

(30) Assets subject to sale and repurchase transactions

	At 30 June 2012 HK$'000	At 31 December 2011 HK$'000
Included in available-for-sale securities	**412,848**	-
Included in deposits and balances of banks and other financial institutions	**373,698**	-

(31) 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 mature without being withdrawn, the contractual maturity dates do not represent expected dates of future cash flows.

	At 30 June 2012							
	Total HK$'000	**Repayable on demand HK$'000**	**Within 1 month HK$'000**	**3 months or less but over 1 month HK$'000**	**1 year or less but over 3 months HK$'000**	**5 years or less but over 1 year HK$'000**	**Over 5 years HK$'000**	**Undated HK$'000**
Assets								
Cash and balances with banks, central banks and other financial institutions	**6,151,179**	**4,913,291**	**-**	**-**	**-**	**-**	**-**	**1,237,888**
Placements with and advances to banks, central banks and other financial institutions	**41,126,090**	**-**	**19,501,316**	**16,769,401**	**4,843,046**	**12,327**	**-**	**-**
Trading assets	**2,402,100**	**2,399,383**	**-**	**-**	**-**	**-**	**-**	**2,717**
Securities designated at fair value through profit or loss	**107,562**	**-**	**-**	**12,226**	**35,970**	**12,643**	**-**	**46,723**
Loans and advances to customers and other accounts	**96,790,155**	**2,330,840**	**6,505,261**	**10,604,328**	**26,138,072**	**26,827,270**	**20,500,595**	**3,883,789**
Available-for-sale securities	**23,939,312**	**-**	**3,171,705**	**6,996,834**	**6,818,557**	**6,115,281**	**784,599**	**52,336**
Tax recoverable	**21**	**-**	**-**	**-**	**21**	**-**	**-**	**-**
Undated assets	**926,176**	**-**	**-**	**-**	**-**	**-**	**-**	**926,176**
Total assets	**171,442,595**	**9,643,514**	**29,178,282**	**34,382,789**	**37,835,666**	**32,967,521**	**21,285,194**	**6,149,629**
Liabilities								
Deposits and balances of banks and other financial institutions	**5,204,744**	**832,036**	**1,724,275**	**842,192**	**1,806,241**	**-**	**-**	**-**
Deposits from customers	**126,446,799**	**36,431,682**	**38,378,870**	**30,169,257**	**20,151,111**	**1,315,879**	**-**	**-**
Trading liabilities	**1,243,181**	**1,243,181**	**-**	**-**	**-**	**-**	**-**	**-**
Certificates of deposit issued	**12,756,298**	**-**	**518,493**	**2,680,024**	**7,517,773**	**1,968,006**	**72,002**	**-**
Debt securities issued	**387,795**	**-**	**-**	**387,795**	**-**	**-**	**-**	**-**
Loan capital	**6,320,084**	**-**	**-**	**-**	**1,938,716**	**-**	**4,381,368**	**-**
Current taxation	**354,612**	**-**	**-**	**-**	**354,612**	**-**	**-**	**-**
Other liabilities	**4,438,197**	**-**	**30,320**	**-**	**-**	**-**	**-**	**4,407,877**
Undated liabilities	**1,521**	**-**	**-**	**-**	**-**	**-**	**-**	**1,521**
Total liabilities	**157,153,231**	**38,506,899**	**40,651,958**	**34,079,268**	**31,768,453**	**3,283,885**	**4,453,370**	**4,409,398**
Asset-liability gap		**(28,863,385)**	**(11,473,676)**	**303,521**	**6,067,213**	**29,683,636**	**16,831,824**	

	At 31 December 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	12,944,105	12,026,003	-	-	-	-	-	918,102
Placements with and advances to banks, central banks and other financial institutions	35,838,843	-	13,245,092	11,877,583	10,716,168	-	-	-
Trading assets	2,079,683	2,076,718	-	-	-	-	-	2,965
Securities designated at fair value through profit or loss	355,677	-	-	96,630	170,584	42,861	-	45,602
Loans and advances to customers and other accounts	96,365,280	2,414,957	5,448,740	12,146,163	24,045,261	27,280,975	21,205,144	3,824,040
Available-for-sale securities	22,904,954	-	4,197,723	3,927,346	5,705,534	8,341,722	685,694	46,935
Tax recoverable	3,038	-	-	-	3,038	-	-	-
Undated assets	934,545	-	-	-	-	-	-	934,545
Total assets	171,426,125	16,517,678	22,891,555	28,047,722	40,640,585	35,665,558	21,890,838	5,772,189
Liabilities								
Deposits and balances of banks and other financial institutions	5,121,298	320,441	2,992,293	1,046,519	762,045	-	-	-
Deposits from customers	127,040,396	35,372,297	48,238,341	28,066,287	10,577,830	4,663,139	122,502	-
Trading liabilities	1,331,198	1,331,198	-	-	-	-	-	-
Certificates of deposit issued	12,123,896	-	588,256	2,005,557	6,454,117	2,882,193	193,773	-
Debt securities issued	397,436	-	-	3,000	394,436	-	-	-
Loan capital	8,192,926	-	-	-	3,891,920	-	4,301,006	-
Current taxation	122,264	-	-	-	122,264	-	-	-
Other liabilities	3,990,018	-	-	-	-	-	-	3,990,018
Undated liabilities	1,496	-	-	-	-	-	-	1,496
Total liabilities	158,320,928	37,023,936	51,818,890	31,121,363	22,202,612	7,545,332	4,617,281	3,991,514
Asset-liability gap		(20,506,258)	(28,927,335)	(3,073,641)	18,437,973	28,120,226	17,273,557	

(32) Material related party transactions

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

(a) Transactions with group companies

(1) 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 directors' opinion, these transactions were conducted under normal commercial terms.

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

	Ultimate controlling party		Immediate parent		Fellow subsidiaries		Associates (note (i))		Related companies (note (ii))	
	6 months ended 30 June									
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000	**2012 HK$'000**	2011 HK$'000	**2012 HK$'000**	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Interest income	**-**	-	**-**	-	**8,127**	10,281	**1,779**	3,873	**340,741**	66,344
Interest expense	**(15,662)**	(1,680)	**(2,413)**	(1,681)	**(27,211)**	(46,636)	**(29,988)**	(9,317)	**(96,211)**	(78,857)
Other operating income	**-**	-	**-**	131	**-**	-	**14,459**	22,050	**-**	-
Operating expenses	**-**	-	**(1,347)**	(4,932)	**(2,813)**	(2,305)	**(5,658)**	(1,487)	**(3)**	-
Trading gain/(loss) on derivatives	**-**	316	**-**	-	**(447)**	14,619	**-**	-	**104,783**	(6,716)
	At 30 June 2012/ 31 December 2011									
Assets										
Available-for-sale securities	**-**	-	**-**	-	**-**	-	**-**	-	**305,767**	915,564
Derivative financial instruments	**-**	-	**-**	-	**-**	-	**-**	-	**112,939**	277,282
Other receivables	**-**	-	**121**	117	**3,866**	2,088	**2,931**	2,902	**123,734**	76,022
Liabilities										
Derivative financial instruments	**-**	-	**-**	-	**-**	-	**-**	-	**44,013**	162,163
Other payables	**933**	2,237	**4,828**	2,055	**21,810**	66,171	**8,950**	4,984	**34,197**	40,722
Loan capital	**-**	-	**-**	-	**794,873**	878,069	**-**	-	**3,198,816**	3,160,298
Lending activities:										
At 30 June/31 December	**-**	-	**-**	-	**690,716**	576,588	**192,358**	200,000	**14,985,513**	7,571,854
Average for the period/year	**-**	-	**-**	-	**589,984**	435,577	**221,179**	286,139	**17,669,435**	6,823,122
Acceptance of deposits:										
At 30 June/31 December	**1,867,436**	2,286,294	**436,766**	452,171	**2,836,798**	5,171,920	**3,902,057**	5,477,570	**963,455**	2,353,346
Average for the period/year	**1,778,103**	942,968	**441,551**	438,088	**3,070,971**	5,915,378	**3,982,000**	3,598,012	**1,914,770**	761,824
	At 30 June 2012/ 31 December 2011									
Off-statement of financial position items										
Acceptances, guarantees and letters of credit - contract amounts in payable	**-**	-	**-**	-	**(161,801)**	(110,669)	**(3,000)**	(3,000)	**-**	-
Lease commitments	**-**	-	**-**	-	**25,279**	23,733	**-**	-	**-**	-
Derivative financial instruments - notional amounts	**-**	-	**-**	-	**-**	499,609	**-**	-	**19,758,876**	19,509,444

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

Note:

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

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

(2) 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 partial credit protection against the non-performance of a term loan to Farmington provided by this senior loan provider.

The Group had entered into two sub-underwriting agreements with its immediate parent, CITIC International Financial Holdings Limited ("CIFH") in previous years, where CIFH agreed to undertake any CDS potential loss up to a total maximum of 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 had paid CIFH annual fees of approximately USD3.3million (equivalent to HK$25.8 million) for the year ended 31 December 2011. During the year ended 31 December 2011, the Group settled the two CDSs with the senior loan provider for an amount totaling US$208,648,560.66 (equivalent to HK$1,624,609,207.59) and CIFH reimbursed the same amount to the Group. Due to the sub-underwriting arrangements with CIFH, there was no net impact to the income statement of the Group for the year ended 31 December 2011. The two sub-underwriting agreements were terminated upon the settlement of the two CDSs with the senior loan provider in 2011.

(32) Material related party transactions (cont'd)

(b) Transactions with key management personnel

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

	6 months ended 30 June	
	2012	2011
	HK$'000	HK$'000
Short-term employee benefits	**29,248**	26,046
Post-employment benefits	**1,349**	1,254
	30,597	27,300

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, 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.

	2012	2011
	HK$'000	HK$'000
At 1 January	**11,981**	9,416
At 30 June 2012/ 31 December 2011	**11,422**	11,981
Maximum amount during the period/year	**11,981**	12,856

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

(33) Derivatives

(a) Notional amounts of derivatives

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices. The 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 derivative entered into by the Group:

	At 30 June 2012				At 31 December 2011			
	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	**-**	**-**	**88,418,112**	**88,418,112**	-	-	89,378,346	89,378,346
Swaps	**-**	**41,458**	**79,777,769**	**79,819,227**	-	287,193	61,223,831	61,511,024
Options purchased	**-**	**-**	**35,214,882**	**35,214,882**	-	-	21,705,045	21,705,045
Options written	**-**	**-**	**35,074,846**	**35,074,846**	-	-	21,719,773	21,719,773
Interest rate derivatives								
Forwards and futures	**-**	**-**	**387,826**	**387,826**	-	-	-	-
Swaps	**5,731,953**	**-**	**50,113,077**	**55,845,030**	6,126,210	-	45,763,399	51,889,609
Options purchased	**-**	**-**	**267,967**	**267,967**	-	-	271,221	271,221
Options written	**-**	**-**	**267,967**	**267,967**	-	-	271,221	271,221
Equity derivatives								
Swaps	**-**	**-**	**-**	**-**	-	-	18,108	18,108
	5,731,953	**41,458**	**289,522,446**	**295,295,857**	6,126,210	287,193	240,350,944	246,764,347

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 2012			At 31 December 2011		
	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	**781,794**	**273,371**	**532,534**	825,661	388,314	447,456
Currency derivatives	**1,617,589**	**969,810**	**4,977,001**	1,249,484	941,311	3,873,547
Equity derivatives	**-**	**-**	**-**	1,573	1,573	109
	2,399,383	**1,243,181**	**5,509,535**	2,076,718	1,331,198	4,321,112
	(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 2011: 0% to 150%) for contingent liabilities and commitments, and from 0% to 150% (31 December 2011: 0% to 150%) for exchange rate, interest rate and other derivatives contracts.

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

(33) Derivatives (cont'd)

(c) Fair value of derivatives designated as hedging instruments

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

	At 30 June 2012		At 31 December 2011	
	Fair value assets HK$'000	**Fair value liabilities HK$'000**	Fair value assets HK$'000	Fair value liabilities HK$'000
Interest rate contracts	**579,726**	**-**	487,969	-

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 the Group's derivatives by relevant maturity grouping, based on the remaining periods to settlement at the end of the reporting period:

	At 30 June 2012 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	**56,768,790**	**29,714,002**	**23,109,835**	**3,944,953**
Currency derivatives	**238,527,067**	**142,998,012**	**95,529,055**	**-**
	295,295,857	**172,712,014**	**118,638,890**	**3,944,953**

	At 31 December 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	52,432,051	23,252,214	25,116,010	4,063,827
Currency derivatives	194,314,188	116,352,458	77,961,730	-
Equity derivatives	18,108	18,108	-	-
	246,764,347	139,622,780	103,077,740	4,063,827

(34) 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 2012 HK$'000	At 31 December 2011 HK$'000
Direct credit substitutes	**2,012,823**	2,007,355
Transaction-related contingencies	**1,142,235**	951,660
Trade-related contingencies	**2,925,852**	4,241,352
Forward forward deposits placed	**713,543**	-
Other commitments:		
- which are unconditionally cancellable or automatically cancellable due to deterioration in the creditworthiness of the borrower	**42,901,698**	33,822,786
- with an original maturity of not more than 1 year	**1,454,188**	3,959,572
- with an original maturity of more than 1 year	**2,801,551**	3,657,934
	53,951,890	48,640,659
Credit risk-weighted amounts	**4,833,555**	5,488,054

Contingent liabilities and commitments are credit-related instruments which include forward forward deposits placed, letters of credit, guarantees and commitments to extend credit. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers. The contractual amounts represent the amounts at risk if the contract is fully drawn upon and the client defaults. 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 2011: 0% to 150%).

(b) Capital commitments

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

	At 30 June 2012 HK$'000	At 31 December 2011 HK$'000
Authorised and contracted for	**29,832**	26,973
Authorised but not contracted for	**7,124**	735
	36,956	27,708

(c) Contingent liability in respect of legal claim

The Bank and its subsidiaries are not involved in any legal action 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 2012 HK$'000	At 31 December 2011 HK$'000
Loans and advances to customers and trade bills	**93,841,752**	93,718,132
Impairment allowances	**509,630**	542,558
Total assets	**171,442,595**	171,426,125
Total deposits	**139,203,097**	139,164,292
Total equity attributable to equity shareholders of the Bank	**14,289,364**	13,105,197
Financial ratios		
Capital adequacy ratio	**17.9%**	18.3%
Core capital ratio	**11.6%**	10.4%
Average liquidity ratio for the period/ year ended* (6 months ended 30 June 2011: 42.3%)	**59.3%**	43.6%
Loans to deposits	**67.4%**	67.3%
Loans to total assets	**54.7%**	54.7%
Cost to income	**43.9%**	48.3%
Return on assets	**1.0%**	0.9%
Return on average total equity attributable to equity shareholders of the Bank	**12.8%**	10.2%

* 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 2012 HK$'000	At 31 December 2011 HK$'000
Core capital		
Paid-up ordinary share capital	**7,283,341**	7,283,341
Share premium	**282,930**	282,930
Reserves	**4,865,910**	4,405,852
Profit and loss account	**1,003,332**	216,229
Less: Net deferred tax assets	**(48,725)**	(100,927)
Total core capital before deductions	**13,386,788**	12,087,425
Less: Deductions from core capital	**(5,413)**	(4,585)
Total core capital after deductions	**13,381,375**	12,082,840
Supplementary capital		
Reserves attributable to fair value gains on revaluation of land and buildings	**2,543**	2,543
Unrealised fair value gains arising from holdings of equities and debt securities designated at fair value through profit or loss	**680**	121
Regulatory reserve for general banking risks	**1,131,255**	1,111,379
Collectively assessed impairment allowances	**314,618**	346,898
Perpetual subordinated debt	**-**	1,950,007
Term subordinated debt	**5,805,575**	5,813,819
Total supplementary capital before deductions	**7,254,671**	9,224,767
Total eligible supplementary capital before deductions	**7,254,671**	9,224,767
Less: Deductions from supplementary capital items	**(5,413)**	(4,585)
Total supplementary capital after deductions	**7,249,258**	9,220,182
Total capital base after deductions	**20,630,633**	21,303,022
Total deductions from the core capital and supplementary capital	**10,826**	9,170
Risk-weighted amount		
- credit risk	**106,352,723**	108,116,493
- market risk	**2,660,938**	2,305,663
- operational risk	**6,412,988**	6,011,388
	115,426,649	116,433,544

The capital adequacy ratio ("CAR") and core capital ratio at 30 June 2012 and 31 December 2011 are computed on a 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 is prepared according to the consolidation basis for accounting purposes.

The CAR and liquidity ratio of the Group are prepared on a consolidation basis 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 the Banking (Capital) Rules effective from 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 on a solo basis in respect of the following subsidiaries of the Bank:

Names 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:

Names of subsidiaries
Carford International Limited
CITIC Bank International (China) Limited
CITIC Insurance Brokers Limited
CKWB-SN Limited
CKWH-UT2 Limited
HKCB Finance Limited
Ka Wah International Merchant Finance Limited
The Ka Wah Bank (Trustee) Limited
Viewcon Hong Kong Limited

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

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

(C) Segmental information on loans and advances to customers - by geographical areas

	At 30 June 2012				
	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	**57,631,917**	**143,677**	**156,288**	**39,515**	**152,621**
Mainland China	**23,841,155**	**46,169**	**100,148**	**24,841**	**65,103**
United States	**1,531,175**	**911**	**2,509**	**-**	**4,871**
Singapore	**3,555,235**	**-**	**-**	**-**	**45,417**
Others	**7,282,270**	**229,479**	**232,235**	**130,656**	**46,606**
	93,841,752	**420,236**	**491,180**	**195,012**	**314,618**

	At 31 December 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	56,667,444	307,112	348,486	58,672	195,377
Mainland China	23,874,829	63,246	63,247	3,174	77,937
United States	1,336,428	-	-	-	1,611
Singapore	3,564,689	-	-	-	30,093
Others	8,274,742	71,218	288,868	133,814	41,880
	93,718,132	441,576	700,601	195,660	346,898

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 for more than 3 months.

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

Unaudited Supplementary Financial Information

(D) Overdue loans and advances to customers

	At 30 June 2012		At 31 December 2011	
	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	**30,085**	**0.03**	21,999	0.02
- 1 year or less but over 6 months	**187,759**	**0.20**	175,513	0.19
- over 1 year	**202,392**	**0.22**	244,064	0.26
	420,236	**0.45**	441,576	0.47
Secured overdue loans and advances	**275,772**		367,906	
Unsecured overdue loans and advances	**144,464**		73,670	
	420,236		441,576	
Market value of collateral held against the secured overdue loans and advances	**392,760**		652,968	
Individual impairment allowance made	**172,802**		88,795	

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 is 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 should be 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 and other assets which were overdue for over 3 months at 30 June 2012 and 31 December 2011.

(E) Rescheduled loans

	At 30 June 2012		At 31 December 2011	
	HK$'000	**% of total loans and advances to customers**	HK$'000	% of total loans and advances to customers
Rescheduled loans	**694,176**	**0.74**	910,196	0.97

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 are reported as overdue advances in note (D).

There were no advances to banks and other financial institutions which were rescheduled at 30 June 2012 and 31 December 2011.

(F) Repossessed assets

	At 30 June 2012 HK$'000	At 31 December 2011 HK$'000
Included in loans and advances to customers and other accounts	**-**	6,513

The amount represents the estimated market value of the repossessed assets at 31 December 2011. There is no repossessed assets at 30 June 2012.

(G) 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 2012			
	Banks and other financial institutions HK$'000	**Public sector entities HK$'000**	**Others HK$'000**	**Total HK$'000**
Asia Pacific excluding Hong Kong	**42,356,177**	**468,424**	**26,321,612**	**69,146,213**
of which mainland China	**34,707,011**	**343,210**	**20,392,115**	**55,442,336**
Western Europe	**3,792,995**	**82,099**	**1,920,564**	**5,795,658**
of which France	**1,297,672**	**-**	**11,379**	**1,309,051**
of which Netherlands	**601,560**	**-**	**6,606**	**608,166**
of which Spain	**308,571**	**-**	**492,339**	**800,910**
of which United Kingdom	**945,883**	**1,006**	**691,767**	**1,638,656**

	At 31 December 2011			
	Banks and other financial institutions HK$'000	Public sector entities HK$'000	Others HK$'000	Total HK$'000
Asia Pacific excluding Hong Kong	32,847,217	463,315	27,509,547	60,820,079
of which mainland China	26,969,386	336,208	20,837,302	48,142,896
Western Europe	11,649,410	2,858	1,999,568	13,651,836
of which France	2,364,064	-	11,682	2,375,746
of which Germany	1,757,023	-	21,031	1,778,054
of which Spain	1,542,440	-	950,079	2,492,519
of which United Kingdom	3,233,853	737	404,714	3,639,304

(H) 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 2012			
	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	**14,273,805**	**5,261,115**	**19,534,920**	**56,145**
Companies and individuals outside mainland China where the credit is granted for use in mainland China	**31,609,043**	**8,978,920**	**40,587,963**	**16,156**
Other counterparties the exposures to whom are considered to be non-bank mainland China exposures	**-**	**6,443**	**6,443**	**-**
	45,882,848	**14,246,478**	**60,129,326**	**72,301**

	At 31 December 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	14,932,429	6,021,822	20,954,251	22,477
Companies and individuals outside mainland China where the credit is granted for use in mainland China	28,529,769	10,965,515	39,495,284	18,072
	43,462,198	16,987,337	60,449,535	40,549

Unaudited Supplementary Financial Information

(I) Risk management

The Group manages its risks under the oversight of the Board of Directors and its delegated committees. The Group's Risk Management Group has been entrusted with the ongoing responsibilities of identifying, quantifying, monitoring and mitigating the risks, encompassing group credit risk, market risk, risk infrastructure & operational risk management, risk asset management, and credit risk metrics & capital management. The Group continually enhances its risk management practices and infrastructure in line with the market, product offerings 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 Bank continued to invest in and strengthen its risk management infrastructure and capabilities. The Risk Management Plan ("RMP"), which was kick-started in 2009, was completed in December 2011. This plan resulted in the development and enhancement of comprehensive risk tools, methodologies and processes to support the Bank's risk infrastructure. This has enabled the Bank to establish the Global Risk Indicator ("GRI") which is an objective, simple and comprehensive tool to measure the Bank's overall risk profile.

The Group manages the following main types of risk:

(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 market 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 that 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 level in terms of product, industry and geography.

(I) 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 following:

– The management of the Group's liquidity risk is governed by the Liquidity Management Policy, endorsed by the Financial Management Group 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 structures. It also identifies, measures and monitors the liquidity profile to ensure current and future funding requirements are met. Scenario analysis and stress testing are worked out by the Financial Management Group and reviewed by ALCO on a regular basis. A Contingency Funding Plan, which is developed by Central Treasury, is reviewed and approved by ALCO on a regular basis.

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

Liquidity management is conducted on the Group level, Bank level, at individual overseas branches and at 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 is monitored as a whole by 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 the 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 a sound and diversified range of funding sources, through monitoring the structure, the stability and the core level of the deposit portfolio;

– Projecting the liquidity ratio for the short to medium term to allow the early detection of liquidity issues and to ensure the ratio is within statutory requirements and internal triggers;

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

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

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

– Maintaining access to the interbank money market to activate facilities;

– Maintaining a debt financing plan; and

– Maintaining a proper contingency plan, which includes setting early warning signals (including internal and market indicators), and describing actions to be taken in the event of a 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 issuance of HKD and USD certificates of deposit so as to secure a stable source of term funding. At 30 June 2012, a total of HK$9.75 billion equivalent (31 December 2011: HK$9.77 billion equivalent) was raised through several successful issuances of certificates of deposit. 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 2012, the Group's average liquidity ratio was 59.3% (for the year ended 31 December 2011: 43.6%). The Group holds a portfolio of high-grade securities with short maturities which can generate liquidity if necessary, either through the repurchase arrangements or outright 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 a liquidity cushion that can be liquidated in the event of an emergency.

(I) Risk management (cont'd)

(iii) Market risk management

Market risk arises from all financial instruments sensitive to market risk, including securities, foreign exchange contracts, equity and derivative instruments, as well as available-for-sale securities ("AFS") or structural positions. The Group mainly separates exposures to market risk into trading and 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 are neither intended to be held to maturity nor purchased for trading purposes. The change in valuation for the trading portfolios from market risks affects the income statement, while that for the AFS portfolios affects the investment revaluation reserve. The Group needs to ensure impacts on both the income statement and the reserves from market risks have proper prudent controls. The objectives of market risk management are to:

- identify, monitor and control market risk exposures through the measurement of the risks; establish position limits, sensitivity limits and value at risk ("VaR") limits based on the Group's Tier 1 capital base; and communicate 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 as set out through the establishment of a limit structure, early warning 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 ALCO and is endorsed by the Board through the CRMC. The hierarchy of the limit structure is set up to the control the position size, profit and loss, and sensitivities from the portfolio level to the individual trader level. All business units with market risks are required to strictly comply with the policies and the limits. The Treasury is the primary business unit involved in market risk exposures.

The Market Risk and Liquidity Modeling ("MR&LM") is an independent risk measurement and control unit overseen by the Head of Market Risk and Liquidity Modeling, who reports to the Director of Risks. MR&LM uses a set of quantitative techniques to identify, measure and control the market risks, which are regularly reported to ALCO and the Board through the CRMC. These techniques include sensitivity analyses, 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 Evaluation and Approval Policy" ("the Policy") approved by the CRMC. According to the Policy, new products are subject to risk clearance by various functional units, including Financial Management Group, Operations and Technology Management Group, the Risk Management Group, the Legal Department and the Compliance Department. After obtaining functional clearance, the sponsoring Business Head shall submit the Product Evaluation Proposal for the joint approval of the Director of Risks and the Chief Executive Officer ("CEO") / Alternate Chief Executive Officer ("ACEO").

Methodology and characteristics of market risk model

The following explains the types of quantitative risk measures the Group adopts.

Sensitivity analysis

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

Unaudited Supplementary Financial Information

(I) Risk management (cont'd)

(iii) Market risk management (cont'd)

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

Value at risk

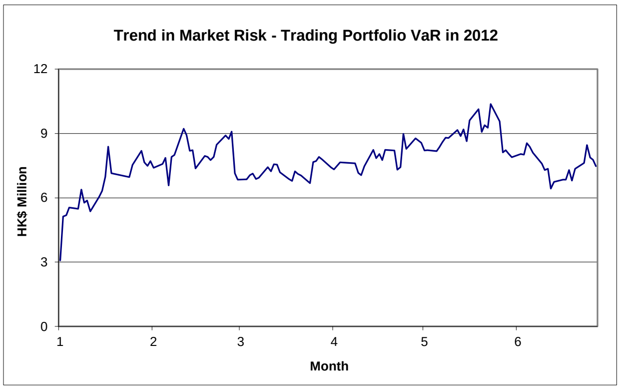
VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The model is designed to capture the different risk types including interest rate risk, foreign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

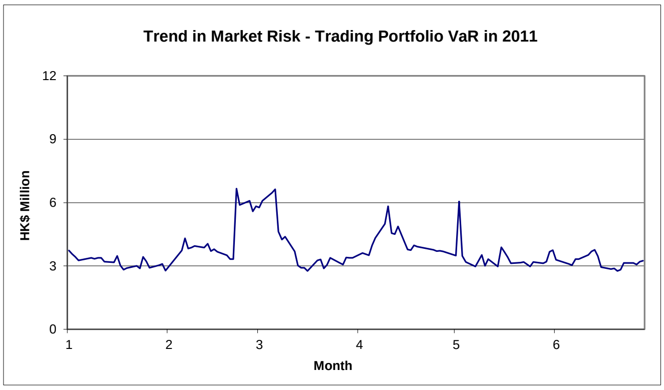
The VaR models used by the Group are predominantly based on historical simulations, and Monte Carlo simulations are also used as a reference. These models derive plausible future scenarios from historical market rates and prices, taking into account the correlation of different markets and rates such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

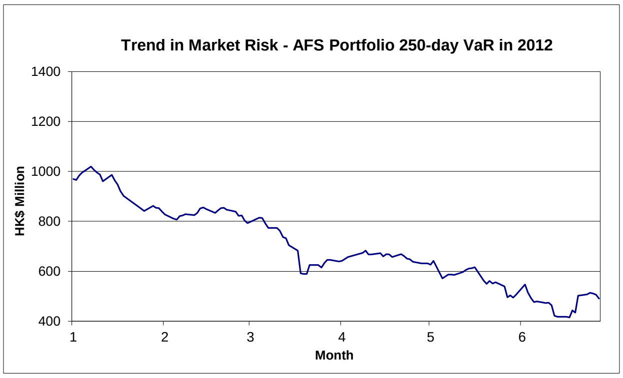
- potential market movements are calculated with reference to data from the prior year for the trading portfolios and from the previous two years for the AFS portfolios, including the historical market rates, prices and associated volatilities;

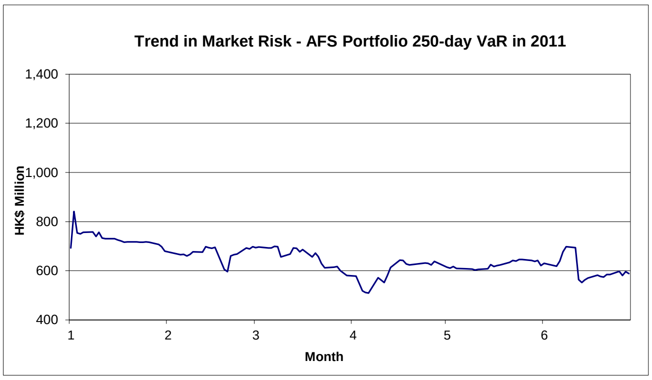
- for the trading portfolio, VaR is calculated with a 99% confidence level and for a 1-day holding period;





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





Unaudited Supplementary Financial Information

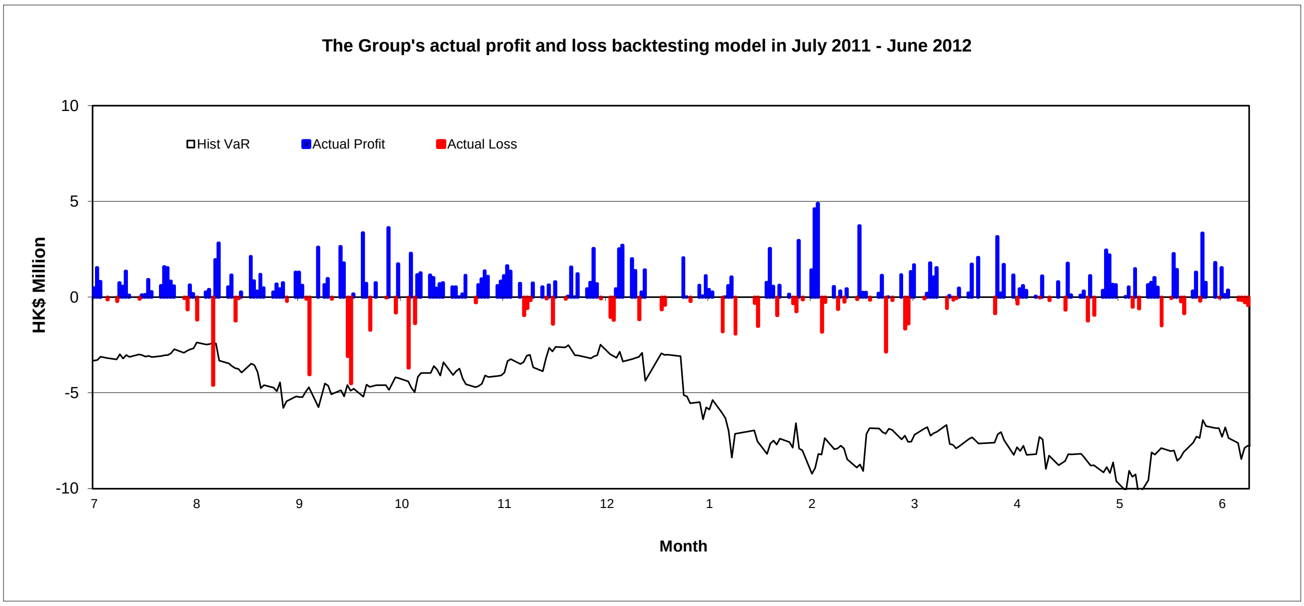
(I) Risk management (cont'd)

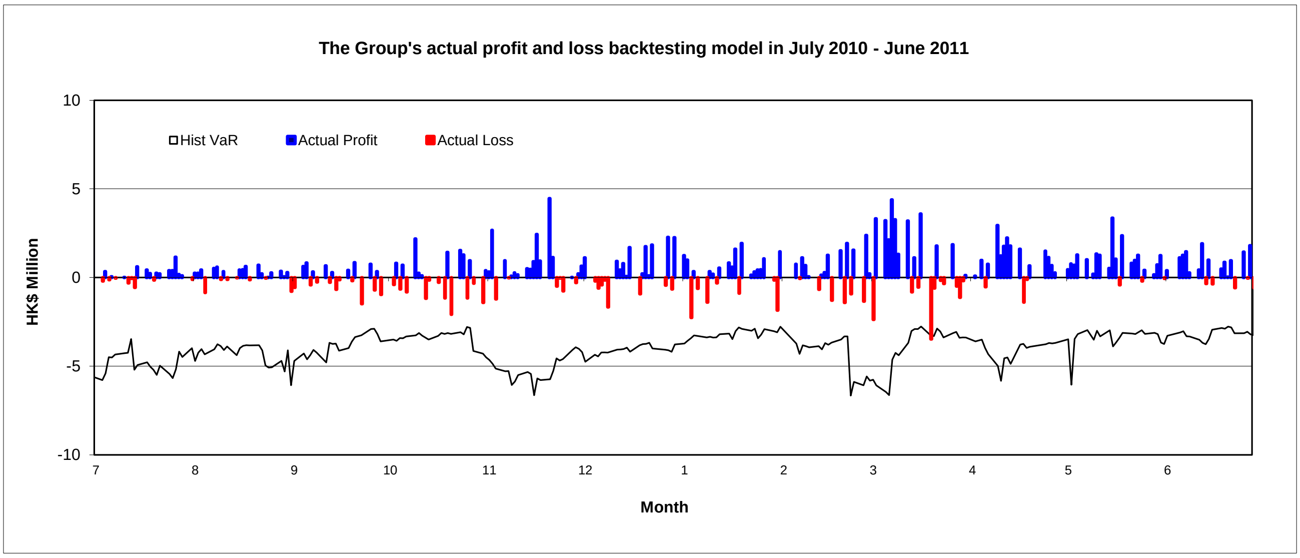
(iii) Market risk management (cont'd)

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

Value at risk (cont'd)

- through backtesting started in 2009, 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 only expects to see losses in excess of VaR 1% 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 period ended from 1 July 2011 to 30 June 2012, there was one exception in the backtesting results (1 July 2010 to 30 June 2011: one exception), which corresponds to the green zone specified by the HKMA and the international Basel principles.





While VaR calculated using 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 potential events and the events beyond the 99% confidence interval are not considered. In order to mitigate such limitations, the MR&LM provides ALCO with the stress test results reflecting potential extreme events on the market risk exposures for the trading and AFS portfolios.

Unaudited Supplementary Financial Information

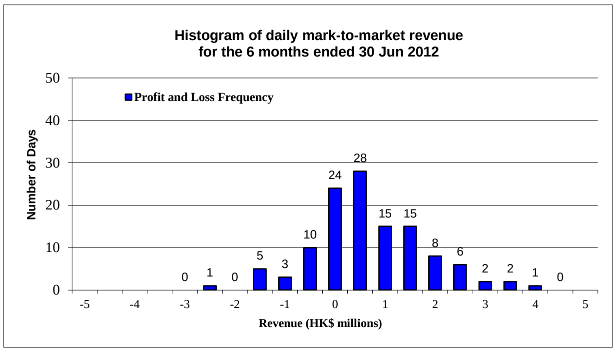
(I) Risk management (cont'd)

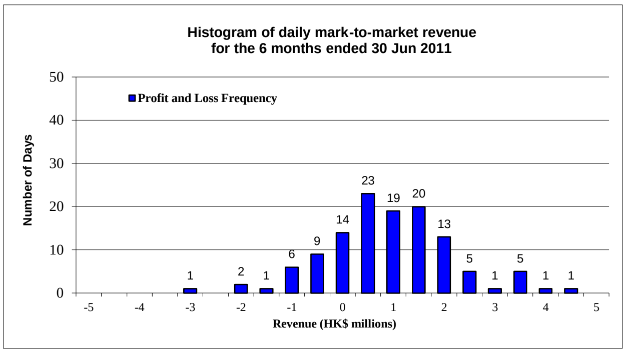
(iii) Market risk management (cont'd)

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

Value at risk (cont'd)

For the 6 months ended 30 June 2012, the average daily mark-to-market revenue from the Bank's trading portfolio and fund investments (excluding structured investment vehicles) was gain of HK$477,000 (6 months ended 30 June 2011: gain of HK$661,000). The standard deviation of the daily revenue was HK$1,241,000 (6 months ended 30 June 2011: HK$1,271,000). The graphs below show the histograms of the Group's daily mark-to-market revenue for the 6 months period ended 30 June 2012 and 2011 respectively.





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

Market Risk for the Trading Portfolio - 1-day VaR 99%

	6 months ended 30 June 2012				6 months ended 30 June 2011			
	Maximum	**Minimum**	**Mean**	**At 30 June 2012**	Maximum	Minimum	Mean	At 30 June 2011
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000	HK$'000
Foreign exchange risk	**5,093**	**998**	**3,457**	**4,771**	4,103	880	1,973	1,831
Interest rate risk	**4,235**	**965**	**2,139**	**2,356**	6,055	646	1,934	1,577
Total VaR	**10,377**	**3,086**	**7,670**	**7,470**	6,662	2,767	3,676	3,246

Market Risk for the AFS Portfolio

	6 months ended 30 June 2012				6 months ended 30 June 2011			
	Maximum	**Minimum**	**Mean**	**At 30 June 2012**	Maximum	Minimum	Mean	At 30 June 2011
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000	HK$'000
Interest rate risk	**145,944**	**108,974**	**127,731**	**124,915**	215,650	150,654	190,064	152,396
Credit spread risk	**976,851**	**404,422**	**673,764**	**471,645**	739,489	483,767	596,314	523,404
Total 250-day VaR	**1,020,047**	**415,059**	**693,413**	**490,118**	840,933	509,523	649,791	588,474

Stress testing

Stress testing is implemented to mitigate the weaknesses in the VaR model in order to capture 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 breaking the HK dollar and US dollar currency peg; and

- historical scenarios, which incorporate the 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 are reported to ALCO, which provides an assessment of the financial impact that such events 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 2012 were below the stress loss alerts and limits.

Credit spread risk

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

In order to strengthen the risk control of the AFS portfolios, the MR&LM has established and developed a framework that enables the estimation of the fair value of option adjusted spreads in order to calculate the fair value of illiquid securities, as well as the calculation of a 250-day credit spread VaR, credit spread sensitivity risk statistics, stress testing, and the establishment of a limit structure and early alert indicators. The objective of choosing the 250-day credit spread VaR statistics is to measure the potential adverse impact on the Group's reserve on an annual basis.

(I) 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. The Group's foreign exchange positions 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 6 months ended 30 June 2012, the Group's average daily trading profit and loss from foreign exchange positions was a profit of HK$377,000 (6 months ended 30 June 2011: profit of HK$387,000) with a standard deviation of HK$1,264,000 (6 months ended 30 June 2011: HK$848,000).

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

		At 30 June 2012		
Equivalent in HK$'000	**USD**	**RMB**	**Others**	**Total**
Spot assets	**54,930,428**	**36,271,662**	**2,656,084**	**93,858,174**
Spot liabilities	**(36,462,684)**	**(32,945,018)**	**(14,295,004)**	**(83,702,706)**
Forward purchases	**79,989,355**	**57,386,414**	**22,432,193**	**159,807,962**
Forward sales	**(97,256,290)**	**(59,330,666)**	**(10,786,676)**	**(167,373,632)**
Net option position	**29,688**	**(9,254)**	**(2,605)**	**17,829**
Net long position	**1,230,497**	**1,373,138**	**3,992**	**2,607,627**
Net structural position	**-**	**732,000**	**48,542**	**780,542**

		At 31 December 2011		
Equivalent in HK$'000	USD	RMB	Others	Total
Spot assets	56,453,603	30,482,056	4,089,798	91,025,457
Spot liabilities	(39,857,172)	(24,163,466)	(12,866,936)	(76,887,574)
Forward purchases	71,872,830	44,111,233	20,091,778	136,075,841
Forward sales	(87,385,354)	(49,892,395)	(11,289,714)	(148,567,463)
Net option position	6,033	-	(780)	5,253
Net long position	1,089,940	537,428	24,146	1,651,514
Net structural position	-	612,510	48,527	661,037

The net option position is calculated using the 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 exposures from both 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 repricing 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 the banking book. Moreover, the Treasury and Markets Department 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, especially 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 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 the Trading Book. The Group mainly uses the present value of a basis point movement to measure its interest rate risk exposure in the trading book. For the 6 months ended 30 June 2012, the Group's average daily trading profit and loss from interest rate positions was a gain of HK$101,000 (6 months ended 30 June 2011: gain of HK$222,000), with a standard deviation of HK$923,000 (6 months ended 30 June 2011: HK$999,000).

Unaudited Supplementary Financial Information

(I) 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 a 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 a standardised approach to calculate market risk in its trading portfolios, risk weightings for credit risk and the 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 2012 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 2012 and the year ended 31 December 2011, and are well above the minimum required ratio set by the HKMA.

(I) 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 ("ORM") is to ensure that operational risks are consistently and comprehensively identified, assessed, mitigated, monitored and reported.

The Operational Risk Governance Framework ("ORGF") encompasses every member within the Group. ORM relevant matters are reported to the Director of Risks and are under the oversight of the Board-delegated CRMC and the Operations Committee ("OC"). The Group's ORM framework, plans and tools are approved by the OC and CRMC, and implementation is driven by the ORM unit and senior management.

The ORM unit assists management in meeting their responsibility of understanding and managing operational risk, and ensuring the development and consistent application of operational risk policies, processes and procedures throughout the Group. The ORM unit monitors the Group's overall operational risk exposures and ensures that all material risks are promptly and appropriately escalated to senior management. Audit Department examines and evaluates the adequacy and control effectiveness of the ORGF on an ongoing basis. Business and functional units are responsible for monitoring the relevant operational risk under their expertise.

The Group manages its operational risk through the Bank's policies, guidelines and procedures as set out below:

- Group Operational Risk Management encompasses the Group's ORGF, which depicts the governance framework, roles and responsibilities, tools, and methodologies for the management of operational risk.

- Incident Reporting Framework stipulates the risk classification, reporting requirements, loss posting and reconciliation, and roles and responsibilities of reporting operational risk incidents.

- New Product Approval Process stipulates the new product definition, approval requirements, processes, and roles and responsibilities of the approval and reviewing parties; the necessary risk assessments before the launch of the new product; and the compulsory post-launch review requirements.

- Other policies, guidelines and procedures cover outsourcing policy, disaster recovery plans, business continuity plans, bank run drills, human resources-related policies, IT data security and End-User Computing policies are in place under respective business and functional units expertise.

The Group measures and monitors operational risk through the ORM tools and systems as set out below:

- Operational Risk Self-Assessment ("ORSA") has been rolled out across the business and functional units in phases under the guidance of the ORM unit. ORSA leaders are nominated by the management of each business and functional unit to conduct self-assessments and identify Key Risk Factors in their daily business and support functions. Each Key Risk Factor is assessed and quantified for its financial impact, in terms of the estimated loss impact of each occurrence ("Dollar Impact") and estimated number of occurrences in a year ("Annual Frequency"). The ORSA tool is automated, based on Dollar Impact and Annual Frequency, to calculate the dollar value of total risk exposure in a year. In additional to the financial impact assessment, non-financial impacts of risk factor, including customer impact, reputation impact and likelihood of turning into significant incident are also assessed. Based on the assessment results, the relevant unit will decide whether to adopt ongoing monitoring or establish mitigation plans to lower the risk. Once a mitigation plan is established, the relevant unit will track the progress and regularly update the ORM unit for monitoring and management reporting purposes.

- Operational Risk Loss Database has been established through the implementation of the Incident Reporting System ("IRS"), which collects all operational risk incidents with or without financial impact. Through the IRS, the ORM unit ensures all incidents are properly investigated, with corrective and preventive actions promptly executed according to the planned timeline. It serves as a centralised database to produce regular reports for senior management, OC and CRMC review on the significant impact and monitoring of the operational risk trend. An escalation protocol is in place to ensure that incidents with significant impact are reported to the respective internal units as well as promptly reported to the regulatory authorities. At the request of regulatory authorities, the incident data in the IRS is also submitted for their periodic review.

- Key Risk Indicators ("KRIs") comprise a statistical tool taking into consideration various risk factors and serve to provide predictive and early warning signals for management monitoring and action. Through regular monitoring of this data, areas of potential operational control weaknesses can be identified at an early stage and promptly addressed. In the past year, the KRI methodology has undergone vigorous enhancement to achieve the objective of Bank-wide coverage and of adopting a more scientific and magnitude-driven approach. The new KRI model covers 16 sub-KRIs under 6 major risk classes and provides a KRI score for each indicator, business and functional unit, as well as at the Bank-wide level to provide a holistic view of the Bank's overall operational risk profile and trends.

(I) Risk management (cont'd)

(v) Operational risk management (cont'd)

The Operational Risk Update report provides management with an overview of the key operational risk issues and analysis, and is submitted to the OC on a monthly basis and to the CRMC on a quarterly basis as part of the Group-wide Risk Status Update report. It captures the implementation status of ORM initiatives; and depicts analysis on the trend of operational incidents and operational losses, highlights of incidents with material impact on the Group and lists of incident details during the month.

Substantial efforts were made in 2011 to cultivate a strong ORM culture achieved through a series of training sessions held throughout the Bank in the first quarter of 2011, followed by the launch of a web-based learning program rolled out in the fourth quarter of 2011. The continual objectives are to raise risk awareness, and enrich employees' understanding of the ORGF, their roles and responsibilities, accountability and the IRS. The web-based learning is required for all newly joined staff, and will be conducted annually in Hong Kong, with targeted roll-out to overseas branches and subsidiaries in the near future. This is further reinforced by strong, visible management support which encourages staff to embrace and promote operational excellence.

With the endorsement of the long-term ORM roadmap and tools obtained from the OC, Management Committee and CRMC in 2011, the Group will continuously fine-tune and enhance its operational risk management framework in line with industrial developments, and will work closely with its strategic shareholder and partner. In the coming years, the Group will focus on (a) promoting the ORSA Group-wide in phases; (b) strengthening the ORM oversight on overseas branches and subsidiaries; and (c) continually enhancing the IRS and the relevant ORM reports.

The Group’s long-term goal is to cultivate a proactive, responsible and accountable culture on ORM, encompassing identification, assessment, mitigation and reporting, and thus achieving operational excellence through continual robust operational risk management.

Unaudited Supplementary Financial Information

(I) Risk Management (cont'd)

(vi) Legal risk management

Regulatory requirements are growing in complexity, number and significance. Increasingly the sources of those requirements which have a direct impact on the Group in Hong Kong are regulatory bodies or multilateral organisations outside Hong Kong. With due regard to the highly regulated financial environment in which it operates, the Group seeks to remain abreast of all legal and regulatory requirements applicable to its governance and operations, and continuously seeks to develop its people, and 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 communication 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, the CRMC 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 Bank. In the first half of 2012, the LD and CD were actively involved in new product launches and new business initiatives, strategically important transactions and commercial agreements, outsourcing arrangements, as well as day-to-day matters arising from the Group's business that is diverse both geographically and in scope. The CD has also been heavily involved in monitoring and ensuring compliance with the fast changing regulatory requirements in the area of investor and customer data protection. The LD and CD will continue to provide the advice and support that the Group requires in the second half of 2012 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 professionally and promptly. Such strategies are reviewed regularly to enable the Group to respond efficiently 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 ongoing efforts to monitor and ensure high standards of customer satisfaction, operational efficiency, legal and regulatory compliance, public communication and issues management, etc.

Report of the Chief Executive Officer

Operating Environment

In the first half of 2012, Hong Kong's economic growth slowed down significantly as a result of weakened domestic consumption and shrinking trade volume. The persistent European debt crisis alongside several rounds of credit ratings cuts for major Eurozone countries also dampened the overall investment climate and posed challenge to Hong Kong's financial industry during the period.

On a positive note, Hong Kong kept its development momentum as an offshore RMB centre while the city's banking institutions, on the back of regulatory easing, were able to exercise greater flexibility in mobilising RMB deposits and increased efficiency in RMB capital flows between onshore and offshore markets, giving a steady impetus to RMB business growth. In an environment fraught with increasing downside risks, these new opportunities were predominantly important for generating benefits and support to the Hong Kong financial industry.

CITIC Bank International Limited ("CBI") and its subsidiaries ("the Group") adopted a prudent yet proactive approach to business development in the face of unfavourable economic conditions in the first half of 2012, focusing its efforts on underwriting practices as well as asset and liability management by aligning loan and deposit growth in order to improve yield and ensure ample liquidity towards enhancing its overall financial standing. Meanwhile, the Group capitalised on the opportunities presented by Hong Kong's growing offshore RMB market to drive development for related businesses and revenue growth, and in collaboration with parent bank, China CITIC Bank Corporation Limited ("CNCB"), which has an extensive network and clientele in Mainland China, propelled its cross-border business by riding on the Group's advantage as a one-stop financial platform. With a view to scale up its strength in cross-border business and operational efficiency, the Group merged its Wholesale Banking Group with China Banking into Wholesale and Cross-border Banking Group during the period. The amalgamation, through structure optimisation and resources integration, was completed with an aim to establish a unique, competitive cross-border business platform.

Business Performance

<u>Earnings</u>

Riding on its established leadership in the RMB business to grasp the opportunities arising from the rapid development of Hong Kong's offshore RMB business, the Group stepped up collaboration with CNCB in the first half of 2012 to roll out timely and diversified RMB products and services, which effectively met its customers' investment and hedging needs, and expanded the scope of its interest-bearing assets moderately, fuelling continuous growth in the Group's recurrent income and earnings. The Group's operating income rose by 3.5% year-on-year to HK$1,870 million, while its operating profit before impairment also increased by 2.2% to HK$1,050 million. It should be noted that the growth in the above income and profit has factored in two one-off incomes booked in the first half of 2011 including a write-back of HK$229 million from the recovery of Lehman Brothers Minibond collateral and an income of about HK$26 million on disposal of a held-for-sale asset. This heightened the impact of the comparison base considerably. Discounting the one-off incomes, there recorded a strong growth in both profit and income year-on-year.

Leveraging off the management expertise of its strategic shareholder, Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA"), the Group continued to upgrade its risk management capabilities, resulting in continuous improvement in its asset quality. During the period, the Group recorded net impairment losses of HK$7 million only, while a write-back of HK$73 million including a write-back of HK$58 million on a held-for-sale asset was recorded in the first half of 2011. Taking into account the HK$28 million in revaluation gain on investment properties and other items, the Group's profit before taxation declined slightly by 5.2% year-on-year to HK$1,070 million while its profit attributable to shareholders fell by 4.5% to HK$905 million as compared to the same period in 2011. Excluding the two aforementioned one-off incomes including the write-back from the recovery of Lehman Brothers Minibonds collateral, the Group's profit attributable to shareholders in the first half of 2012 would have registered a significant 31.2% increase as compared to the same period in 2011.

Net Interest Income

In the first half of 2012, the Group expanded the size of its interest-bearing assets moderately while increasing interbank deposits and advances. Active asset and liability management and the ongoing effect of the repricing of corporate loan portfolio helped to boost net interest income significantly by 24.0% year-on-year to HK$1,099 million. All these favourable factors also contributed to improving the Group's net interest margin by 6 basis points year-on-year from 1.23% in the first half of 2011 to 1.29% in the first half of 2012.

Non-interest Income

During the period, the Group's non-interest income fell 16.4% year-on-year to HK$770 million mainly because of a higher comparison base for the first half of 2011 as a result of the two aforementioned one-off incomes including the write-back on collateral recovery from the Lehman Brothers Minibonds. Excluding related write-backs recorded for 2011, the Group's non-interest income would have increased by 15.6% year-on-year during the period. This was partly attributable to the significant 34.3% year-on-year increase in income derived from the effective cross-selling of treasury products facilitated by the close collaboration between Treasury and Markets Group, Wholesale and Cross-border Banking Group and Retail Banking Group amid surging demand for offshore RMB products. In addition to this, corporate loans related fee income surged substantially by 67.5%, wealth management related income increased notably by 23.0%, and trade bills commission income rose by 14.1%. All of these factors were key to non-interest income growth.

Operating Expenses

The Group pursued steady business development as planned and further increased the number of its Hong Kong branches. Upward adjustment pressure on wages and rental of premises also caused operating expenses to rise by 5.1% year-on-year to HK$820 million during the period. The Group's cost to income ratio stood at 43.9%, remaining approximately at the same level as in the first half of 2011.

Impairment Allowances

Owing to stringent asset quality control, the Group registered net impairment losses in loans and advances and other accounts totalling merely HK$7 million during the period, whereas a net write-back of HK$73 million, including the HK$58 million write-back on a held-for-sale asset, was recorded for the first half of 2011. Individually assessed loans and collectively assessed loans recorded a net loss of HK$46 million and a net write-back of HK$29 million respectively, compared with a net write-back of HK$37 million and HK$15 million respectively during the same period last year. Aside from this, bad debt recoveries reduced by 52.1% year-on-year to HK$10 million.

Asset Quality

Asset, Loan and Deposit Sizes

As economic downside risks increase, the Group focused its sights on enhancing its credit approval as well as asset and liability management by regulating its loan, deposit and asset sizes moderately, while putting more effort into raising the return on assets in the first half of 2012 in a move to improve yield and ensure ample liquidity. As at end-June 2012, the Group's total loans and total assets reached HK$93.8 billion and HK$171.4 billion respectively, keeping near par with year-end 2011 levels. Meanwhile, in the face of fierce competition for customer deposits among local banks, the Group adopted appropriate strategies, and by rolling out a diverse range of customer-driven deposit products, maintained total deposits of HK$139.2 billion, at a level similar to year-end 2011.

Asset Quality Indicators

The Group's asset quality improved steadily, resulting in a continuous decline in the impaired loan ratio, which, as at end-June 2012, dropped to 0.52% from 0.75% at end-December 2011 and from 1.28% at end-June 2011. Other asset quality indicators have also improved, of which loan loss coverage ratio surpassed 100% as it rose from 77.4% at end-December 2011 to 103.8% at end-June 2012, reflecting the effectiveness of the Group's stringent asset quality control. In a report released by rating agency Moody's Investors Service in June 2012, the Group was given positive comments on the continuous improvement in credit quality. Moody's therefore revised the rating outlook for the Group's bank financial strength from stable to positive.

Financial Position

In May 2012, the Group exercised its option to early redeem US$250 million perpetual subordinated guaranteed notes. As such, the Group's capital adequacy ratio as at end-June 2012 dropped slightly to 17.9% as compared to 18.3% at year-end 2011. However, this was still far higher than the industry average. In spite of increased competition for customer deposits among local banks, the Group's rollout of a series of successful customer deposit campaigns and active asset and liability management programmes effectively regulated its deposit and loan sizes. This has enabled the Group to keep its loans to deposits ratio at a healthy level of 67.4%. In addition, the Group's average liquidity ratio rose significantly to 59.3%, due primarily to the Hong Kong Monetary Authority's relaxation of the inclusion of RMB assets and deposits in the calculation of average liquidity ratio during the period with obviously positive impact since the Group has always maintained a relatively rapid growth in its RMB deposits.

CBI's Key Financial Ratios

	30 June 2012	**31 December 2011**
Capital adequacy	17.9%	18.3%
Core capital adequacy	11.6%	10.4%
Average liquidity	59.3%	43.6%
Loans to deposits	67.4%	67.3%
Loans to total assets	54.7%	54.7%
Impaired loans	0.52%	0.75%
Coverage[1]	98.4%	96.3%
Loan loss coverage	103.8%	77.4%
Mainland loans to total customer advances	25.4%	25.5%

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

Business Development

Retail Banking Group ("RBG")

While the subdued US economy and the European sovereign debt crisis triggered global economic uncertainties and continued to drag down Hong Kong and Mainland China's economic growth, RBG maintained sustainable growth in the first half of 2012. As at end-June 2012, total retail lending reached HK$34.3 billion, up 2.9% from year-end 2011. This was attributable mainly to a 16.1% growth in SME loans. Retail deposits reached HK$59.0 billion, a level on par with year-end 2011. Focused efforts in margin management resulted in a 12.7% year-on-year growth in net interest income and net interest margin expansion by 22 basis points year-on-year. Wealth management-related fees, in turn, continued to be a key contributor to non-interest income with a 23.0% year-on-year growth, driven primarily by increased sales revenue from insurance, unit trusts and structured deposits.

Continuous efforts to boost operational efficiency came to fruition. In particular, operating expenses increased a mere 3.0% year-on-year to HK$350 million. Asset quality remained strong with a write-back of HK$2.3 million in impaired loans for the first half of 2012 while net profit before tax rose 28.0% year-on-year to HK$337 million in the same period exclusive of the write-back on collateral recovery from Lehman Brothers Minibonds accounted for in 2011.

The Group's CITIC*first* private wealth management franchise chalked up encouraging clientele growth with the number of CITIC*first* customers reported at end-June 2012 in excess of 19,700, representing a 1.9% interim increase. Total customer assets under management stood at around HK$50 billion.

In an effort to drive the Group's vision of becoming the "China Bank of Choice", RBG launched a number of RMB deposit and insurance products such as RMB High Yield Deposit and Wise Choice 5-Year Insurance Plan (RMB) in the first half of 2012. The Group also became one of the first batch of distributors in RQFII fund sales with the launch of CSI RMB Income Fund. All this was in addition to a SME customer referral programme launched jointly with parent bank, CNCB. The programme brought about new opportunities and augmented the Group's capability in cross-border business.

Wholesale and Cross-Border Banking Group ("WBG")

With a view to grasping the rising business opportunities and optimising resources allocation as well as operational procedures towards building a successful cross-border platform with distinctive competitive advantages, a amalgamation of Wholesale Banking Group and China Banking into a new Wholesale and Cross-Border Banking Group ("WBG") was completed in the first half of 2012. The priority for the new setup is to accelerate the development of the Group's wholesale and cross-border business through further improving the quality of financial services and solutions and by capturing increasing cross-border opportunities between Mainland China, Hong Kong and other Asian countries.

The newly restructured WBG reported initial success with a record operating income and profit before tax, which were up 41.2% and 36.1% respectively from the same period last year. This outstanding performance was attributable to a significantly higher net interest income, accelerated Global Markets business and increased lending related fee income. These were also construed as a sustained momentum of business growth and a direct result of WBG's focus on maintaining sustainable strategic development through offering customer-centric products and solutions. At the same time, WBG continued to invest in product development and delivery channels, with great progress made in areas such as Transaction Banking, Global Markets and Structured Finance and Syndication.

To capture the increasing cross-border business opportunities brought about by Mainland China's sustained economic growth and RMB internationalisation, WBG further strengthened its collaboration with CNCB and CITIC Group entities. As a result, the growth of referral business from CNCB and CITIC group entities has been accelerated significantly, with referral business revenues of nearly twice as much as the same period last year. Meanwhile, WBG launched a number of new initiatives for RMB business development, including a RMB business task force in association with CNCB, a pilot cross-border RMB loan programme with CNCB branches and a Trade Loan Campaign for CNCB customers. Encouragingly, the Group saw a robust, sustained growth in both its RMB cross-border trade settlement volume and RMB deposit balance during the first half of the year. Noteworthingly, CITIC Bank International (China) Limited adhered to its vital role as the onshore platform for the development of the Group's cross-border business as well as for WBG's cooperation with CNCB and CITIC Group aside from achieving strong profit growth.

To foster stronger relations with customers and meet their regional needs, the Group established its Singapore Branch to provide customers with an array of wholesale banking and treasury services. By adopting the right strategy for a growing market, the Singapore Branch exceeded expectations on most business fronts.

Parallel to efforts in boosting business growth and products and service investment, WBG strived to strike a healthy balance between risk and return, achieving a record profit before tax for the first half of the year attributable partly to low credit costs as a result of stringent risk management practices.

Treasury and Markets Group ("TMG")

In spite of the challenging external environment, TMG continued to tap the opportunities arising from the continuous growth of Hong Kong's offshore RMB market to develop related businesses, providing customers with tailored RMB products in a timely manner and in consequence registered satisfactory results in its Global Markets business in the first half of 2012. Driven by sustained growth in RMB product sales, the fee income from cross-selling of Global Markets' treasury products surged by 26.5% year-on-year. Market volatilities nevertheless presented opportunities to offer structured products to meet customers' hedging needs. During the period, sales revenue from structured products accounted for 51% of the total revenue of Global Markets, a marked increase from the 19% share recorded a year ago.

In the area of central treasury management, the Group exercised prudence in an orderly manner and reduced its European bond holdings in its available-for-sale securities portfolio during the period in a bid to minimise the possible adverse impacts entailed by the European debt crisis, posting however a disposal loss on securities of HK$21 million. The Group's European bond holdings was therefore reduced to HK$5.1 billion as at June-end 2012 from HK$8.7 billion recorded at the beginning of the year and is expected to be cut further to HK$3.8 billion by the end of the year as the bonds reach maturity.

In a move to secure deposit-taking, TMG, in close collaboration with WBG and RBG, built a bigger market share and longer maturity profile in RMB deposits which provided a sound funding base for the Group's various RMB business development plans. As at June-end 2012, CBI's RMB customer deposits accounted for 21.1% of its total customer deposits. On 14 June 2012, the Hong Kong Monetary Authority issued a guideline to replace the RMB risk management limit, with a RMB liquidity ratio for monitoring RMB liquidity position. All banks are now required to maintain a RMB liquidity ratio at no less than 25%. The relaxation of the liquidity requirement freed up to RMB5 billion in cash balance for the Group's central treasury, helping to generate better interest returns for the Group in the second half of the year.

Risk Management

Amid the tumultuous economic climate in the first half of 2012, Risk Management Group focused its efforts on tightening underwriting practices, conducting rigorous risk reviews, managing vulnerable portfolios, improving the Group's investment strategy, and enhancing capital and liquidity management to align with the Group's risk appetite.

The Group continued to invest in and strengthen its risk management infrastructure and capabilities. The Risk Management Plan ("RMP"), which was kick-started in 2009, was completed in December 2011. This plan resulted in the development and enhancement of comprehensive risk tools, methodologies, and processes to support the Group's risk infrastructure. This has enabled the Group to establish the Global Risk Indicator ("GRI") which is an objective, simple and comprehensive tool to measure the Group's overall risk profile.

The Group'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 Group. Established policies and procedures are in place to identify, quantify, monitor and mitigate the risks to which the Group is exposed, including credit risk, market risk, operational risk, liquidity risk, interest rate risk, strategic risk and reputation risk. In addition, the Internal Audit Department conducts regular independent reviews of the Group's risk management practices to ensure compliance with internal policies as well as regulatory requirements.

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

Future Outlook

In response to the European sovereign debt crisis, a number of Eurozone nations took proactive austerity measures which prompted negative sentiments among local residents and contributed to political upheavals and civil strife, giving little hope for near-term resolution to the crisis. In addition, as the US economy continues to recover at a tepid pace and emerging markets lose steam, the global economy is likely to remain volatile and cloudy, offering Hong Kong's financial sector challenging possibilities which are to be taken with utmost caution.

Reassuringly, Hong Kong boasts strong financial fundamentals as well as ample fiscal surplus. The city is also well geared to deal with economic slide and financial crisis. Besides, to mark the 15th anniversary of Hong Kong's handover, the Chinese Central Government has rolled out additional pro-Hong Kong measures which are particularly conducive to the city's development as an offshore RMB centre and cross-border business prospects. Despite external volatilities, the RMB continues on its path towards internationalisation. Supported by related state policies, Hong Kong is expected to maintain robust development in offshore and cross-border RMB businesses, bringing plenty of opportunities to the financial industry eventually.

Looking ahead, the Group will uphold its prudent, proactive approach, in adherence to stringent financial disciplines and risk management practice to ensure a sound financial and capital position for the challenge of increased risks in economic downturns. The Group will continue to unleash its competitive advantage in RMB business and allocate more resources to related product research and development, capitalising also on the advantage of CNCB's extensive network and customer base on the Mainland to drive the acceleration of cross-border RMB business and RMB business in Hong Kong.

The Group will move on in the second half of the year as planned with development strategies to expand its network with new concept branches in Hong Kong to better satisfy the needs of mid-range customers and cater to the growth of the Group's retail banking business. In the meantime, the Group's brand regeneration work is in full swing. By inheriting the key design elements of CNCB's logo, the Group is to further exert its strong Chinese parentage and realise fully the synergistic benefits within the CNCB Group.

Chan Hui Dor Lam Doreen
Chief Executive Officer
Hong Kong, 28 August 2012