中信银行(国际)
CHINA CITIC BANK INTERNATIONAL

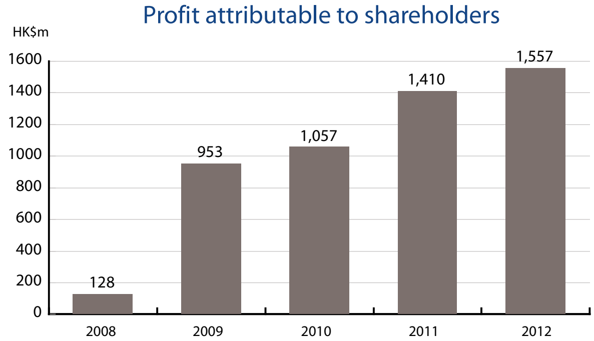
你首选的中资银行
The China Bank of Choice

Continuing Transformation and Innovation

2012 Annual Results Highlights

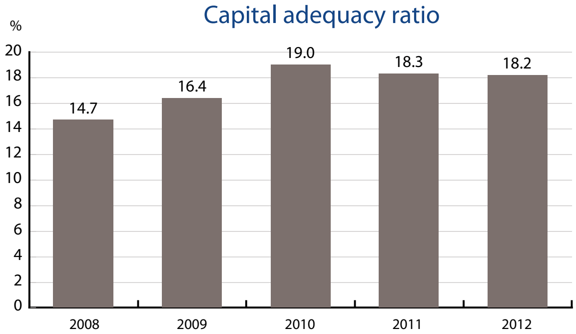
Results Highlights

- Operating income up by 8.7% to HK$3,715 million
- Operating profit before impairment increased by 8.0% to HK$1,907 million
- Net impairment losses down 11.2% to HK$91 million
- Profit attributable to shareholders rose by 10.4% to HK$1,557 million



Robust Financial Position

- Total loans and total assets reached HK$105.1 billion and HK$177.2 billion, an increase of 12.1% and 3.4% respectively on the back of solid risk management
- Moderate growth in total deposits by 4.2% to HK$145.0 billion with ample liquidity
- Capital adequacy ratio stood at 18.2%, well above regulatory requirements
- Impaired loan ratio dropped significantly from 0.75% in December 2011 to 0.45% in December 2012 as a result of stringent asset quality control



Core Performance

- **Wholesale & Cross-border Banking Group:** Revenue and profit before tax registered year-on-year growth of 22.8% and 14.3% respectively. Revenue generated from CNCB and CITIC Group cross-referrals (including Treasury & Markets Group) achieved 17% growth in 2012. Singapore Branch posted significant growth of 15 times in RMB loan and 4 times in cross-border trade settlement, strengthening the Bank's position in the ASEAN region
- **Personal & Business Banking Group:** 2012 revenue up 0.6% and profit before tax down 9.5% year-on-year due to higher 2011 comparison base from the Lehman Brothers Minibond write-back. Total retail lending balance grew 6.7% to HK$35.6 billion driven primarily by mortgages and secured SME loans. Retail deposits increased by 9.8% to HK$65.0 billion while net interest income surged by 32.3% to HK$920 million. Two innovative New Concept Branches were launched to expand network to 34 branches across Hong Kong. CITIC*first* clientele registered a 12.2% growth to more than 21,600 with a 17.3% growth in assets under management to around HK$59 billion
- **Treasury & Markets Group:** Fee income from the cross-selling of treasury products increased by 2% while Global Markets revenue dropped 2% to HK$509 million due to the decline of Mainland China's interest rates. Orderly disposal of European bond holdings from HK$8.2 billion to HK$2.6 billion limited disposal losses on securities portfolio to only HK$28 million. Participation in Hong Kong's CNH market saw TMG take a 12% share of the CNH interbank FX market. Issuance of RMB 900 million two-year senior debt and US$300 million 10-year subordinated debt contributed to the Group's strong capital position

中信银行(国际)
CHINA CITIC BANK INTERNATIONAL

CHINA CITIC BANK INTERNATIONAL LIMITED

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

ANNOUNCEMENT OF 2012 ANNUAL RESULTS

The Board of Directors of China CITIC Bank International Limited ("the Bank") is pleased to announce the consolidated results of the Bank and its subsidiaries ("the Group") for the year ended 31 December 2012.

Consolidated Income Statement
For the year ended 31 December 2012
(Expressed in Hong Kong dollars)

	2012	2011
	HK$'000	HK$'000
Interest income	**4,847,356**	3,573,280
Interest expense	**(2,508,545)**	(1,711,533)
Net interest income	**2,338,811**	1,861,747
Fee and commission income	**678,005**	627,826
Fee and commission expense	**(37,839)**	(38,035)
Net fee and commission income	**640,166**	589,791
Net trading income	**718,456**	803,962
Net gain from financial instruments designated at fair value through profit or loss	**5,272**	9,382
Net hedging gain/(loss)	**503**	(1,124)
Net loss on disposal of available-for-sale securities	**(27,523)**	(136,846)
Other operating income	**39,802**	291,918
Operating income	**3,715,487**	3,418,830
Operating expenses	**(1,808,312)**	(1,652,445)
Operating profit before impairment	**1,907,175**	1,766,385
Impairment losses (charged)/written back on loans and advances and other accounts	**(91,216)**	75,091
Impairment losses on available-for-sale securities	**-**	(177,788)
Impairment losses	**(91,216)**	(102,697)
Operating profit	**1,815,959**	1,663,688
Net loss on disposal of property and equipment	**(745)**	(11)
Revaluation gain on investment properties	**50,746**	28,352
Profit before taxation	**1,865,960**	1,692,029
Income tax	**(309,402)**	(281,816)
Profit for the year	**1,556,558**	1,410,213

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

(Expressed in Hong Kong dollars)

	2012	2011
	HK$'000	HK$'000
Profit for the year	**1,556,558**	1,410,213
Other comprehensive income for the year (after tax and reclassification adjustments)		
Exchange differences on translation of financial statements of overseas subsidiaries	**25,937**	49,798
Available-for-sale securities		
- change in fair value	**415,071**	(413,105)
- transfer to income statement on disposal	**21,093**	136,303
- transfer to income statement on impairment	**-**	178,000
- transfer (from)/to deferred tax	**(72,000)**	16,794
	390,101	(32,210)
Total comprehensive income for the year	**1,946,659**	1,378,003
Attributable to equity shareholders of the Bank	**1,946,659**	1,378,003

Consolidated Statement of Financial Position
At 31 December 2012
(Expressed in Hong Kong dollars)

	2012	2011
	HK$'000	HK$'000
Assets		
Cash and balances with banks, central banks and other financial institutions	**5,290,053**	12,944,105
Placements with and advances to banks, central banks and other financial institutions	**43,501,215**	35,838,843
Trading assets	**1,849,344**	2,079,683
Securities designated at fair value through profit or loss	**91,500**	355,677
Loans and advances to customers and other accounts	**107,474,923**	96,365,280
Available-for-sale securities	**18,030,653**	22,904,954
Property and equipment		
- Investment property	**238,348**	187,602
- Other property and equipment	**670,605**	644,520
Tax recoverable	**6,038**	3,038
Deferred tax assets	**28,761**	102,423
Total assets	**177,181,440**	171,426,125
Equity and liabilities		
Deposits and balances of banks and other financial institutions	**3,685,575**	5,121,298
Deposits from customers	**130,719,661**	127,040,396
Trading liabilities	**907,342**	1,331,198
Certificates of deposit issued	**14,297,569**	12,123,896
Debt securities issued	**1,119,747**	397,436
Current taxation	**62,133**	122,264
Deferred tax liabilities	**1,478**	1,496
Other liabilities	**4,637,920**	3,990,018
Loan capital	**6,698,159**	8,192,926
Total liabilities	**162,129,584**	158,320,928
Equity		
Share capital	**7,283,341**	7,283,341
Reserves	**7,768,515**	5,821,856
Total equity attributable to equity shareholders of the Bank	**15,051,856**	13,105,197
Total equity and liabilities	**177,181,440**	171,426,125

Consolidated Statement of Changes in Equity
For the year ended 31 December 2012
(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	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 2012:												
Profit for the year	-	-	-	-	-	-	-	-	-	**1,556,558**	**1,556,558**	**1,556,558**
Other comprehensive income for the year	-	-	-	-	**25,937**	-	**364,164**	-	-	-	**390,101**	**390,101**
Total comprehensive income for the year	-	-	-	-	**25,937**	-	**364,164**	-	-	**1,556,558**	**1,946,659**	**1,946,659**
Transfer from retained profits	-	-	-	-	-	-	-	**12,379**	**2,175**	**(14,554)**	-	-
At 31 December 2012	**7,283,341**	**282,930**	**6,589**	**100,000**	**98,150**	**4,718**	**50,146**	**33,241**	**124,915**	**7,067,826**	**7,768,515**	**15,051,856**
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 2011:												
Profit for the year	-	-	-	-	-	-	-	-	-	1,410,213	1,410,213	1,410,213
Other comprehensive income for the year	-	-	-	-	49,798	-	(82,008)	-	-	-	(32,210)	(32,210)
Total comprehensive income for the year	-	-	-	-	49,798	-	(82,008)	-	-	1,410,213	1,378,003	1,378,003
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

Consolidated Cash Flow Statement
For the year ended 31 December 2012
(Expressed in Hong Kong dollars)

	2012	2011
	HK$'000	HK$'000
Operating activities		
Profit before taxation	**1,865,960**	1,692,029
Adjustments for non-cash items:		
Impairment losses charged/(written back) on loans and advances and other accounts	**91,216**	(75,091)
Impairment losses on available-for-sale securities	**-**	177,788
Net loss on disposal of available-for-sale securities	**27,523**	136,846
Net loss on disposal of property and equipment	**745**	11
Revaluation gain on investment properties	**(50,746)**	(28,352)
Amortisation of deferred expenses	**68,276**	58,978
Depreciation on property and equipment	**101,574**	87,754
Dividend income from equity securities	**(5,303)**	(4,002)
Interest expense on loan capital	**410,791**	490,510
Foreign exchange differences	**135,376**	(129,894)
	2,645,412	2,406,577
(Increase)/decrease in operating assets		
Placements with and advances to banks, central banks and other financial institutions with original maturity beyond 3 months	**4,796,934**	(10,827,793)
Treasury bills with original maturity beyond 3 months	**829,626**	(295,225)
Certificates of deposit held with original maturity beyond 3 months	**(2,494,558)**	(845,942)
Trading assets	**230,340**	(446,026)
Securities designated at fair value through profit or loss	**264,177**	290,831
Loans and advances to customers and other accounts	**(11,260,756)**	(5,634,052)
Available-for-sale securities	**6,835,143**	2,286,006
	(799,094)	(15,472,201)
Increase/(decrease) in operating liabilities		
Deposits and balances of banks and other financial institutions	**(1,435,723)**	3,270,926
Deposits from customers	**3,679,265**	13,574,283
Trading liabilities	**(423,855)**	(146,330)
Certificates of deposit issued	**2,036,639**	5,310,722
Debt securities issued	**714,667**	165,814
Other liabilities	**797,453**	1,345,148
	5,368,446	23,520,563
Cash generated from operations	**7,214,764**	10,454,939

	2012	2011
	HK$'000	HK$'000
Cash generated from operations	**7,214,764**	10,454,939
Income tax paid		
Hong Kong Profits Tax paid	**(325,800)**	(74,492)
Overseas tax paid	**(45,933)**	(33,463)
Net cash generated from operating activities	**6,843,031**	10,346,984
Investing activities		
Dividends received from equity securities	**5,303**	4,002
Purchase of property and equipment	**(126,880)**	(149,018)
Proceeds from disposal of property and equipment	**63**	54
Net cash used in investing activities	**(121,514)**	(144,962)
Financing activities		
Dividends paid	**-**	(1,624,609)
Proceeds from loan capital issued	**2,312,589**	-
Redemption of loan capital	**(3,878,422)**	-
Interest paid on loan capital	**(463,160)**	(471,022)
Net cash used in financing activities	**(2,028,993)**	(2,095,631)
Net increase in cash and cash equivalents	**4,692,524**	8,106,391
Cash and cash equivalents at 1 January	**39,009,923**	30,903,532
Cash and cash equivalents at 31 December	**43,702,447**	39,009,923
Cash flows from operating activities include:		
Interest received	**4,850,950**	3,468,929
Interest paid	**(2,047,201)**	(972,650)

Notes:

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Basis of preparation

The financial information relating to the financial year ended 31 December 2012 included in this annual results announcement does not constitute the Group's statutory financial statements for that financial year but is extracted from those financial statements. Statutory financial statements for the year ended 31 December 2012 comply fully with the Banking (Disclosure) Rules and will be available from the Bank's website and registered office.

2 Changes in accounting policies

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

- Amendments to HKFRS 7, *Financial instruments: Disclosures - transfers of financial assets*

- 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. The impacts of the above developments is as follows:

Amendments to HKFRS 7, *Financial instruments: Disclosures - transfers of financial assets*

The amendments to HKFRS 7 require certain disclosure information on transfer of financial assets that enables users of the financial statements:

- to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and

- to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets.

The disclosure in respect of these transfers of financial assets of the Group is included in note 19 and no disclosure on comparative period is required for the first year of adoption.

Amendments to HKAS 12, *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 year.

3 Interest income and interest expense

(a) Interest income

	2012	2011
	HK$'000	HK$'000
Listed securities	**3,284**	20,681
Unlisted securities	**390,717**	435,832
Others (Note)	**4,453,355**	3,116,767
Interest income on financial assets that are not at fair value through profit or loss	**4,847,356**	3,573,280

(b) Interest expense

	2012	2011
	HK$'000	HK$'000
Deposits from customers, banks and other financial institutions, certificates of deposit issued and others	**2,084,184**	1,220,786
Debt securities issued	**13,570**	237
Loan capital issued	**410,791**	490,510
Interest expense on financial liabilities that are not at fair value through profit or loss	**2,508,545**	1,711,533
Of which:		
Deposits from customers, banks and other financial institutions, certificates of deposit issued and others repayable after 5 years	**-**	6,254
Loan capital issued repayable after 5 years	**161,165**	270,364

Note:
Included in the above is interest income accrued on impaired financial assets of HK$5,240,000 (2011: HK$22,300,000), which includes interest income on the unwinding of the discount on loan impairment losses of HK$5,120,000 (2011: HK$12,151,000) for the year ended 31 December 2012.

4 Net fee and commission income

	2012	2011
	HK$'000	HK$'000
Fee and commission income:		
Bills commission	**124,387**	109,898
Card-related income	**24,218**	20,871
General banking services	**80,795**	79,294
Insurance	**190,645**	168,296
Investment and structured investment products	**96,533**	101,377
Loans, overdrafts and facilities fees	**160,819**	147,433
Others	**608**	657
	678,005	627,826
Fee and commission expense	**(37,839)**	(38,035)
	640,166	589,791
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	**185,037**	168,304
- Fee and commission expense	**(13,509)**	(14,487)
	171,528	153,817

5 Net trading income

	2012	2011
	HK$'000	HK$'000
Gains less losses from dealing in foreign currencies	**277,918**	407,435
Gains less losses from trading securities	**735**	2,364
Gains less losses from other dealing activities	**489,194**	430,062
Interest expense on trading liabilities	**(49,391)**	(35,899)
	718,456	803,962

6 Net gain from financial instruments designated at fair value through profit or loss

	2012	2011
	HK$'000	HK$'000
Net gain	**2,901**	625
Interest income		
- Listed	**921**	4,963
- Unlisted	**1,450**	11,502
Interest expense	**-**	(7,708)
	5,272	9,382

7 Net hedging gain/(loss)

	2012	2011
	HK$'000	HK$'000
Net gain/(loss) on fair value hedge	**503**	(1,124)

8 Net loss on disposal of available-for-sale securities

	2012	2011
	HK$'000	HK$'000
Net revaluation loss transferred from reserves	**(21,093)**	(136,303)
Net loss arising in current year	**(6,430)**	(543)
	(27,523)	(136,846)

9 Other operating income

	2012	2011
	HK$'000	HK$'000
Dividend income from available-for-sale equity securities		
- Listed	**103**	102
- Unlisted	**5,200**	3,900
Rental income from investment properties		
less direct outgoings of HK$276,000 (2011: HK$253,000)	**4,823**	5,049
Others (Note)	**29,676**	282,867
	39,802	291,918

Note:
During the year ended 31 December 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.

10 Operating expenses

	2012	2011
	HK$'000	HK$'000
(a) Staff costs		
Salaries and other staff costs	**1,027,081**	944,595
Retirement costs	**67,356**	60,860
	1,094,437	1,005,455
(b) Depreciation		
Depreciation of property and equipment		
- Assets held for use under operating leases	**21,374**	27,515
- Other assets	**80,200**	60,239
	101,574	87,754
(c) Other operating expenses		
Property and equipment expenses (excluding depreciation)		
- Rental of properties	**180,451**	158,913
- Others	**125,466**	108,176
Auditor's remuneration	**6,494**	6,211
Advertising	**43,596**	33,756
Communication, printing and stationery	**67,863**	66,805
Legal and professional fees	**28,865**	27,864
Others	**159,566**	157,511
	612,301	559,236
Total operating expenses	**1,808,312**	1,652,445

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

	2012	2011
	HK$'000	HK$'000
Impairment losses (charged)/written back		
- Loans and advances	**(83,101)**	15,131
- Other accounts	**(8,115)**	59,960
	(91,216)	75,091

	2012	2011
Impairment losses (charged)/written back on loans and advances and other accounts		
- Individual assessment	**(154,125)**	62,965
- Collective assessment	**62,909**	12,126
	(91,216)	75,091
of which:		
- Additions	**(227,916)**	(220,071)
- Releases	**107,885**	265,940
- Recoveries	**28,815**	29,222
	(91,216)	75,091

12 Income tax in the consolidated income statement

	2012	2011
	HK$'000	HK$'000
Current tax - Hong Kong Profits Tax		
Provision for the year	**237,983**	225,194
(Over)/under-provision in respect of prior years	**(922)**	4,723
	237,061	229,917
Current tax - Overseas		
Provision for the year	**64,555**	39,549
Under/(over)-provision in respect of prior years	**1,113**	(2,162)
	65,668	37,387
Deferred tax		
Origination of temporary differences	**6,673**	14,512
	309,402	281,816

The provision for Hong Kong Profits Tax for 2012 is calculated at 16.5% (2011: 16.5%) of the estimated assessable profits for the year. Taxation for overseas branches and subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

13 Trading assets

	2012 HK$'000	2011 HK$'000
Trading securities - investment funds	**2,662**	2,965
Positive fair values of derivatives	**1,846,682**	2,076,718
	1,849,344	2,079,683
Issued by:		
Corporate entities	**2,662**	2,965
Analysed by place of listing:		
Unlisted	**2,662**	2,965

14 Securities designated at fair value through profit or loss

	2012 HK$'000	2011 HK$'000
Certificates of deposit held	**30,950**	200,613
Debt securities	**60,550**	155,064
	91,500	355,677
Issued by:		
Sovereigns	**12,642**	18,835
Banks and other financial institutions	**30,975**	212,954
Corporate entities	**47,883**	123,888
	91,500	355,677
Analysed by place of listing:		
Listed outside Hong Kong	**-**	78,285
Unlisted	**91,500**	277,392
	91,500	355,677

15 Loans and advances to customers and other accounts

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

	2012	2011
	HK$'000	HK$'000
Gross loans and advances to customers	**105,091,832**	93,718,132
Impairment allowances		
- Individually assessed	**(265,356)**	(195,660)
- Collectively assessed	**(280,985)**	(346,898)
	104,545,491	93,175,574
Accrued interest and other accounts	**2,931,040**	3,191,927
Impairment allowances		
- Individually assessed	**(1,608)**	(2,221)
	2,929,432	3,189,706
	107,474,923	96,365,280
Included in loans and advances to customers are:		
Trade bills	**9,470,863**	3,046,382
Impairment allowances		
- Collectively assessed	**(552)**	(507)
	9,470,311	3,045,875

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

The following economic sector analysis is based on categories and definitions used by the Hong Kong Monetary Authority ("HKMA").

	2012		2011	
	Gross loans and advances to customers	**Impaired loans and advances to customers**	Gross loans and advances to customers	Impaired loans and advances to customers
	HK$'000	**HK$'000**	HK$'000	HK$'000
Industrial, commercial and financial				
- Property development	**10,762**	**-**	4,000	-
- Property investment	**14,165,266**	**-**	12,905,620	-
- Financial concerns	**1,785,418**	**-**	2,951,325	-
- Stockbrokers	**31,000**	**-**	35,000	-
- Wholesale and retail trade	**7,984,910**	**30,630**	6,352,248	29,934
- Manufacturing	**3,401,071**	**46,821**	6,153,567	69,018
- Transport and transport equipment	**2,604,952**	**3,963**	2,532,195	4,368
- Recreational activities	**189,213**	**-**	269,183	108,966
- Information technology	**1,336**	**-**	1,456	-
- Others	**2,208,005**	**1,879**	2,557,801	31
Individuals				
- Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**20,100**	**-**	23,124	-
- Loans for the purchase of other residential properties	**9,671,193**	**4,818**	10,135,734	11,154
- Credit card advances	**288,991**	**868**	283,061	497
- Others	**6,132,235**	**4,281**	5,335,304	3,636
Gross loans and advances for use in Hong Kong	**48,494,452**	**93,260**	49,539,618	227,604
Trade finance	**13,930,092**	**83,966**	10,372,639	108,460
Gross loans and advances for use outside Hong Kong	**42,667,288**	**298,694**	33,805,875	364,537
Gross loans and advances to customers	**105,091,832**	**475,920**	93,718,132	700,601

(c) Impaired loans and advances to customers

	2012	2011
	HK$'000	HK$'000
Gross impaired loans and advances to customers	**475,920**	700,601
Impairment allowances - Individually assessed	**(265,356)**	(195,660)
	210,564	504,941
Gross impaired loans and advances as a % of total loans and advances to customers	**0.45%**	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$249,667,000 (2011: HK$534,858,000) of the Group. This collateral mainly comprises mortgage interest over residential or commercial properties and cash with the Group.

16 Available-for-sale securities

	2012	2011
	HK$'000	HK$'000
Certificates of deposit held	**4,671,149**	2,176,591
Debt securities	**7,581,974**	14,020,172
Treasury bills (including Exchange Fund Bills)	**5,718,900**	6,661,256
Equity securities	**58,630**	46,935
	18,030,653	22,904,954
Issued by:		
Sovereigns	**6,533,226**	7,402,616
Banks and other financial institutions	**10,000,576**	12,410,202
Corporate entities	**1,496,851**	3,092,136
	18,030,653	22,904,954
Analysed by place of listing:		
Listed outside Hong Kong	**198,373**	197,455
Unlisted	**17,832,280**	22,707,499
	18,030,653	22,904,954
Fair value of individually impaired debt securities	**-**	214,878

17 Reserves

	2012	2011
	HK$'000	HK$'000
Share premium	**282,930**	282,930
Capital reserve	**6,589**	6,589
General reserve	**100,000**	100,000
Exchange differences reserve	**98,150**	72,213
Property revaluation reserve	**4,718**	4,718
Investment revaluation reserve	**50,146**	(314,018)
Statutory reserve	**33,241**	20,862
Regulatory general reserve	**124,915**	122,740
Retained profits*	**7,067,826**	5,525,822
Total	**7,768,515**	5,821,856

* 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 31 December 2012, HK$1,440,192,000 (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.

18 Dividend

No dividend was declared and paid during the year ended 31 December 2012. An interim dividend of HK$1,624,609,207.59 (equivalent to US$208,648,560.66) was declared and paid to CITIC International Financial Holdings Limited during the year ended 31 December 2011.

19 Assets subject to sale and repurchase transactions

At 31 December 2012, the Group entered into repurchase agreements ("the Agreements") with certain banks or financial institutions to sell available-for-sale securities which subject to the Agreements to repurchase these securities at the agreed dates and prices. The consideration received under the Agreements was reported as 'Deposits and balances of banks and financial institutions' at 31 December 2012. At 31 December 2012, there were no outstanding transferred financial assets in which the Group has a continuing involvement, that were derecognised in their entirety.

According to the Agreements, there was no transfer of the legal ownership of these securities to the counterparty banks during the cover period. However, the Group was not allowed to sell or pledge these securities during the covered period unless both parties mutually agree with such arrangement. Accordingly, these securities were not derecognised from the financial statements but regarded as 'collateral' for the secured lending from these counterparty banks, whom could only claim the collateral when an event of default exists.

Carrying amounts of financial assets and associated financial liabilities not qualifying for derecognition

	2012
	HK$'000
Included in available-for-sale securities	**643,176**
Included in deposits and balances of banks and other financial institutions	**604,700**

20 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:

	2012	2011
	HK$'000	HK$'000
Direct credit substitutes	**4,998,356**	2,007,355
Transaction-related contingencies	**1,517,432**	951,660
Trade-related contingencies	**2,953,560**	4,241,352
Other commitments:		
- which are unconditionally cancellable or automatically cancellable due to deterioration in the creditworthiness of the borrower	**47,584,418**	33,822,786
- with an original maturity of not more than 1 year	**396,763**	3,959,572
- with an original maturity of more than 1 year	**2,106,752**	3,657,934
	59,557,281	48,640,659
Credit risk-weighted amounts	**4,315,605**	5,488,054

The risk weights used in the computation of credit risk-weighted amounts range from 0% to 150% (2011: 0% to 150%).

21 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 the Asset and Liability Committee. 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 year ended 31 December 2012, the Group's average daily trading profit and loss from foreign exchange positions was a profit of HK$425,000 (2011: HK$415,000) with a standard deviation of HK$1,208,000 (2011: HK$978,000).

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

	2012			
Equivalent in HK$'000	**USD**	**RMB**	**Others**	**Total**
Spot assets	**57,070,920**	**44,646,981**	**2,471,373**	**104,189,274**
Spot liabilities	**(39,101,835)**	**(30,439,250)**	**(12,203,069)**	**(81,744,154)**
Forward purchases	**69,140,302**	**41,340,778**	**17,450,341**	**127,931,421**
Forward sales	**(85,439,312)**	**(55,288,591)**	**(7,893,574)**	**(148,621,477)**
Net options position	**(782,680)**	**530,762**	**165,431**	**(86,487)**
Net long/(short) position	**887,395**	**790,680**	**(9,498)**	**1,668,577**
Net structural position	**-**	**747,770**	**48,544**	**796,314**

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

22 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.

Personal and business banking mainly comprises deposit account services, residential mortgages, other consumer lending, credit card services and Small and Medium Enterprises ("SMEs") banking business, wealth management services and private banking.

Treasury and markets covers the provision of foreign exchange services, money market activities, the 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 the 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

	2012				
	Wholesale and cross-border banking	**Personal and business banking**	**Treasury and markets**	**Others**	**Consolidated**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Net interest income/(expense)	1,711,640	920,084	(339,068)	46,155	2,338,811
Other operating income	362,423	463,929	558,419	19,428	1,404,199
Net gain/(loss) on disposal of available-for-sale securities	2,454	-	(29,977)	-	(27,523)
Operating income	2,076,517	1,384,013	189,374	65,583	3,715,487
Operating expenses	(438,200)	(491,998)	(65,423)	(812,691)	(1,808,312)
Inter-segment (expenses)/income	(236,871)	(327,318)	(98,521)	662,710	-
Operating profit/(loss) before impairment	1,401,446	564,697	25,430	(84,398)	1,907,175
Impairment losses (charged)/written back on loans and advances and other accounts	(88,858)	(2,846)	-	488	(91,216)
Operating profit/(loss)	1,312,588	561,851	25,430	(83,910)	1,815,959
Net loss on disposal of property and equipment	(27)	(249)	-	(469)	(745)
Revaluation gain on investment properties	-	-	-	50,746	50,746
Profit/(loss) before taxation	1,312,561	561,602	25,430	(33,633)	1,865,960
Income tax	-	-	-	(309,402)	(309,402)
Profit/(loss) for the year	1,312,561	561,602	25,430	(343,035)	1,556,558
Other segment items:					
Depreciation	22,374	17,739	1,153	60,308	101,574
Segment assets	89,435,758	36,158,116	66,827,598	(15,240,032)	177,181,440
Segment liabilities	84,101,987	70,618,597	24,557,741	(17,148,741)	162,129,584
Capital expenditure incurred during the year	65,637	29,380	5,367	26,496	126,880

	2011				
	(Restated)(Note) Wholesale and cross-border banking	Personal and business banking	Treasury and markets	(Restated)(Note) Others	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Net interest income/(expense)	1,331,379	695,554	(193,551)	28,365	1,861,747
Other operating income/(expenses)	359,459	680,726	675,058	(21,314)	1,693,929
Net gain/(loss) on disposal of available-for-sale securities	21	-	(136,867)	-	(136,846)
Operating income	1,690,859	1,376,280	344,640	7,051	3,418,830
Operating expenses	(404,016)	(455,927)	(79,683)	(712,819)	(1,652,445)
Inter-segment (expenses)/income	(204,302)	(305,397)	(77,889)	587,588	-
Operating profit/(loss) before impairment	1,082,541	614,956	187,068	(118,180)	1,766,385
Impairment losses written back on loans and advances and other accounts	65,808	5,475	-	3,808	75,091
Impairment losses (charged)/written back on available-for-sale securities	-	-	(178,000)	212	(177,788)
Impairment losses written back /(charged)	65,808	5,475	(178,000)	4,020	(102,697)
Operating profit/(loss)	1,148,349	620,431	9,068	(114,160)	1,663,688
Net (loss)/gain on disposal of property and equipment	(19)	(6)	-	14	(11)
Revaluation gain on investment properties	-	-	-	28,352	28,352
Profit/(loss) before taxation	1,148,330	620,425	9,068	(85,794)	1,692,029
Income tax	-	-	-	(281,816)	(281,816)
Profit/(loss) for the year	1,148,330	620,425	9,068	(367,610)	1,410,213
Other segment items:					
Depreciation	17,801	14,606	334	55,013	87,754
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	62,389	31,401	16,127	39,101	149,018

Note:
As the wholesale banking business was 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, while the China banking business was previously reported under the 'Others' segment. In response to this change, the comparatives for the year end 31 December 2011 were restated for consistency.

(b) Geographical information

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

	2012				
	Profit before taxation	**Total assets**	**Total liabilities**	**Operating income**	**Contingent liabilities and commitments**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Hong Kong	**1,531,465**	**164,052,152**	**149,648,756**	**3,067,651**	**50,472,916**
Mainland China	**161,947**	**15,768,774**	**14,089,151**	**338,587**	**3,585,517**
United States	**48,600**	**2,332,154**	**2,245,266**	**84,859**	**384,394**
Singapore	**89,520**	**9,090,833**	**9,010,369**	**180,199**	**3,357,070**
Others	**34,411**	**1,100,193**	**1,070,164**	**44,357**	**1,757,384**
Inter-segment items	**17**	**(15,162,666)**	**(13,934,122)**	**(166)**	**-**
	1,865,960	**177,181,440**	**162,129,584**	**3,715,487**	**59,557,281**

	2011				
	Profit/ (loss) before taxation	Total assets	Total liabilities	Operating income	Contingent liabilities and commitments
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Hong Kong	1,531,819	156,160,679	143,567,767	2,929,392	43,446,840
Mainland China	161,591	15,636,529	14,087,474	294,921	1,378,711
United States	12,853	2,486,245	2,424,020	53,070	975,226
Singapore	2,581	5,760,368	5,759,463	105,643	1,341,223
Others	(16,854)	1,602,848	1,609,798	35,937	1,498,659
Inter-segment items	39	(10,220,544)	(9,127,594)	(133)	-
	1,692,029	171,426,125	158,320,928	3,418,830	48,640,659

Unaudited supplementary financial information

(Expressed in Hong Kong dollars unless otherwise indicated)

(A) Capital adequacy ratio

(i) Capital adequacy ratio

	2012	2011
Capital adequacy ratio at 31 December	**18.22%**	18.30%
Core capital ratio at 31 December	**11.77%**	10.38%

The capital adequacy ratio ("CAR") and core capital ratio, at 31 December 2012 and 2011, are computed on the consolidated basis covering the Bank and certain of its subsidiaries as required by the HKMA for its regulatory purposes, and are in accordance with the Banking (Capital) Rules. The Bank has adopted the "standardised approach" for calculating the risk-weighted amount for credit risk and market risk and the "basic indicator approach" for the calculating of operational risk.

(ii) Capital base after deductions

	2012	2011
	HK$'000	HK$'000
Core capital		
Paid-up ordinary share capital	**7,283,341**	7,283,341
Share premium	**282,930**	282,930
Reserves	**4,852,273**	4,405,852
Profit and loss account	**1,658,782**	216,229
Less: Net deferred tax assets	**(27,283)**	(100,927)
Total core capital before deductions	**14,050,043**	12,087,425
Less: Deductions from core capital	**(5,412)**	(4,585)
Total core capital after deductions	**14,044,631**	12,082,840
Supplementary capital		
Reserves attributable to fair value gains on revaluation of land and buildings	**2,543**	2,543
Reserves attributable to fair value gains on revaluation of holdings of available-for-sale equities and debt securities	**26,774**	-
Unrealised fair value gains arising from holdings of equities and debt securities designated at fair value through profit or loss	**1,237**	121
Regulatory reserve for general banking risks	**1,213,909**	1,111,379
Collectively assessed impairment allowances	**280,985**	346,898
Perpetual subordinated debt	**-**	1,950,007
Term subordinated debt	**6,179,232**	5,813,819
Total supplementary capital before deductions	**7,704,680**	9,224,767
Total eligible supplementary capital before deductions	**7,704,680**	9,224,767
Less: Deductions from supplementary capital items	**(5,413)**	(4,585)
Total supplementary capital after deductions	**7,699,267**	9,220,182
Total capital base after deductions	**21,743,898**	21,303,022
Total deductions from the core capital and supplementary capital	**10,825**	9,170
Risk-weighted amount		
- credit risk	**110,380,460**	108,116,493
- market risk	**2,647,488**	2,305,663
- operational risk	**6,337,300**	6,011,388
	119,365,248	116,433,544

(B) Liquidity ratio

	2012	2011
Average liquidity ratio for the year ended 31 December *	**59.35%**	43.57%

* The average liquidity ratio for the year 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 HKMA for its regulatory purposes, and is in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance.

(C) Further analysis on loans and advances to customers

Loans and advances to customers analysed by the coverage of collateral, overdue amount and the impairment allowance is as follows. The economic sector analysis is based on the categories and definitions used by the HKMA.

	2012		2011	
	Gross loans and advances to customers	**% of gross loans and advances to customers covered by collateral**	Gross loans and advances to customers	% of gross loans and advances to customers covered by collateral
	HK$'000		HK$'000	
Industrial, commercial and financial				
- Property development	**10,762**	**100**	4,000	100
- Property investment	**14,165,266**	**100**	12,905,620	99
- Financial concerns	**1,785,418**	**27**	2,951,325	58
- Stockbrokers	**31,000**	**100**	35,000	100
- Wholesale and retail trade	**7,984,910**	**80**	6,352,248	79
- Manufacturing	**3,401,071**	**48**	6,153,567	52
- Transport and transport equipment	**2,604,952**	**60**	2,532,195	78
- Recreational activities	**189,213**	**64**	269,183	72
- Information technology	**1,336**	**74**	1,456	66
- Others	**2,208,005**	**61**	2,557,801	46
Individuals				
- Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**20,100**	**100**	23,124	100
- Loans for the purchase of other residential properties	**9,671,193**	**100**	10,135,734	100
- Credit card advances	**288,991**	**-**	283,061	-
- Others	**6,132,235**	**91**	5,335,304	93
Gross loans and advances for use in Hong Kong	**48,494,452**	**85**	49,539,618	83
Trade finance	**13,930,092**	**21**	10,372,639	24
Gross loans and advances for use outside Hong Kong	**42,667,288**	**40**	33,805,875	42
Gross loans and advances to customers	**105,091,832**	**58**	93,718,132	62

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:

	2012				
	Overdue loans and advances to customers	**Individual impairment allowances**	**Collective impairment allowances**	**Impaired loans and advances to customers**	**Impairment written back on income statement during the year**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Property investment	**-**	**-**	**105**	**-**	**(227)**
Loans for the purchase of other residential properties	**-**	**-**	**27**	**4,818**	**(120)**
Trade finance	**81,607**	**75,163**	**40,515**	**83,966**	**(1,882)**
Gross loans and advances for use outside Hong Kong	**255,062**	**178,191**	**162,859**	**298,694**	**(18,684)**
	336,669	**253,354**	**203,506**	**387,478**	**(20,913)**

	2011				
	Overdue loans and advances to customers	Individual impairment allowances	Collective impairment allowances	Impaired loans and advances to customers	Impairment written back on income statement during the year
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Property investment	-	-	699	-	(235)
Loans for the purchase of other residential properties	6,327	-	62	11,154	(951)
Trade finance	107,836	50,799	41,892	108,460	(504)
Gross loans and advances for use outside Hong Kong	146,888	117,955	137,619	364,537	(4,810)
	261,051	168,754	180,272	484,151	(6,500)

By geographical areas

	2012				
	Loans and advances to customers	**Overdue loans and advances to customers**	**Impaired loans and advances to customers**	**Individual impairment allowances**	**Collective impairment allowances**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Hong Kong	**58,723,477**	**133,556**	**143,762**	**57,223**	**127,109**
Mainland China	**33,425,756**	**84,051**	**84,051**	**45,381**	**64,320**
United States	**1,302,979**	**632**	**44,264**	**11,023**	**3,562**
Singapore	**4,537,227**	**-**	**-**	**-**	**43,663**
Others	**7,102,393**	**203,842**	**203,843**	**151,729**	**42,331**
	105,091,832	**422,081**	**475,920**	**265,356**	**280,985**

	2011				
	Loans and advances to customers	Overdue loans and advances to customers	Impaired loans and advances to customers	Individual impairment allowances	Collective impairment allowances
	HK$'000	HK$'000	HK$'000	HK$'000	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.

(D) Overdue assets

Overdue loans and advances to customers

	2012		2011	
		% of total loans and advances to customers		% of total loans and advances to customers
	HK$'000		HK$'000	
The gross amount of loans and advances has been overdue for periods of:				
- 6 months or less but over 3 months	**5,431**	**0.01**	21,999	0.02
- 1 year or less but over 6 months	**75,572**	**0.07**	175,513	0.19
- over 1 year	**341,078**	**0.32**	244,064	0.26
	422,081	**0.40**	441,576	0.47
Secured overdue loans and advances	**210,309**		367,906	
Unsecured overdue loans and advances	**211,772**		73,670	
	422,081		441,576	
Market value of collateral held against the secured overdue loans and advances	**285,939**		652,968	
Individual impairment allowances made	**250,429**		88,795	

Loans and advances with specific repayment dates are classified as overdue when the principal or interest is overdue and remains unpaid at the year 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 is readily determinable or can be reasonably established and verified.
(b) The asset is marketable and there exists a readily available secondary market for disposal of the asset.
(c) The Bank's right to repossess the asset is legally enforceable and without impediment.
(d) The Bank is able to secure control over the asset if necessary.

There were no advances to banks and other financial institutions which were overdue for over 3 months at 31 December 2012 and 2011.

(E) Rescheduled loans

	2012		2011	
		% of total loans and advances to customers		% of total loans and advances to customers
	HK$'000		HK$'000	
Rescheduled loans	**687,320**	**0.65**	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 31 December 2012 and 2011.

(F) Repossessed assets

	2012	2011
	HK$'000	HK$'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 2012 and 2011.

(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:

	2012			
	Banks and other financial institutions	**Public sector entities**	**Others**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Asia Pacific excluding Hong Kong	**47,847,382**	**476,213**	**29,916,029**	**78,239,624**
of which Mainland China	**39,337,063**	**352,943**	**24,007,607**	**63,697,613**

	2011			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'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 the mainland China exposures to non-bank counterparties. The categories follow the non-bank mainland China exposures submitted by the Bank to the HKMA pursuant to section 63 of the Hong Kong Banking Ordinance.

	2012			
	On-statement of financial position exposure	**Off-statement of financial position exposure**	**Total**	**Individual impairment allowances**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Mainland China entities	**14,981,612**	**5,266,206**	**20,247,818**	**105,873**
Companies and individuals outside mainland China where the credit is granted for use in mainland China	**36,313,096**	**6,285,668**	**42,598,764**	**15,996**
	51,294,708	**11,551,874**	**62,846,582**	**121,869**

	2011			
	On-statement of financial position exposure	Off-statement of financial position exposure	Total	Individual impairment allowances
	HK$'000	HK$'000	HK$'000	HK$'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

Report of the Chief Executive Officer

Operating Environment

The turbulent year of 2012 has seen the Hong Kong economy slow significantly across the first three quarters and pick up moderately in the fourth. The external environment was akin to this. Plagued by the “fiscal cliff”, the US economic recovery weakened as the European debt crisis lingered. In the fourth quarter, easing monetary policy pushes of various countries helped to ease the crisis, and the economy began to warm.

Mainland China turned its slowing economy around and started to exhibit upbeat growth as the Chinese Central Government spurred urbanisation process. China’s exports gained new impetus although the path to export recovery remained uneven and muted for the US and its European counterparts. Despite this, Hong Kong was able to capture rising cross-border Renminbi (“RMB”) trade and investment opportunities thanks to good timing and the city’s geographical advantage, as well as an agile response system.

Against this backdrop, China CITIC Bank International Limited (“CNCBI” or the “Bank”) and its subsidiaries (the “Group”) adopted a proactive yet prudent approach to business development. The Group continued to strengthen its balance sheet management for effective risk prevention and management and adopted a prudent underwriting practice, resulting in a drop in its impaired loan ratio for the fourth consecutive year.

During the year, the Bank completed successfully a rebranding plan to unify its corporate image with that of its parent bank China CITIC Bank Corporation Limited (“CNCB”). This move has been made with a view to fully capitalising the powerful strength and superior advantage of its parent company CITIC Group Corporation (“CITIC Group”) and parent bank CNCB amid market competition.

Business Performance

<u>Earnings</u>

Riding on its established leadership in RMB business and the opportunities arising from the rapid development of Hong Kong’s offshore RMB business, the Group stepped up synergetic collaboration with CNCB in 2012 by growing RMB loans and rolling out a diverse range of RMB products and services, effectively meeting its customers’ trading, investment and risk hedging needs. Following an expansion in the scope of its interest-bearing assets and net interest margin, the Group’s recurring income and earnings continued to grow in 2012. During the year, the Group’s operating income rose by 8.7% year-on-year to HK$3,715 million, while operating profit before impairment increased by 8.0% to HK$1,907 million. It should be noted that with the exclusion of several major one-off incomes and expenses booked in 2011 including a write-back of HK$229 million from the recovery of Lehman Brothers Minibond collateral, income of about HK$30 million on the disposal of a held-for-sale asset and disposal loss of HK$140 million on one European subordinated debt, both income and profit would have increased more significantly.

The Group leveraged the management expertise of its strategic shareholder Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA") and completed its Risk Management upgrade plan. In 2012, the Group had net impairment losses of HK$91 million, a reduction of 11.2% when compared with HK$103 million in 2011. Taking into account the HK$51 million in revaluation gains on investment properties and other items, profit before taxation increased by 10.3% year-on-year to HK$1,866 million, while profit attributable to shareholders rose by 10.4% to HK$1,557 million as compared to 2011.

Net Interest Income

In 2012, net interest margin increased by 16 basis points year-on-year to 1.38%. The improvement was mainly due to significant growth of RMB-related income and repricing of corporate loans upwards. With a mild increase in interest-bearing assets, net interest income increased by 25.6% year-on-year to HK$2,339 million.

Non-interest Income

During the period, the Group's non-interest income fell 11.6% year-on-year to HK$1,377 million mainly because of a higher comparison base in 2011 as a result of the aforementioned major one-off incomes. Excluding major one-off incomes and expenses recorded for 2011, the Group's non-interest income would have decreased by 4.2% year-on-year.

Operating Expenses

The Group continued to increase the number of Hong Kong local branches and invested more in sustainable growth. Upward adjustment pressure on wages and rental of premises caused operating expenses to rise by 9.4% year-on-year to HK$1,808 million during the year. The Group's cost to income ratio stood at 48.7%, remaining approximately at the 2011 level.

Impairment Allowances

Net impairment losses in loans and advances came to HK$91 million in 2012, compared to a loan loss reversal of HK$75 million in 2011. Individually assessed loan provisions and collectively assessed loan write-backs amounted to HK$177 million and HK$57 million respectively, whereas there were two net write-backs of HK$42 million and HK$4 million in 2011. Bad debt recoveries in both years amounted to approximately HK$29 million.

Asset Quality

Asset, Loan, and Deposit Sizes

In view of rising volatility in the financial markets, the Group focused on improving its risk management framework as well as its balance sheet management by adjusting its loan, deposit, and asset sizes, and devoting efforts to raising the return on assets in 2012 in a move to improve yield and ensure ample liquidity. As at end-December 2012, total loans and total assets reached HK$105.1 billion and HK$177.2 billion, year-on-year increases of 12.1% and 3.4% respectively. 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, grew total deposits to HK$145.0 billion, a moderate increase of 4.2% compared to year-end 2011.

Asset Quality Indicators

The Group's asset quality continued to improve in 2012 following the completion of a risk management infrastructure upgrade at end-December 2011. The impaired loan ratio dropped from 0.75% as at end-December 2011 to 0.45% as at end-December 2012. The ratio has now decreased for four consecutive years since 2009, reflecting the effectiveness of the Group's commitment in improving asset quality control.

Financial Positions

The Group's capital adequacy ratio was 18.2% as at end-December 2012, remaining on-par with 18.3% posted at end-December 2011. The ratio was well above regulatory requirements and offered ample scope for the Group to pursue future development. Meanwhile, a series of successful customer deposit campaigns as well as active asset and liability management programmes were rolled out in 2012. These enabled the Group to maintain its average liquidity ratio and loans to deposits ratio at healthy levels of 59.4% and 72.5% respectively as at end-December 2012.

CNCBI's Key Financial Ratios

	31 December 2012	31 December 2011
Capital adequacy	18.2%	18.3%
Core capital adequacy	11.8%	10.4%
Average liquidity	59.4%	43.6%
Loans to deposits	72.5%	67.3%
Loans to total assets	59.3%	54.7%
Impaired loans	0.45%	0.75%
Coverage [1]	98.8%	96.3%
Loan loss coverage	114.8%	77.4%
Mainland loans to total customer advances	31.8%	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

<u>Personal & Business Banking Group ("PBG")</u>

Personal & Business Banking Group ("PBG") continued to record satisfactory results in 2012 despite the dampened global investment climate caused by the European debt crisis, and slowing economic growth in Mainland China and Hong Kong. The total retail lending balance grew 6.7% to HK$35.6 billion driven primarily by mortgages and secured SME loans. Continuous efforts to expand distribution channels saw retail deposits increase by 9.8% from year-end 2011, to HK$65.0 billion. Net interest income, in turn, increased by 32.3% to HK$920 million as a result of the lowering cost of funds. Non-interest income on the other hand declined by 31.8% year-on-year to HK$464 million, due mainly to the higher base effect caused by the write-back in 2011 of collateral provisioning made for the sale of Lehman Brothers Minibonds. Excluding the write-back, non-interest income would have increased by 2.8% year-on-year, driven mainly by solid wealth management business, which posted significant revenue growth from unit trusts and insurance business.

During the period, PBG continued its focus on operating expense management. Despite increased investment in frontline staff, the expansion of distribution channels, and the implementation of a number of rebranding initiatives, operating expenses rose by only 7.6% year-on-year to HK$819 million. PBG's loan quality remained healthy and there was only a small net impairment loss of HK$2.8 million for 2012. As a result, PBG posted net profit before tax of HK$562 million, down 9.5% year-on-year. Excluding the write-back from the Lehman Brothers Minibonds booked in 2011, net profit before tax would have increased by 43.6% year-on-year.

The year also put the Bank's product innovation capability in the spotlight. Particularly, a deposit product called "Flexi-Saver" was launched to offer customers currency switching flexibility for higher yields. A new cross-border solution "商財通" was also rolled out to offer convenient and efficient services to SME customers.

With a view to raising brand awareness, improving customer experience, and lifting sales and service capabilities to a higher level against market competition, two innovative New Concept Branches were opened in Hoi Yuen Road Kwun Tong and Metroplaza in Kwai Fong in November 2012. This expanded the Bank's Hong Kong footprint to 34 branches nearing the end of the year.

Building on the ongoing success of the CITIC*first* wealth management franchise as the "New Standard of Private Wealth Management", the CITIC*first* customer base registered encouraging growth of 12.2% over year-end 2011, to more than 21,600 customers; with a 17.3% growth in assets under management to around HK$59 billion.

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

With the objective of optimising business origination, resources allocation and operational procedures, in order to build a more effective cross-border platform for better capturing the increasing business opportunities in Mainland China and regional markets, Wholesale Banking Group and China Banking Group were amalgamated into a new Wholesale and Cross-border Banking Group ("WBG") in early 2012.

Strengthened and more effective collaboration between CNCB and CITIC Group, in addition to an expanding customer base, the development of tailored products to better suit customer needs, enhanced leveraging of overseas networks, and strict discipline in risk management, helped the new WBG to post impressive business results and financial performance in 2012. Revenue and profit before taxation registered record year-on-year growth of 22.8% and 14.3% respectively.

Further success was attained through increased collaboration between CNCB and CITIC Group. During the period, a positive reinforcement scheme was introduced and implemented to encourage cross-referrals with CNCB, whose strong customer network, aligned with the extensive business coverage of CITIC Group boosted the competitive strength of WBG's cross-border and RMB business capabilities considerably. As a result, revenue generated from the volume of CNCB and CITIC Group referred business reached an historic high.

Meanwhile, remarkable progress was made in building and maintaining deep and long-standing customer relationships through enhancing customer service standards. By stepping up the pace of product innovation in the areas of global markets, cash management, trade finance, and structured finance and syndication, a variety of new products, particularly those related to RMB and offshore cross-border business, were developed and launched.

The new WBG continued to improve its asset quality while growing its business, managing the balance between risk and return through developing and putting into practice an improved risk-based pricing methodology and concentration risk management. This effort reduced impairment losses and contributed significantly to the record high profit before taxation.

Singapore Branch continued its success as the regional hub for capturing the fast-rising business opportunities between ASEAN countries and Mainland China. An array of tailored RMB financial services and products were developed for customers with regional needs. Consequently, Singapore Branch posted significant growth in RMB loan and cross-border trade settlement, further strengthening the Bank's market position in the ASEAN region. CITIC Bank International (China) Limited also strengthened its role as an onshore platform, laying a stronger foundation for further collaboration with CITIC Group and CNCB.

Treasury and Markets Group ("TMG")

Despite the challenging operating environment in 2012, TMG registered satisfactory results, chiefly by pioneering RMB-related business and providing customers with tailored products.

First of all, market volatility provided a launch pad for TMG's diverse range of structured products that suited customers' risk hedging needs. Driven by sustained income growth from the sale of such products, fee income from the cross-selling of treasury products increased slightly by 2% year-on-year. On the other hand, Mainland China's decline of domestic interest rates caused interest margin of offshore RMB business to narrow. TMG's Global Markets unit generated HK$509 million in revenue, a slight decrease of 2% from 2011. The continued transformation of the TMG marketing teams and the rollout of a wider array of structured products helped lift revenue from such segment, amounting to 67% of the total marketing income, up from 45% last year. This 22% shift in revenue allocation from traditional treasury products to structured products not only underscored the strong demand from customers but it also demonstrated TMG's ability to expand its product offerings, including bespoke treasury solutions to the Bank's wholesale and retail customers.

Turning to central treasury management, TMG significantly minimised possible adverse impacts from the European debt crisis by continuing to reduce European bond holdings in its available-for-sale securities portfolio, from HK$8.2 billion in the beginning of 2012 to HK$2.6 billion at the end of the year. The orderly divestment limited disposal losses on the securities portfolio to only HK$28 million. All the exposure to PIIGS (Portugal, Italy, Ireland, Greece and Spain) was unwound by the end of the year.

Meanwhile, TMG continued to participate actively in Hong Kong's CNH market in 2012, becoming one of the most active market makers, taking a 12% share of the market.

In a move to secure RMB deposit-taking, TMG worked in tandem with WBG and PBG, building 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 year-end 2012, the Bank's RMB customer deposits accounted for 18.3% of its total customer deposits. The issuance of RMB 900 million two-year senior debt in September 2012 also helped to raise the Bank's RMB funding strength and improve maturity profile. For the purpose of maintaining the capital adequacy ratio level of the Bank and supporting business growth, a US$300 million 10-year subordinated debt was issued in September 2012. As at year-end 2012, the Group's capital adequacy ratio stood at 18.2%. This strong capital position has enabled the Group to grow its business in future and respond to higher regulatory and capital requirements for the global banking sector.

Risk Management Group ("RMG")

The global economy underwent substantial uncertainties and market volatility throughout 2012 as a result of the lingering sovereign debt crisis in the Eurozone and continuing fragility of the US economic recovery. Against this background, Risk Management Group ("RMG") continued to focus its efforts on conducting rigorous risk reviews, proactively managing vulnerable credit portfolios, improving the Group's investment strategy, and enhancing capital and liquidity management in line with the Group's risk appetite.

During the year, the Group continued to strengthen its risk portfolio management infrastructure, amass tools, and increase its risk tolerance. The Global Risk Indicator ("GRI") was further enhanced to measure with increase precision the Group's overall risk profile, comprising credit, market, operational (including legal), liquidity, interest rate, strategic and reputation risks. Furthermore, a comprehensive bank-wide stress-testing program was developed, which now became an integral part of the risk management framework and decision-making process. New liquidity management tools were also adopted to comply with new regulatory requirements.

The Group adopts a standardised approach to credit risk and market risk, and a basic indicator approach for operational risk, while continuing to enhance system and control levels for meeting the standards required under these approaches. Based on the Basel framework, the Group has strengthened its risk-based pricing model and capital measurement tools for more effective capital management in order to support the Group's strategic decisions and future growth.

The Group's risk management policies and procedures are subject to a high degree of oversight. The Credit and Risk Management Committee ("CRMC") has been empowered by the Board to oversee and approve the risk strategies, appetite, policies, and amount of exposure of the Group. Established policies and procedures have been put in place to identify, quantify, monitor and mitigate the risks to which the Group is exposed, including credit, market, operational (including legal), liquidity, interest rate, strategic and reputation risks. In addition, Audit Department conducts regular independent reviews of bank-wide risk management practices to ensure compliance with internal policies and regulatory requirements.

The Group's market risk appetite was managed through a well-defined limit-setting process. Rigorous risk controls have been put in place, and market risk limits were monitored daily. Stress testing was performed regularly and monitored for rare but plausible events. Frontline businesses and Market Risk Department interacted closely to proactively review limits following strategic changes.

Significant effort and resources have been deployed for the implementation of an Operational Risk Management ("ORM") plan, resulting in substantial enhancement in the ORM framework, tools and prevention awareness. Since 2011, the Group has kicked off a series of work, which comprised bank-wide operational risk training, fortifying the Incident Reporting System ("IRS") and process, Operational Risk Self-Assessment ("ORSA") and bank-wide Key Risk Indicators ("KRI"). These tools have been enhanced and integrated into all business and functional units. Staff have been engaged and alerted to the identification, assessment and reporting of operational risks, with full management support for cultivating an operational risk management culture on an ongoing basis.

The strategic collaboration between CNCB, BBVA and CNCBI continued through staff secondment and exchange programmes, which fostered tripartite risk knowledge sharing and skills transfers, as well as the development of a more comprehensive set of best practices. This formidable alliance has enabled the Group to capture the opportunities from the growing economic pre-eminence of Mainland China and the Asian region more effectively. Risk management has become a fundamental and indispensable part in the Group's business development. In 2013, priorities will be given to the continuous enhancement of capital and liquidity management, BASEL III implementation, and actively managing all risks to reach the Group's level of risk appetite.

Human Resources Development

Amid volatility in the global financial markets, the manpower markets in Mainland China, Hong Kong, Macau, and Singapore remained buoyant in 2012. In Hong Kong, for instance, demand for experienced frontline staff has been high. Across all the geographies in which the Group is present, the tightening of governance and regulatory standards has continued to put demand pressure on high-calibre professionals in the disciplines of compliance, audit, operational risk management, and human resources management.

In 2012, CNCBI embraced various challenges successfully, retained talent in various areas and upheld its service and control standards continuously. During the year, the Bank expanded its frontline direct sales team and satisfied the human resources needs of the two New Concept Branches in Hong Kong. The professional CNCBI workforce was instrumental in achieving the Group's financial targets, meeting customer service standards, and fulfilling governance requirements. The Group's robust operational infrastructure was enhanced with the appointment of a number of experienced managers to the middle- and back offices of the Bank.

In an effort to impart knowledge of the parent companies to CNCBI staff and support further cross-border collaboration for the Bank, a series of learning, relationship building and cross-border exchange programmes were organised. These included the second series of "Winning Business in China", Putonghua Workplace Etiquette workshops, China Knowledge Learning Squads, a Native Putonghua Speakers Internship Programme, a number of Staff Exchange programmes, Pan-Pearl Delta Region CNCB/CNCBI sports events, and CITIC Group staff visits.

On people development, the Bank continued to provide target and structured learning programmes to enhance overall competency levels and raise professional standards of its staff. WBG, for instance, rolled out a series of relationship management and credit training courses, alongside technical training programmes such as those for legal documentation. PBG, in turn, tailored a training programme series for frontline staff, helping them to raise their competence. In addition to a Career Coaching Programme for high-performers, the Bank also launched an Effective People Manager programme for PBG. In 2013, the Bank will extend the abovementioned training to other business and support units.

The essence of the Bank's core values, business directions and corporate culture were communicated and reinforced through an array of bank-wide and specific staff communication events including the annual Executive Forum, business unit forums, quarterly CEO forums, management conferences, long-service awards presentation ceremonies, the STAR Award programme and staff induction programmes. Exemplary work behaviour was recognised and rewarded. Team events, sporting activities, and community participation were organised to promote health awareness, social service, and environmental protection. Such activities have also helped to bring balance to the hectic working life of the Bank's staff.

In all, the Bank's human resources management initiatives contributed to the well-being of CNCBI in 2012. With a committed, quality workforce, CNCBI is ready to achieve its 2013 targets and make headway towards its vision as customers' "China Bank of Choice".

Future Outlook

Fiscal policies implemented by central banks around the world have produced signs of stabilisation and recovery in the external economic environment. The US has for the moment dealt with its fiscal cliff crisis. The local economy has regained its solid footing and is picking up pace. The Eurozone has yet to resolve its debt problems entirely, but the worst of the crisis should be over as proved by obvious easing signs in the past few months. The US and European economies are back on their feet, and are expected to help retain continuous growth in emerging markets. However, concerns still loom on the business horizon despite present steady, upward trends. Various central banks' quantitative easing policies may create asset bubbles and inflationary expectations. The bursting of a bubble would exacerbate inflation, bring the ultra-low interest rate environment to a halt and raise the likelihood of a rate hike cycle. In these circumstances, the overall economic outlook may once again plunge into confusion.

Meanwhile, it is believed that during Mainland China's 12th Five-Year Plan period, the economy will maintain a steady growth or even see a moderate rebound. The economic pulse of Hong Kong is linked closely with that of the Mainland. The inflows of hot money released as a result of various central banks' quantitative easing policies may have an impact on Hong Kong's economy but the city's economic outlook should remain positive given the strong push from the Chinese hinterland. Heated competition for RMB business and other banking institutions' aggressive efforts in competing for RMB deposits will maintain pressure on the profitability of RMB business. But, as the Chinese currency continues down the road of internationalisation and plays an increasingly important role in international trade, there are still immense opportunities for RMB business.

Looking ahead, the Group will continue to pursue stringent financial discipline and risk management, maintaining a stable financial and capital position to ensure that it withstands various impacts brought on by changes in the economic environment and more stringent regulatory requirements. The Group will maintain close ties with regulatory organisations following the gradual implementation of Basel III capital requirements for Hong Kong banks. Currently, the Group is well-capitalised and is confident that it is capable of managing the regulatory requirements and business development in the coming three years.

Backed by the powerful strength and extensive customer base of parent holding company CITIC Group and parent bank CNCB, the Group will further increase business interaction and expand the breadth and depth of business cooperation with CNBC, build a smooth procedure for cross-referrals, enhance synergetic efficiency, and satisfy customers' needs for on- and offshore banking services.

The Group shoulders the mission of being CNCB's offshore platform for international expansion and will therefore continue to expand its Hong Kong and overseas network in accordance with its established development strategy. In Hong Kong, the launch of the innovative New Concept Branches has been met with a warm response. The Group will continue to source suitable locations for more New Concept Branches in line with Personal & Business Banking Group's development plans. Further afield, the Group is advancing preparations for the establishment of a representative office in Australia to capture the business potential created by Sino-Australian trade with a view to providing more comprehensive services to customers in Mainland China, Hong Kong and from across the region.

The Group believes that implementation of its various development strategies on the back of the extensive customer network and brand advantage of CNCB and CITIC Group will help to maintain the development momentum for the Group's 2013 businesses on the solid foundation that it has built in 2012.

Zhang Xiaowei
Chief Executive Officer

Hong Kong, 27 March 2013