中信银行(国际)
CHINA CITIC BANK INTERNATIONAL

你首选的中资银行
The China Bank of Choice

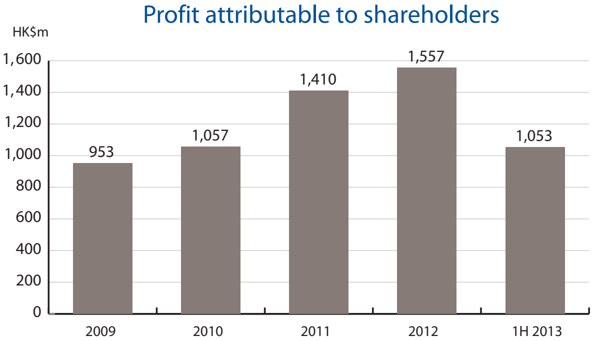
Go Further Faster: Innovation + Cross-border Synergy

2013 Interim Results Highlights

Results Highlights

- Net interest income increased 32.9% to HK$1,461 million
- Operating income up by 19.9% to HK$2,243 million
- Operating profit before impairment increased by 19.2% to HK$1,252 million
- Profit attributable to shareholders rose by 16.4% to a record HK$1,053 million

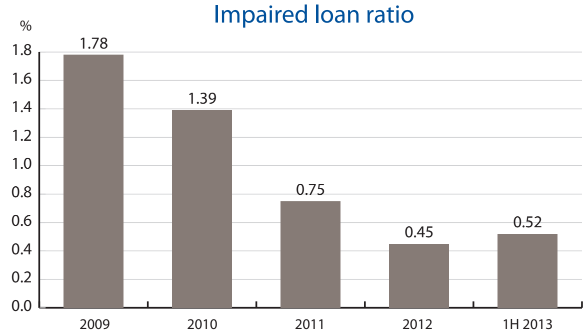
Profit attributable to shareholders



Robust Financial Position

- Total loans and total assets amounted to HK$116.2 billion and HK$186.2 billion respectively, up 10.5% and 5.1%
- Total deposits maintained at a reasonable level with an increase of 1.6% to HK$147.3 billion while NIM rose by 45 basis points year-on-year to 1.74%
- Under new capital requirements, total capital ratio stood at 16.1%
- Impaired loan ratio remained at 0.52%, on par with the same period last year

Impaired loan ratio



Core Performance

- **Wholesale & Cross-border Banking Group:** Interest income reached new highs on significant growth of 34% in customer loans. Headway was made in RMB business with off-shore RMB loans and trade settlement growing by 128% and 85% respectively. New Corporate Online Banking platform rolled out in late 2012 ran smoothly. Number of customers referred by CNCB and CITIC Group grew significantly with related customer loans multiplied those during the same period in 2012. Enhancement of risk-based pricing system was completed in collaboration with Risk Management Group.
- **Personal & Business Banking Group:** Operating income rose 12% to HK$766 million while net interest income grew by 20% to HK$528 million. Total retail lending up 3.1% to HK$36.7 billion and retail deposits increased 1.2% on end-2012 to HK$65.8 billion. Various innovative products including Flexi Deposit Series, PAYROLL*plus*, Foreign Exchange and Gold Margin Trading Service online platform, and a universal life insurance premium financing product launched.
- **Treasury & Markets Group:** Global Markets revenue increased significantly by 24% to HK$396 million while fee income from cross-selling of treasury products surged by 25%. Contribution of structured products to total revenue of Global Markets increased to 57%. CNCBI acted as joint lead manager for a new issue of RMB1 billion bonds and it acted as co-manager for another new issue of RMB1 billion bonds. The Bank was appointed one of the reference banks for CNH HIBOR Fixing and completed Hong Kong's first CNH HIBOR interest rate swap with a peer bank.

CHINA CITIC BANK INTERNATIONAL LIMITED

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

ANNOUNCEMENT OF 2013 INTERIM RESULTS

The Board of Directors of China CITIC Bank International Limited (the "Bank") is pleased to announce the unaudited consolidated results of the Bank and its subsidiaries (the "Group") for the six months ended 30 June 2013. 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 2013 - unaudited
(Expressed in Hong Kong dollars)

	Note	**6 months ended 30 June**	
		2013	2012
		HK$'000	HK$'000
Interest income	4(a)	**2,504,728**	2,389,100
Interest expense	4(b)	**(1,043,919)**	(1,289,618)
Net interest income		**1,460,809**	1,099,482
Fee and commission income		**356,145**	349,221
Fee and commission expense		**(19,706)**	(17,782)
Net fee and commission income	5	**336,439**	331,439
Net trading income	6	**410,625**	431,689
Net gain from financial instruments designated at fair value through profit or loss	7	**1,525**	3,351
Net hedging gain	8	**223**	455
Net gain/(loss) on disposal of available-for-sale securities	9	**12,187**	(18,991)
Other operating income	10	**20,758**	22,429
Operating income		**2,242,566**	1,869,854
Operating expenses	11	**(990,950)**	(820,014)
Operating profit before impairment		**1,251,616**	1,049,840
Impairment losses on loans and advances and other accounts	12	**(28,346)**	(6,910)
Operating profit		**1,223,270**	1,042,930
Net gain/(loss) on disposal of property and equipment		**20,165**	(768)
Revaluation gain on investment properties		**1,100**	27,925
Profit before taxation		**1,244,535**	1,070,087
Income tax	13	**(191,066)**	(164,628)
Profit for the period		**1,053,469**	905,459
Attributable to equity shareholders of the Bank		**1,053,469**	905,459

Consolidated Statement of Comprehensive Income
for the 6 months ended 30 June 2013 - unaudited
(Expressed in Hong Kong dollars)

	6 months ended 30 June	
	2013	2012
	HK$'000	HK$'000
Profit for the period	**1,053,469**	905,459
Other comprehensive income for the period (after tax and reclassification adjustments)		
Item that will not subsequently be reclassified to income statement:		
Property revaluation reserve		
- transfer to deferred tax on disposal	**921**	-
Items that may subsequently be reclassified to income statement:		
Exchange differences on translation of financial statements of overseas subsidiaries	**23,590**	(6,382)
Available-for-sale securities		
- change in fair value	**(178,558)**	332,175
- transfer (from)/to income statement on disposal	**(11,137)**	10,363
- transfer to/(from) deferred tax	**31,780**	(57,448)
Other comprehensive income for the period	**(133,404)**	278,708
Total comprehensive income for the period	**920,065**	1,184,167
Attributable to equity shareholders of the Bank	**920,065**	1,184,167

Consolidated Statement of Financial Position

at 30 June 2013 - unaudited
(Expressed in Hong Kong dollars)

	Note	**At 30 June 2013 HK$'000**	At 31 December 2012 HK$'000
Assets			
Cash and balances with banks, central banks and other financial institutions	14	**6,830,209**	5,290,053
Placements with and advances to banks, central banks and other financial institutions	15	**37,010,194**	43,501,215
Trading assets	16	**2,661,543**	1,849,344
Securities designated at fair value through profit or loss	17	**61,799**	91,500
Loans and advances to customers and other accounts	18	**120,139,704**	107,474,923
Available-for-sale securities	19	**18,611,309**	18,030,653
Property and equipment	20		
- Investment property		**178,982**	238,348
- Other property and equipment		**646,570**	670,605
Tax recoverable	24(a)	**1,390**	6,038
Deferred tax assets	24(b)	**54,174**	28,761
Total Assets		**186,195,874**	177,181,440
Equity and Liabilities			
Deposits and balances of banks and other financial institutions		**5,891,264**	3,685,575
Deposits from customers	21	**134,024,944**	130,719,661
Trading liabilities	22	**1,783,939**	907,342
Certificates of deposit issued	23	**13,267,339**	14,297,569
Debt securities issued	25	**1,137,136**	1,119,747
Current taxation	24(a)	**208,569**	62,133
Deferred tax liabilities	24(b)	**3,847**	1,478
Other liabilities	26	**7,472,763**	4,637,920
Loan capital	27	**6,434,152**	6,698,159
Total Liabilities		**170,223,953**	162,129,584
Equity			
Share capital	28(a)	**7,283,341**	7,283,341
Reserves	28(b)	**8,688,580**	7,768,515
Total equity attributable to equity shareholders of the Bank		**15,971,921**	15,051,856
Total Equity and Liabilities		**186,195,874**	177,181,440

Consolidated Statement of Changes in Equity
for the 6 months ended 30 June 2013 - 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 2013	**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**
Changes in equity for the 6 months ended 30 June 2013:												
Profit for the period	-	-	-	-	-	-	-	-	-	**1,053,469**	**1,053,469**	**1,053,469**
Other comprehensive income for the period	-	-	-	-	**23,590**	**921**	**(157,915)**	-	-	-	**(133,404)**	**(133,404)**
Total comprehensive income for the period	-	-	-	-	**23,590**	**921**	**(157,915)**	-	-	**1,053,469**	**920,065**	**920,065**
Transfer to retained profits	-	-	-	-	-	**(5,584)**	-	-	-	**5,584**	-	-
At 30 June 2013	**7,283,341**	**282,930**	**6,589**	**100,000**	**121,740**	**55**	**(107,769)**	**33,241**	**124,915**	**8,126,879**	**8,688,580**	**15,971,921**
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 6 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 July 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
Changes in equity for the 6 months ended 31 December 2012:												
Profit for the period	-	-	-	-	-	-	-	-	-	651,099	651,099	651,099
Other comprehensive income for the period	-	-	-	-	32,319	-	79,074	-	-	-	111,393	111,393
Total comprehensive income for the period	-	-	-	-	32,319	-	79,074	-	-	651,099	762,492	762,492
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

Condensed Consolidated Cash Flow Statement
for the 6 months ended 30 June 2013 - unaudited
(Expressed in Hong Kong dollars)

		6 months ended 30 June	
		2013	2012
	Note	**HK$'000**	HK$'000
Cash (used in)/generated from operations		**(2,032,408)**	6,595,129
Income tax (paid)/refund		**(30,089)**	65,478
Net cash (used in)/generated from operating activities		**(2,062,497)**	6,660,607
Net cash generated from/(used in) investing activities		**51,124**	(63,111)
Net cash used in financing activities		**(178,683)**	(2,259,920)
Net (decrease)/increase in cash and cash equivalents		**(2,190,056)**	4,337,576
Cash and cash equivalents at 1 January		**43,702,447**	39,009,923
Cash and cash equivalents at 30 June	29	**41,512,391**	43,347,499

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

(1) Basis of preparation

The interim financial report has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the HKICPA. It also contains the disclosure information required under the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority ("HKMA").

The preparation of an interim financial report that conforms with HKAS 34 requires that management 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 2012 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2013 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 2012 accounts, except for the following:

The HKICPA has issued a number of new HKFRSs and 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 HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*
- HKFRS 13, *Fair value measurement*
- *Annual Improvements to HKFRSs 2009-2011 Cycle*
- Amendments to HKFRS 7 – *Disclosures – Offsetting financial assets and financial liabilities*

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

Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*

The amendments to HKAS 1 require entities to present the items of other comprehensive income that would be reclassified to the income statement in the future if certain conditions are met separately from those that would never be reclassified to the income statement. The Group's presentation of other comprehensive income in these financial statements has been modified accordingly.

HKFRS 13, *Fair value measurement*

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. Some of the disclosures are specifically required for financial instruments in the interim report. The Group has provided those disclosures in note 32. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

Annual Improvements to HKFRSs 2009-2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, HKAS 34 has been amended to clarify that the total assets for a particular reportable segment are required to be disclosed only if the amounts are regularly provided to the Chief Operating Decision Maker ("CODM") and only if there has been a material change in the total assets for that segment from the amount disclosed in the previous annual financial statements. The amendment also requires the disclosure of segment liabilities if the amounts are regularly provided to the CODM and there has been a material change in the amounts compared with the previous annual financial statements. The amendment does not have any impact on the Group's segment disclosure because the Group does not have any reportable segments with total assets or total liabilities materially different from the amounts reported in the previous annual financial statements.

Amendments to HKFRS 7, *Disclosures – Offsetting financial assets and financial liabilities*

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32, *Financial instruments: Presentation* and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

The adoption of the amendments does not have an impact on the Group's interim financial report because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of HKFRS 7.

(3) Segment reporting

Segment information is presented consistently with reportable segments which are regularly reviewed or evaluated internally by the CODM 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

	6 months ended 30 June 2013				
	Wholesale and cross-border banking HK$'000	**Personal & business banking HK$'000**	**Treasury and markets HK$'000**	**Others HK$'000**	**Consolidated HK$'000**
Net interest income	**885,636**	**527,928**	**30,151**	**17,094**	**1,460,809**
Other operating income	**162,687**	**238,545**	**365,466**	**2,872**	**769,570**
Net gain on disposal of available-for-sale securities	**1,747**	**-**	**10,440**	**-**	**12,187**
Operating income	**1,050,070**	**766,473**	**406,057**	**19,966**	**2,242,566**
Operating expenses	**(219,245)**	**(259,788)**	**(21,531)**	**(490,386)**	**(990,950)**
Inter-segment income/(expenses)	**(99,676)**	**(143,353)**	**(45,376)**	**288,405**	**-**
Operating profit/(loss) before impairment	**731,149**	**363,332**	**339,150**	**(182,015)**	**1,251,616**
Impairment losses (charged)/written back on loans and advances and other accounts	**(17,955)**	**(11,031)**	**-**	**640**	**(28,346)**
Operating profit/(loss)	**713,194**	**352,301**	**339,150**	**(181,375)**	**1,223,270**
Net (loss)/ gain on disposal of property and equipment	**(38)**	**(561)**	**-**	**20,764**	**20,165**
Revaluation gain on investment properties	**-**	**-**	**-**	**1,100**	**1,100**
Profit/(loss) before taxation	**713,156**	**351,740**	**339,150**	**(159,511)**	**1,244,535**
Income tax	**-**	**-**	**-**	**(191,066)**	**(191,066)**
Profit/(loss) for the period	**713,156**	**351,740**	**339,150**	**(350,577)**	**1,053,469**
Other segment items:					
Depreciation	**11,561**	**10,346**	**586**	**33,965**	**56,458**
	At 30 June 2013				
Other segment items:					
Segment assets	**99,448,980**	**37,305,637**	**64,077,209**	**(14,635,952)**	**186,195,874**
Segment liabilities	**91,211,862**	**71,413,572**	**25,032,484**	**(17,433,965)**	**170,223,953**
Capital expenditure incurred during the period	**3,662**	**25,303**	**1,361**	**6,637**	**36,963**

(3) Segment reporting (cont'd)

(a) Reportable segments (cont'd)

	6 months ended 30 June 2012				
	Wholesale and cross-border banking HK$'000	Personal & business banking HK$'000	Treasury and markets HK$'000	Others HK$'000	Consolidated HK$'000
Net interest income/(expenses)	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 31 December 2012				
Other segment items:					
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

(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			
	2013	2012	**2013**	2012
	Profit/(loss) before taxation	Profit before taxation	**Operating income**	Operating income
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**1,145,807**	865,257	**1,991,854**	1,524,097
Mainland China	**46,370**	104,009	**115,473**	193,020
United States	**30,216**	37,799	**41,150**	39,356
Singapore	**26,265**	53,513	**81,474**	86,396
Others	**(4,125)**	9,494	**12,613**	26,970
Inter-segment items	**2**	15	**2**	15
	1,244,535	1,070,087	**2,242,566**	1,869,854

	At 30 June 2013	At 31 December 2012	**At 30 June 2013**	At 31 December 2012
	Total assets	Total assets	**Total liabilities**	Total liabilities
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**169,272,279**	164,052,152	**154,044,280**	149,648,756
Mainland China	**17,873,114**	15,768,774	**16,126,882**	14,089,151
United States	**3,320,247**	2,332,154	**3,263,936**	2,245,266
Singapore	**10,367,368**	9,090,833	**10,306,509**	9,010,369
Others	**1,502,564**	1,100,193	**1,511,289**	1,070,164
Inter-segment items	**(16,139,698)**	(15,162,666)	**(15,028,943)**	(13,934,122)
	186,195,874	177,181,440	**170,223,953**	162,129,584

(4) Interest income and interest expense

(a) Interest income

	6 months ended 30 June	
	2013	2012
	HK$'000	HK$'000
Listed securities	**516**	1,663
Unlisted securities	**143,462**	225,140
Others (Note)	**2,360,750**	2,162,297
Interest income on financial assets that are not at fair value through profit or loss	**2,504,728**	2,389,100

(b) Interest expense

	6 months ended 30 June	
	2013	2012
	HK$'000	HK$'000
Deposits from customers, banks and other financial institutions, certificates of deposit issued and others	**840,182**	1,055,307
Debt securities issued	**21,429**	2,407
Loan capital issued	**182,308**	231,904
Interest expense on financial liabilities that are not at fair value through profit or loss	**1,043,919**	1,289,618
Of which:		
Deposits from customers, banks and other financial institutions, certificates of deposit issued and others repayable after 5 years	**-**	434
Loan capital issued repayable after 5 years	**76,885**	81,041

Note:

Included in the above is interest income accrued on impaired financial assets of HK$4,017,000 (six months ended 30 June 2012: HK$2,728,000), which includes interest income on the unwinding of the discount on the loan impairment losses of HK$2,433,000 for the six months ended 30 June 2013 (six months ended 30 June 2012: HK$2,728,000).

(5) Net fee and commission income

	6 months ended 30 June	
	2013	2012
	HK$'000	HK$'000
Fee and commission income		
Bills commission	**59,796**	60,798
Card-related income	**11,928**	12,776
General banking services	**39,085**	37,452
Insurance	**83,070**	102,191
Investment and structured investment products	**70,840**	42,732
Loans, overdrafts and facilities fees	**91,127**	92,960
Others	**299**	312
	356,145	349,221
Fee and commission expense	**(19,706)**	(17,782)
	336,439	331,439
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	**162,851**	166,534
- Fee and commission expense	**(6,446)**	(7,357)
	156,405	159,177

(6) Net trading income

	6 months ended 30 June	
	2013	2012
	HK$'000	HK$'000
Gains less losses from dealing in foreign currencies	**35,528**	134,144
Gains less losses from trading securities	**396**	246
Gains less losses from other dealing activities	**355,416**	315,767
Net interest income/(expense) on trading activities	**19,285**	(18,468)
	410,625	431,689

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

	6 months ended 30 June	
	2013	2012
	HK$'000	HK$'000
Net gain	**1,266**	1,473
Interest income		
- Listed	**-**	921
- Unlisted	**259**	957
	1,525	3,351

(8) Net hedging gain

	6 months ended 30 June	
	2013	2012
	HK$'000	HK$'000
Net gain on fair value hedge	**223**	455

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

	6 months ended 30 June	
	2013	2012
	HK$'000	HK$'000
Net revaluation gain/(loss) transferred from reserves	**11,137**	(10,363)
Net gain/(loss) arising in current period	**1,050**	(8,628)
	12,187	(18,991)

(10) Other operating income

	6 months ended 30 June	
	2013	2012
	HK$'000	HK$'000
Dividend income from available-for-sale equity securities		
- Listed	**104**	34
- Unlisted	**3,700**	3,700
Rental income from investment properties		
less direct outgoings of HK$66,000 (6 months ended 30 June 2012: HK$42,000)	**2,803**	2,440
Others	**14,151**	16,255
	20,758	22,429

(11) Operating expenses

	6 months ended 30 June	
	2013	2012
	HK$'000	HK$'000
(a) Staff costs		
Salaries and other staff costs	**600,593**	477,613
Retirement costs	**36,600**	32,435
	637,193	510,048
(b) Depreciation		
Depreciation of property and equipment		
- Assets held for use under operating leases	**12,437**	10,298
- Other assets	**44,021**	40,486
	56,458	50,784
(c) Other operating expenses		
Property and equipment expenses (excluding depreciation) (Note)		
- Rental of property	**109,531**	87,825
- Others	**63,805**	57,284
Auditors' remuneration	**3,352**	3,386
Advertising	**14,818**	4,615
Communication, printing and stationery	**35,749**	32,163
Legal and professional fees	**10,505**	9,986
Others	**59,539**	63,923
	297,299	259,182
Total operating expenses	**990,950**	820,014

Note:
Included in other operating expenses are the minimum lease payment under operating leases of HK$1,549,000(six months ended 30 June 2012: HK$845,000) for hiring equipment, and HK$104,431,000(six months ended 30 June 2012: HK$84,372,000) for hiring property and other assets for the six months ended 30 June 2013.

(12) Impairment losses on loans and advances and other accounts

	6 months ended 30 June	
	2013	2012
	HK$'000	HK$'000
Impairment losses (charged)/written back		
- Loans and advances	**(28,346)**	(7,523)
- Other accounts	**-**	613
	(28,346)	(6,910)
Impairment losses (charged)/written back on loans and advances and other accounts		
- Individual assessment	**(25,813)**	(39,096)
- Collective assessment	**(2,533)**	32,186
	(28,346)	(6,910)
of which:		
- Additions	**(93,679)**	(66,482)
- Releases	**54,618**	49,564
- Recoveries	**10,715**	10,008
	(28,346)	(6,910)

(13) Income tax in the consolidated income statement

	6 months ended 30 June	
	2013	2012
	HK$'000	HK$'000
Current tax - Hong Kong Profits Tax		
Provision for the period	**185,422**	133,423
Over-provision in respect of prior periods	**(8,844)**	(1,798)
	176,578	131,625
Current tax - Overseas		
Provision for the period	**5,651**	37,236
(Over)/under-provision in respect of prior periods	**(919)**	1,175
	4,732	38,411
Deferred tax		
Origination of temporary differences (note 24(b))	**9,756**	(5,408)
	191,066	164,628

The provision for Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 June 2012: 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 2013 HK$'000	At 31 December 2012 HK$'000
Cash in hand	**224,923**	218,535
Balances with central banks	**1,737,494**	1,263,007
Balances with banks	**3,138,273**	1,911,261
Balances with other financial institutions	**1,729,519**	1,897,250
	6,830,209	5,290,053

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

	At 30 June 2013 HK$'000	At 31 December 2012 HK$'000
Placements with banks	**30,493,958**	34,819,543
Advances to banks	**6,516,236**	8,681,672
	37,010,194	43,501,215
Maturing:		
- Within 1 month	**16,935,092**	24,982,655
- Between 1 month and 1 year	**20,045,709**	18,480,773
- After 1 year	**29,393**	37,787
	37,010,194	43,501,215

There were no impaired advances to banks and other financial institutions at 30 June 2013 and 31 December 2012, nor were there any individually assessed impairment allowances made for them on these two dates.

(16) Trading assets

	At 30 June 2013 HK$'000	At 31 December 2012 HK$'000
Investment funds	**2,597**	2,662
Positive fair values of derivatives (note 33(b))	**2,658,946**	1,846,682
	2,661,543	1,849,344
Issued by:		
Corporate entities	**2,597**	2,662
Analysed by place of listing:		
Unlisted	**2,597**	2,662

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

	At 30 June 2013 HK$'000	At 31 December 2012 HK$'000
Certificates of deposit held	-	30,950
Debt securities	61,799	60,550
	61,799	91,500
Issued by:		
Sovereigns	12,713	12,642
Banks and other financial institutions	25	30,975
Corporate entities	49,061	47,883
	61,799	91,500
Analysed by place of listing:		
Unlisted	61,799	91,500

(18) Loans and advances to customers and other accounts

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

	At 30 June 2013 HK$'000	At 31 December 2012 HK$'000
Gross loans and advances to customers	116,149,530	105,091,832
Impairment allowances		
- Individually assessed	(278,258)	(265,356)
- Collectively assessed	(280,182)	(280,985)
	115,591,090	104,545,491
Accrued interest and other accounts	4,550,222	2,931,040
Impairment allowances		
- Individually assessed	(1,608)	(1,608)
	4,548,614	2,929,432
	120,139,704	107,474,923
Included in loans and advances to customers:		
Trade bills	7,769,637	9,470,863
Impairment allowances		
- Collectively assessed	(757)	(552)
	7,768,880	9,470,311

(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 2013		At 31 December 2012	
	Gross loans and advances to customers HK$'000	**% of gross loans and advances to customers covered by collateral**	Gross loans and advances to customers HK$'000	% of gross loans and advances to customers covered by collateral
Industrial, commercial and financial				
- Property development	**4,214**	**53**	10,762	100
- Property investment	**14,148,905**	**100**	14,165,266	100
- Financial concerns	**2,020,573**	**20**	1,785,418	27
- Stockbrokers	**159,982**	**64**	31,000	100
- Wholesale and retail trade	**11,009,705**	**90**	7,984,910	80
- Manufacturing	**4,844,944**	**58**	3,401,071	48
- Transport and transport equipment	**2,674,766**	**53**	2,604,952	60
- Recreational activities	**182,087**	**65**	189,213	64
- Information technology	**195,090**	**20**	1,336	74
- Others	**2,010,910**	**62**	2,208,005	61
Individuals				
- Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**18,775**	**100**	20,100	100
- Loans for the purchase of other residential properties	**9,712,331**	**100**	9,671,193	100
- Credit card advances	**306,878**	**-**	288,991	-
- Others	**6,174,417**	**90**	6,132,235	91
Gross loans and advances for use in Hong Kong	**53,463,577**	**85**	48,494,452	85
Trade finance	**16,032,009**	**20**	13,930,092	21
Gross loans and advances for use outside Hong Kong	**46,653,944**	**37**	42,667,288	40
Gross loans and advances to customers	**116,149,530**	**57**	105,091,832	58

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

(c) Impaired loans and advances to customers

	At 30 June 2013 HK$'000	At 31 December 2012 HK$'000
Gross impaired loans and advances to customers	**599,023**	475,920
Impairment allowances - Individually assessed	**(278,258)**	(265,356)
	320,765	210,564
Gross impaired loans and advances as a % of total loans and advances to customers	**0.52%**	0.45%

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$273,247,000 (31 December 2012: HK$249,667,000) 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 2013		
	Individual impairment allowances HK$'000	**Collective impairment allowances HK$'000**	**Impaired loans and advances to customers HK$'000**
Property investment	**-**	**615**	**1,375**
Trade finance	**98,212**	**35,793**	**201,879**
Gross loans and advances for use outside Hong Kong	**179,039**	**173,666**	**317,361**
	277,251	**210,074**	**520,615**

	At 31 December 2012		
	Individual impairment allowances HK$'000	Collective impairment allowances HK$'000	Impaired loans and advances to customers HK$'000
Property investment	-	105	-
Loans for the purchase of other residential properties	-	27	4,818
Trade finance	75,163	40,515	83,966
Gross loans and advances for use outside Hong Kong	178,191	162,859	298,694
	253,354	203,506	387,478

(19) Available-for-sale securities

	At 30 June 2013 HK$'000	At 31 December 2012 HK$'000
Certificates of deposit held	**6,077,618**	4,671,149
Debt securities	**8,846,896**	7,581,974
Treasury bills (including Exchange Fund Bills)	**3,621,046**	5,718,900
Equity securities	**65,749**	58,630
	18,611,309	18,030,653
Issued by:		
Sovereigns	**3,741,093**	6,533,226
Public sector entities	**1,002**	-
Banks and other financial institutions	**10,685,163**	10,000,576
Corporate entities	**4,184,051**	1,496,851
	18,611,309	18,030,653
Analysed by place of listing:		
Listed outside Hong Kong	**127,611**	198,373
Unlisted	**18,483,698**	17,832,280
	18,611,309	18,030,653

(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 2013	**238,348**	**641,814**	**1,024,814**	**1,904,976**
Additions	**-**	**-**	**36,963**	**36,963**
Disposals	**(60,466)**	**(9,804)**	**(8,757)**	**(79,027)**
Surplus on revaluation	**1,100**	**-**	**-**	**1,100**
Exchange adjustments	**-**	**-**	**(871)**	**(871)**
At 30 June 2013	**178,982**	**632,010**	**1,052,149**	**1,863,141**
The analysis of cost or valuation of the above assets is as follows:				
Cost	**-**	**614,413**	**1,052,149**	**1,666,562**
Valuation				
- 1985	**-**	**17,597**	**-**	**17,597**
- 2013	**178,982**	**-**	**-**	**178,982**
	178,982	**632,010**	**1,052,149**	**1,863,141**
At 1 January 2012	187,602	641,814	934,266	1,763,682
Additions	-	-	126,880	126,880
Disposals	-	-	(39,290)	(39,290)
Surplus on revaluation	50,746	-	-	50,746
Exchange adjustments	-	-	2,958	2,958
At 31 December 2012	238,348	641,814	1,024,814	1,904,976
The analysis of cost or valuation of the above assets is as follows:				
Cost	-	624,217	1,024,814	1,649,031
Valuation				
- 1985	-	17,597	-	17,597
- 2012	238,348	-	-	238,348
	238,348	641,814	1,024,814	1,904,976
Accumulated depreciation:				
At 1 January 2013	**-**	**271,505**	**724,518**	**996,023**
Charge for the period	**-**	**6,885**	**49,573**	**56,458**
Written back on disposals	**-**	**(6,729)**	**(8,179)**	**(14,908)**
Exchange adjustments	**-**	**-**	**16**	**16**
At 30 June 2013	**-**	**271,661**	**765,928**	**1,037,589**
At 1 January 2012	-	257,577	673,983	931,560
Charge for the year	-	13,928	87,646	101,574
Written back on disposals	-	-	(38,481)	(38,481)
Exchange adjustments	-	-	1,370	1,370
At 31 December 2012	-	271,505	724,518	996,023
Net book value:				
At 30 June 2013	**178,982**	**360,349**	**286,221**	**825,552**
At 31 December 2012	238,348	370,309	300,296	908,953

(20) Property and equipment (cont'd)

Investment property revaluation

All investment properties of the Group were revalued on 30 June 2013 by Prudential Surveyors (Hong Kong) Limited, an independent firm of surveyors. The basis of the valuation of property was market value which is consistent with the definition of fair value under HKFRS 13, *Fair value measurement.* The revaluation surpluses of HK$1,100,000 was recognised by the Group (2012: revaluation surpluses of HK$50,746,000), which have been credited to the income statement. Prudential Surveyors (Hong Kong) Limited has among its staff fellows of the Hong Kong Institute of Surveyors who have recent experience in the locations and categories of properties being valued.

(21) Deposits from customers

	At 30 June 2013 HK$'000	At 31 December 2012 HK$'000
Demand deposits and current deposits	**15,115,084**	16,005,718
Savings deposits	**25,995,939**	25,269,118
Time, call and notice deposits	**92,913,921**	89,444,825
	134,024,944	130,719,661

(22) Trading liabilities

	At 30 June 2013 HK$'000	At 31 December 2012 HK$'000
Negative fair value of derivatives (note 33(b))	**1,783,939**	907,342

(23) Certificates of deposit issued

	At 30 June 2013 HK$'000	At 31 December 2012 HK$'000
Non-trading	**13,267,339**	14,297,569

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

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

	At 30 June 2013 HK$'000	At 31 December 2012 HK$'000
Provision for Hong Kong Profits Tax for the period/year	**185,422**	237,983
Provisional Profits Tax paid	**-**	(225,387)
	185,422	12,596
Balance of Profits Tax provision relating to prior years	**3,751**	-
	189,173	12,596
Provision for overseas taxation	**18,006**	43,499
	207,179	56,095
Of which:		
Tax recoverable	**(1,390)**	(6,038)
Current taxation	**208,569**	62,133
	207,179	56,095

(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 2013	**23,562**	**(42,215)**	**2,351**	**9,351**	**(757)**	**(19,575)**	**(27,283)**
Charged/(credited) to income statement (note 13)	**4,150**	**4,896**	**149**	**-**	**746**	**(185)**	**9,756**
Charged to reserves	**-**	**-**	**(921)**	**(31,780)**	**-**	**-**	**(32,701)**
Exchange and other adjustments	**(73)**	**-**	**-**	**-**	**11**	**(37)**	**(99)**
At 30 June 2013	**27,639**	**(37,319)**	**1,579**	**(22,429)**	**-**	**(19,797)**	**(50,327)**
At 1 January 2012	25,947	(55,778)	14,902	(62,648)	-	(23,350)	(100,927)
Charged/(credited) to income statement	(2,563)	18,643	(12,552)	-	(757)	3,902	6,673
Credited to reserves	-	-	-	72,000	-	-	72,000
Exchange and other adjustments	178	(5,080)	1	(1)	-	(127)	(5,029)
At 31 December 2012	23,562	(42,215)	2,351	9,351	(757)	(19,575)	(27,283)

	At 30 June 2013 HK$'000	At 31 December 2012 HK$'000
Net deferred tax assets recognised on the consolidated statement of financial position	**(54,174)**	(28,761)
Net deferred tax liabilities recognised on the consolidated statement of financial position	**3,847**	1,478
	(50,327)	(27,283)

(c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$2,665,000 at 30 June 2013 (31 December 2012: HK$2,633,000), 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 2013 HK$'000	At 31 December 2012 HK$'000
Non-trading debt securities issued	**1,137,136**	1,119,747

(26) Other liabilities

	At 30 June 2013 HK$'000	At 31 December 2012 HK$'000
Items in the course of transmission to other financial institutions	**1,502,644**	126,867
Accruals and other payables	**5,970,119**	4,511,053
	7,472,763	4,637,920

(27) Loan capital

	At 30 June 2013 HK$'000	At 31 December 2012 HK$'000
Subordinated notes with US$500 million at 6.875% *	**4,166,052**	4,390,437
Subordinated notes with US$300 million at 3.875% **	**2,268,100**	2,307,722
	6,434,152	6,698,159

* Under a US$2 billion Medium-Term Note Programme ("the Programme") which launched in 2007 and the 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.

** Under the Programme and the Offering Circular which was issued in August 2012, the Bank issued subordinated notes on 27 September 2012 with a face value of US$300 million (equivalent to HK$2,326.1 million). The notes bear interest at a fixed rate of 3.875% per annum, payable semi-annually until 28 September 2017 and are fixed at an interest rate of the prevailing five-year US Treasury bonds yield plus 3.25% per annum thereafter if the notes are not redeemed early at the option of the Bank. The notes are listed on the Singapore Exchange Securities Trading Limited and will mature on 28 September 2022.

(28) Capital and reserves

(a) Share capital

(i) Authorised and issued share capital

	At 30 June 2013 HK$'000	At 31 December 2012 HK$'000
Authorised:		
8,000,000,000 ordinary shares of HK$1 each	**8,000,000**	8,000,000
Issued and fully paid:		
At 1 January 2013 and 30 June 2013:		
7,283,341,176 (1 January 2012 and 31 December 2012: 7,283,341,176) ordinary shares of HK$1 each	**7,283,341**	7,283,341

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

(ii) Shares issued during the period

There was no share issuance during the period ended 30 June 2013.

(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 2013, HK$1,670,656,000 (31 December 2012: HK$1,440,192,000) 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 2013 HK$'000	At 30 June 2012 HK$'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	**6,830,209**	6,151,179
Placements with and advances to banks, central banks and other financial institutions with original maturity within 3 months	**31,116,442**	27,157,257
Treasury bills and certificates of deposit held with original maturity within 3 months:		
- Available-for-sale securities	**3,565,740**	10,039,063
	41,512,391	43,347,499
(ii) Reconciliation with the consolidated statement of financial position		
Cash and balances with banks, central banks and other financial institutions	**6,830,209**	6,151,179
Placements with and advances to banks, central banks and other financial institutions	**37,010,194**	41,126,090
Treasury bills and certificates of deposit held:		
- Available-for-sale securities	**9,698,664**	12,823,041
Amounts shown in the consolidated statement of financial position	**53,539,067**	60,100,310
Less: Amounts with an original maturity of over 3 months	**(12,026,676)**	(16,752,811)
Cash and cash equivalents in the consolidated cash flow statement	**41,512,391**	43,347,499

(30) Maturity profile

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

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

At 30 June 2013

	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	6,830,209	5,410,012	-	-	-	-	-	1,420,197
Placements with and advances to banks, central banks and other financial institutions	37,010,194	-	16,935,092	16,491,170	3,554,539	29,393	-	-
Trading assets	2,661,543	2,658,946	-	-	-	-	-	2,597
Securities designated at fair value through profit or loss	61,799	-	-	12	13	12,713	-	49,061
Loans and advances to customers and other accounts	120,139,704	3,376,564	12,140,669	16,292,621	34,120,327	28,343,434	21,274,731	4,591,358
Available-for-sale securities	18,611,309	-	2,712,410	2,198,355	6,960,585	5,978,163	696,047	65,749
Tax recoverable	1,390	-	-	-	1,390	-	-	-
Undated assets	879,726	-	-	-	-	-	-	879,726
Total assets	186,195,874	11,445,522	31,788,171	34,982,158	44,636,854	34,363,703	21,970,778	7,008,688
Liabilities								
Deposits and balances of banks and other financial institutions	5,891,264	751,928	4,343,053	413,348	382,935	-	-	-
Deposits from customers	134,024,944	41,111,023	39,386,267	34,080,793	15,859,359	3,587,502	-	-
Trading liabilities	1,783,939	1,783,939	-	-	-	-	-	-
Certificates of deposit issued	13,267,339	-	252,950	4,184,405	6,430,986	2,398,998	-	-
Debt securities issued	1,137,136	-	-	-	-	1,137,136	-	-
Current taxation	208,569	-	-	-	208,569	-	-	-
Other liabilities	7,472,763	-	1,502,644	-	-	-	-	5,970,119
Loan capital	6,434,152	-	-	-	-	2,268,100	4,166,052	-
Undated liabilities	3,847	-	-	-	-	-	-	3,847
Total liabilities	170,223,953	43,646,890	45,484,914	38,678,546	22,881,849	9,391,736	4,166,052	5,973,966
Asset-liability gap		(32,201,368)	(13,696,743)	(3,696,388)	21,755,005	24,971,967	17,804,726	

At 31 December 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	5,290,053	4,307,942	-	-	-	-	-	982,111
Placements with and advances to banks, central banks and other financial institutions	43,501,215	-	24,982,655	14,600,334	3,880,439	37,787	-	-
Trading assets	1,849,344	1,846,682	-	-	-	-	-	2,662
Securities designated at fair value through profit or loss	91,500	-	-	30,950	25	12,642	-	47,883
Loans and advances to customers and other accounts	107,474,923	2,771,949	9,571,741	13,331,666	31,419,078	25,835,889	21,230,817	3,313,783
Available-for-sale securities	18,030,653	-	6,181,650	2,141,448	4,788,108	4,333,189	527,627	58,631
Tax recoverable	6,038	-	-	-	6,038	-	-	-
Undated assets	937,714	-	-	-	-	-	-	937,714
Total assets	177,181,440	8,926,573	40,736,046	30,104,398	40,093,688	30,219,507	21,758,444	5,342,784
Liabilities								
Deposits and balances of banks and other financial institutions	3,685,575	645,200	1,834,988	892,047	313,340	-	-	-
Deposits from customers	130,719,661	41,244,043	37,139,081	30,594,171	20,355,006	1,387,360	-	-
Trading liabilities	907,342	907,342	-	-	-	-	-	-
Certificates of deposit issued	14,297,569	-	610,312	3,883,239	7,084,547	2,719,471	-	-
Debt securities issued	1,119,747	-	-	-	-	1,119,747	-	-
Current taxation	62,133	-	-	-	62,133	-	-	-
Other liabilities	4,637,920	-	-	-	-	-	-	4,637,920
Loan capital	6,698,159	-	-	-	-	2,307,722	4,390,437	-
Undated liabilities	1,478	-	-	-	-	-	-	1,478
Total liabilities	162,129,584	42,796,585	39,584,381	35,369,457	27,815,026	7,534,300	4,390,437	4,639,398
Asset-liability gap		(33,870,012)	1,151,665	(5,265,059)	12,278,662	22,685,207	17,368,007	

(31) Material related party transactions

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

(a) Transactions with group companies

During the period, the Group entered into a number of transactions with related parties in the normal course of its banking business including, inter alia, lending, acceptance and placement of inter-bank deposits; and 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									
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Interest income	**-**	-	**-**	-	**5,574**	8,127	**1,970**	1,779	**400,233**	340,741
Interest expense	**-**	(15,662)	**(2,569)**	(2,413)	**(33,325)**	(27,211)	**(7,156)**	(29,988)	**(176)**	(96,211)
Other operating income	**-**	-	**-**	-	**-**	-	**17,804**	14,459	**-**	-
Operating expenses	**-**	-	**(1,338)**	(1,347)	**(3,099)**	(2,813)	**(1,414)**	(5,658)	**(4)**	(3)
Trading (loss)/gain on derivatives	**-**	-	**-**	-	**(154,057)**	(447)	**-**	-	**236,428**	104,783
	At 30 June 2013/ 31 December 2012									
Assets										
Derivative financial instruments	**-**	-	**-**	-	**3,056**	-	**-**	-	**301,744**	397,459
Other receivables	**-**	-	**62**	-	**2,990**	4,736	**814**	757	**79,848**	61,220
Liabilities										
Derivative financial instruments	**-**	-	**-**	-	**157,114**	-	**-**	-	**65,316**	51,511
Other payables	**-**	-	**5,483**	4,116	**25,940**	26,294	**950**	1,811	**24,043**	28,482
Loan capital	**-**	-	**-**	-	**-**	-	**-**	46,154	**-**	2,195,219
Debt securities issued	**-**	-	**-**	-	**-**	-	**-**	115,504	**-**	-
Lending activities:										
At 30 June/31 December	**-**	-	**-**	-	**591,200**	540,068	**180,000**	205,000	**18,294,849**	17,783,405
Average for the period/year	**-**	-	**-**	-	**522,792**	576,791	**251,500**	181,839	**18,200,144**	17,198,980
Acceptance of deposits:										
At 30 June/31 December	**1**	1	**416,678**	425,860	**3,507,990**	8,279,000	**4,850,919**	3,980,800	**1,453,283**	679,969
Average for the period/year	**1**	889,069	**420,274**	435,120	**4,470,757**	5,285,669	**4,105,743**	3,987,656	**1,206,574**	1,237,462
	At 30 June 2013/ 31 December 2012									
Off-statement of financial position items										
Acceptances, guarantees and letters of credit - contract amounts in payable	**-**	-	**-**	-	**(67,128)**	-	**(3,000)**	(3,000)	**-**	-
Lease commitments	**-**	-	**-**	-	**10,441**	24,313	**9,819**	10,983	**-**	-
Other commitments	**-**	-	**-**	-	**465,423**	542,606	**316,141**	291,030	**-**	-
Derivative financial instruments - notional amounts	**-**	-	**-**	-	**2,666,551**	-	**-**	-	**13,308,180**	15,850,782

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.

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

(b) Transactions with key management personnel

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

	6 months ended 30 June	
	2013	2012
	HK$'000	HK$'000
Short-term employee benefits	**27,332**	29,248
Post-employment benefits	**1,484**	1,349
	28,816	30,597

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.

	2013	2012
	HK$'000	HK$'000
At 1 January	**10,876**	11,981
At 30 June 2013/ 31 December 2012	**8,066**	10,876
Maximum amount during the period/year	**10,878**	12,785

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.

(32) Fair value measurement of financial instruments

(a) Financial assets and liabilities measured at fair value

(i) Fair value hierarchy

Fair value estimates are generally subjective in nature, and are made at a specific point in time based on the characteristics of the financial instruments and relevant market information. Fair values are determined according to the following fair value hierarchy:

		Fair value measurements as at 30 June 2013 using		
	Fair value at 30 June (Total) HK$'000	**Quoted prices in active market for identical assets (Level 1) HK$'000**	**Significant other observable inputs (Level 2) HK$'000**	**Significant unobservable inputs (Level 3) HK$'000**
Assets				
Trading assets				
- Investment funds	**2,597**	**-**	**-**	**2,597**
- Positive fair values of derivatives	**2,658,946**	**11,896**	**2,647,050**	**-**
	2,661,543	**11,896**	**2,647,050**	**2,597**
Securities designated at fair value through profit or loss				
- Debt securities	**61,799**	**12,738**	**-**	**49,061**
Available-for-sale securities				
- Certificates of deposit held	**6,077,618**	**252,887**	**5,824,731**	**-**
- Treasury bills (including Exchange Fund Bills)	**3,621,046**	**3,621,046**	**-**	**-**
- Debt securities	**8,846,896**	**4,801,664**	**4,041,232**	**4,000**
- Equity securities	**65,749**	**42,135**	**-**	**23,614**
	18,611,309	**8,717,732**	**9,865,963**	**27,614**
	21,334,651	**8,742,366**	**12,513,013**	**79,272**
Liabilities				
Trading liabilities				
- Negative fair value of derivatives	**1,783,939**	**569**	**1,783,370**	**-**

		Fair value measurements as at 31 December 2012 using		
	Fair value at 31 December (Total) HK$'000	Quoted prices in active market for identical assets (Level 1) HK$'000	Significant other observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000
Assets				
Trading assets				
- Investment funds	2,662	-	-	2,662
- Positive fair values of derivatives	1,846,682	16,622	1,830,060	-
	1,849,344	16,622	1,830,060	2,662
Securities designated at fair value through profit or loss				
- Certificates of deposit held	30,950	-	30,950	-
- Debt securities	60,550	12,667	-	47,883
	91,500	12,667	30,950	47,883
Available-for-sale securities				
- Certificates of deposit held	4,671,149	38,524	4,632,625	-
- Treasury bills (including Exchange Fund Bills)	5,718,900	5,718,900	-	-
- Debt securities	7,581,974	2,971,057	4,606,917	4,000
- Equity securities	58,630	35,010	-	23,620
	18,030,653	8,763,491	9,239,542	27,620
	19,971,497	8,792,780	11,100,552	78,165
Liabilities				
Trading liabilities				
- Negative fair value of derivatives	907,342	440	906,902	-

During the period ended 30 June 2013 and 31 December 2012, there were no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy.

(32) Fair value measurement of financial instruments (cont'd)

(a) Financial assets and liabilities measured at fair value (cont'd)

(ii) Determination of fair value

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1 - Quoted (unadjusted) market price in active markets for identical instruments.

Level 2 - Valuation techniques based on observable inputs, either directly or indirectly, where all significant inputs are observable from market data. This category includes financial instruments with quoted prices in active markets for similar instruments; or quoted prices in markets that are considered less than active for identical or similar instruments.

Level 3 - Valuation techniques using significant unobservable inputs where the valuation techniques include one or more significant inputs that are unobservable. This category includes financial instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect the differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using valuation techniques. Valuation techniques include net present value, and discounted cash flow models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other parameters used in estimating discount rates, bond price and foreign currency exchange rates.

The most common valuation techniques applied by the Group to determine the fair value of financial instruments are from interest rates and currency swaps, which are observable market data with high reliability and do not require the significant involvement of management's judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter ("OTC") derivatives like interest rate swaps. However, the availability of observable market prices and inputs varies depending on the products and markets, and is prone to changes based on specific events and general conditions in the financial markets.

Certain financial instruments need to be employed with valuation techniques where one or more significant market inputs involved are not observable. Examples of these financial instruments are structured investments, OTC structured derivatives and certain securities for which there is no active market. For valuation models involving significant unobservable inputs, a high degree of management judgement or estimation is required to select the appropriate valuation model, determine the expected future cash flows on the financial instruments being valued, determine the probability of counterparty default and prepayments, and select the appropriate discount rates.

(iii) Information about Level 3 fair value measurements

	Valuation	**Significant unobservable inputs**
Investment funds	Broker quote	Not applicable
Debt securities	Discounted cash flow model	Forecasted cash flows and estimated risk-free rate
Equity securities	See note below	See note below

Note:

Equity securities under level 3 fair value measurements are generally classified as available-for-sale and are not traded in active market. In the absence of an active market, the fair value is estimated on the basis of an analysis of the investee's financial position, results and other factors. Accordingly, it is not practical to quote significant unobservable inputs.

The following table shows a reconciliation from the opening to the closing balance for fair value measurements in Level 3 of the fair value hierarchy:

	30 June 2013				
Assets	**Trading assets**	**Securities designated at fair value through profit or loss**	**Available-for-sale securities**		**Total**
	Investment funds HK$'000	**Debt securities HK$'000**	**Debt securities HK$'000**	**Equity securities HK$'000**	**HK$'000**
At 1 January 2013	**2,662**	**47,883**	**4,000**	**23,620**	**78,165**
Purchases	**12**	**-**	**-**	**-**	**12**
Sales	**(205)**	**-**	**-**	**-**	**(205)**
Changes in fair value recognised in the income statement					
- Gains less losses dealing in foreign currencies	**2**	**-**	**-**	**(6)**	**(4)**
- Gains less losses from trading securities	**126**	**-**	**-**	**-**	**126**
- Net gain from financial instruments designated at fair value through profit or loss	**-**	**1,178**	**-**	**-**	**1,178**
At 30 June 2013	**2,597**	**49,061**	**4,000**	**23,614**	**79,272**
Total gains or losses for the year included in the income statement for assets held at the end of the reporting period recorded in:					
- Gains less losses from dealing in foreign currencies	**2**	**-**	**-**	**(6)**	**(4)**
- Gains less losses from trading securities	**126**	**-**	**-**	**-**	**126**
- Net gain from financial instruments designated at fair value through profit or loss	**-**	**1,178**	**-**	**-**	**1,178**

(32) Fair value measurement of financial instruments (cont'd)

(a) Financial instruments carried at fair value (cont'd)

(iii) Information about Level 3 fair value measurements (cont'd)

	31 December 2012				
Assets	Trading assets	Securities designated at fair value through profit or loss	Available-for-sale securities		Total
	Investment funds HK$'000	Debt securities HK$'000	Debt securities HK$'000	Equity securities HK$'000	HK$'000
At 1 January 2012	2,965	45,602	4,000	23,178	75,745
Purchases	27	-	-	438	465
Sales	(256)	-	-	-	(256)
Changes in fair value recognised in the income statement					
- Gains less losses dealing in foreign currencies	-	-	-	4	4
- Gains less losses from trading securities	(74)	-	-	-	(74)
- Net gain from financial instruments designated at fair value through profit or loss	-	2,281	-	-	2,281
At 31 December 2012	2,662	47,883	4,000	23,620	78,165
Total gains or losses for the year included in the income statement for assets held at the end of the reporting period recorded in:					
- Gains less losses from dealing in foreign currencies	-	-	-	4	4
- Gains less losses from trading securities	(74)	-	-	-	(74)
- Net gain from financial instruments designated at fair value through profit or loss	-	2,281	-	-	2,281

(iv) Effects of changes in significant unobservable assumptions to reasonable possible alternative assumptions

The fair value of Level 3 financial instruments is measured using valuation models that incorporate assumptions that are not based on observable market data. The following table shows the sensitivity of Level 3 fair value measurements due to parallel movement of plus or minus 10% of change in fair value to reasonably possible alternative assumptions.

	30 June 2013			
	Effect on income statement		**Effect on other comprehensive income**	
	Favourable HK$'000	**(Unfavourable) HK$'000**	**Favourable HK$'000**	**(Unfavourable) HK$'000**
Assets				
Trading assets				
- Investment funds	**260**	**(260)**	**-**	**-**
Securities designated at fair value through profit or loss				
- Debt securities	**4,906**	**(4,906)**	**-**	**-**
Available-for-sale securities				
- Debt securities	**-**	**-**	**400**	**(400)**
- Equity securities	**-**	**-**	**2,361**	**(2,361)**

	31 December 2012			
	Effect on income statement		Effect on other comprehensive income	
	Favourable HK$'000	(Unfavourable) HK$'000	Favourable HK$'000	(Unfavourable) HK$'000
Assets				
Trading assets				
- Investment funds	266	(266)	-	-
Securities designated at fair value through profit or loss				
- Debt securities	4,788	(4,788)	-	-
Available-for-sale securities				
- Debt securities	-	-	400	(400)
- Equity securities	-	-	2,362	(2,362)

The Group believes that its estimates of fair value for the above financial instruments are appropriate but the use of different methodologies or assumptions could lead to different measurements of fair value.

(32) Fair value measurement of financial instruments (cont'd)

(b) Fair values of financial assets and liabilities carried at other than fair value

All financial instruments are stated at fair value or carried at amounts not materially different from their fair values at 30 June 2013 and 31 December 2012 unless otherwise stated.

(i) Financial assets

The Group's financial assets mainly include cash; placements with banks, central banks and other financial institutions; loans and advances to customers; investments; and financial derivative instruments.

The fair values of placements with banks, central banks and other financial institutions are mainly priced at market interest rates, and mature within one year. Accordingly, the carrying values approximate the fair values.

The fair values of loans and advances to customers equal their carrying amounts, taking into account the relevant market interest rates and that they are mostly priced at floating rates close to the market interest rate which are mainly repriced within three months.

Trading assets, securities designated at fair value through profit or loss and available-for-sale securities (except for unlisted available-for-sale debt/equity securities) are stated at fair value in the financial statements.

(ii) Financial liabilities

All financial liabilities are stated at fair value or carried at amounts not materially different from their fair values at 30 June 2013 and 31 December 2012, except as follows:

	30 June 2013		31 December 2012	
	Carrying amount HK$'000	**Fair value HK$'000**	Carrying amount HK$'000	Fair value HK$'000
Financial liabilities				
Certificates of deposit issued - Non-trading	**13,267,339**	**13,271,685**	14,297,569	14,332,946
Debt securities issued	**1,137,136**	**1,144,081**	1,119,747	1,125,856
Loan capital	**6,434,152**	**6,339,333**	6,698,159	6,889,076
	20,838,627	**20,755,099**	22,115,475	22,347,878

(33) Derivatives

(a) Notional amounts of derivatives

Derivatives refer to financial contracts whose value depends on the value of one or more underlying asset or index. 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 2013				At 31 December 2012			
	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	-	-	**125,279,855**	**125,279,855**	-	-	69,874,282	69,874,282
Swaps	-	-	**119,836,078**	**119,836,078**	-	29,649	85,607,355	85,637,004
Options purchased	-	-	**54,432,716**	**54,432,716**	-	-	42,056,895	42,056,895
Options written	-	-	**50,573,374**	**50,573,374**	-	-	41,109,922	41,109,922
Interest rate derivatives								
Swaps	**7,079,639**	-	**56,893,486**	**63,973,125**	7,955,214	-	43,766,068	51,721,282
Options purchased	-	-	**262,318**	**262,318**	-	-	264,973	264,973
Options written	-	-	**262,318**	**262,318**	-	-	264,973	264,973
	7,079,639	-	**407,540,145**	**414,619,784**	7,955,214	29,649	282,944,468	290,929,331

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 2013			At 31 December 2012		
	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	**412,590**	**139,981**	**315,110**	666,441	170,011	437,801
Currency derivatives	**2,246,356**	**1,643,958**	**6,581,532**	1,180,241	737,331	4,145,645
	2,658,946	**1,783,939**	**6,896,642**	1,846,682	907,342	4,583,446
	(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 2012: 0% to 150%) for contingent liabilities and commitments, and from 0% to 150% (31 December 2012: 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 2013		At 31 December 2012	
	Fair value assets HK$'000	**Fair value liabilities HK$'000**	Fair value assets HK$'000	Fair value liabilities HK$'000
Interest rate contracts	**334,568**	**46,863**	579,841	3,945

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 2013 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	**64,497,761**	**27,084,016**	**33,535,220**	**3,878,525**
Currency derivatives	**350,122,023**	**224,624,261**	**125,497,762**	**-**
	414,619,784	**251,708,277**	**159,032,982**	**3,878,525**

	At 31 December 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	52,251,228	19,862,949	28,512,520	3,875,759
Currency derivatives	238,678,103	152,534,209	86,143,894	-
	290,929,331	172,397,158	114,656,414	3,875,759

(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 2013 HK$'000	At 31 December 2012 HK$'000
Direct credit substitutes	**11,411,508**	4,998,356
Transaction-related contingencies	**1,164,052**	1,517,432
Trade-related contingencies	**3,513,630**	2,953,560
Other commitments:		
- Which are unconditionally cancellable or automatically cancellable due to deterioration in the creditworthiness of the borrower	**51,118,153**	47,584,418
- With an original maturity of not more than 1 year	**2,710,387**	396,763
- With an original maturity of more than 1 year	**1,313,687**	2,106,752
	71,231,417	59,557,281
Credit risk-weighted amounts	**4,350,843**	4,315,605

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 2012: 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 2013 HK$'000	At 31 December 2012 HK$'000
Authorised and contracted for	**76,843**	37,502
Authorised but not contracted for	**19**	22
	76,862	37,524

(c) Contingent liability in respect of legal claim

The Group is 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 2013 HK$'000	At 31 December 2012 HK$'000
Loans and advances to customers and trade bills	**116,149,530**	105,091,832
Impairment allowances	**558,440**	546,341
Total assets	**186,195,874**	177,181,440
Total customers deposits	**147,292,283**	145,017,230
Total equity attributable to equity shareholders of the Bank	**15,971,921**	15,051,856
Financial ratios		
Common Equity Tier 1 ("CET1") capital	**10.7%**	n/a
Tier 1 capital ratio	**10.7%**	11.8%
Total capital ratio	**16.1%**	18.2%
Average liquidity ratio for the period/year ended* (6 months ended 30 June 2012: 59.3%)	**50.1%**	59.4%
Loans to deposits	**78.9%**	72.5%
Loans to total assets	**62.4%**	59.3%
Cost to income	**44.2%**	48.7%
Return on assets	**1.2%**	0.9%
Return on average total equity attributable to equity shareholders of the Bank	**13.4%**	10.8%

* 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) Capital adequacy

(i) Capital base - At 30 June 2013

Capital adequacy ratios ("CARs") are complied with in accordance with the Banking (Capital) Rules issued by the HKMA. The CARs as at 30 June 2013 are complied with in accordance with the Banking (Capital) (Amendment) Rules 2012 effective from 1 January 2013 for the implementation of the Basel III capital requirement. Accordingly, the capital disclosures for June 2013 under Basel III are not directly comparable with the disclosures for December 2012 prepared under the Basel II basis, as referred to in note (B)(iv). Certain comparative figures have not been provided where the current year is the first year of disclosure.

In accordance with the Banking (Capital) Rules, the CARs are computed on a consolidated basis covering the Bank and certain of its subsidiaries as required by the HKMA for its regulatory purposes, and 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 calculating operational risk.

	At 30 June 2013 HK$'000
CET1 capital: instruments and reserves	
Directly issued qualifying CET1 capital instruments plus any related share premium	**7,566,271**
Retained earnings	**781,154**
Disclosed reserves	**7,885,674**
CET1 capital before regulatory deductions	**16,233,099**
CET1 capital: regulatory deductions	
Deferred tax assets net of deferred tax liabilities	**50,327**
Cumulative fair value gains arising from the revaluation of land and buildings (own use and investment properties)	**104,299**
Regulatory reserve for general banking risks	**1,670,656**
Excess AT1 deductions	**2**
Total regulatory deductions to CET1 capital	**1,825,284**
CET1 capital	**14,407,815**
Additional Tier 1 ("AT1") capital	
Total AT1 capital before deductions	**-**
Regulatory deductions to AT1 capital	
- Significant capital investment in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	**(2)**
- Excess AT1 deductions	**2**
Total AT1 capital	**-**
Tier 1 capital	**14,407,815**
Tier 2 capital: instruments and provisions	
Qualifying Tier 2 capital instruments plus any related share premium	**5,567,751**
Reserve attributable to fair value gains on revaluation of holdings of land and buildings	**46,965**
Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	**1,521,943**
Tier 2 capital base before deductions	**7,136,659**
Tier 2 capital: regulatory deductions	
50% of the total deduction amount applied to Tier 2 capital under transitional arrangements	**3**
Total regulatory deductions to Tier 2 capital	**3**
Tier 2 capital	**7,136,656**
Total capital (Total capital = Tier 1 + Tier 2)	**21,544,471**

(ii) Risk-weighted amount

- Credit risk	**122,919,318**
- Market risk	**4,399,300**
- Operational risk	**6,782,063**
	134,100,681

(iii) Capital adequacy ratios

- CET1 capital ratio	**10.7%**
- Tier 1 capital ratio	**10.7%**
- Total capital ratio	**16.1%**

Unaudited Supplementary Financial Information

(B) Capital adequacy (cont'd)

(iv) Capital base after deductions - At 31 December 2012

The capital base after deduction used in the calculation of capital adequacy ratios and reported to the HKMA for 31 December 2012 is analysed as follows:

	At 31 December 2012 HK$'000
Core capital	
Paid-up ordinary share capital	7,283,341
Share premium	282,930
Reserves	4,852,273
Profit and loss account	1,658,782
Less: Net deferred tax assets	(27,283)
Total core capital before deductions	14,050,043
Less: Deductions from core capital	(5,412)
Total core capital after deductions	14,044,631
Supplementary capital	
Reserves attributable to fair value gains on revaluation of land and buildings	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
Regulatory reserve for general banking risks	1,213,909
Collectively assessed impairment allowances	280,985
Term subordinated debt	6,179,232
Total supplementary capital before deductions	7,704,680
Total eligible supplementary capital before deductions	7,704,680
Less: Deductions from supplementary capital items	(5,413)
Total supplementary capital after deductions	7,699,267
Total capital base after deductions	21,743,898
Total deductions from the core capital and supplementary capital	10,825
Risk-weighted amount	
- credit risk	110,380,460
- market risk	2,647,488
- operational risk	6,337,300
	119,365,248
Core capital ratio	11.8%
Capital adequacy ratio	18.2%

(B) Capital adequacy (cont'd)

(v) Capital instruments

The following is a summary of the Group's CET1 and Tier 2 capital instruments:

	At 30 June 2013 HK$'000
CET 1 capital instruments issued by the Bank	
Ordinary shares:	
7,283,341,176 issued and fully paid ordinary shares of HK$1 each	**7,283,341**
Tier 2 capital instruments	
Issued by the Bank	
- Subordinated note due 2020 (nominal value: US$500 million)	**4,166,052**
- Subordinated note due 2022 (nominal value: US$300 million)	**2,268,100**
	6,434,152

(vi) Additional information

To comply with the Banking (Disclosure) Rules ("BDR"), the Group will establish a new section, "Regulatory Disclosure" on its corporate website to house all the information relating to the disclosure of regulatory capital instruments and the reconciliation to the Group's published financial statements.

The Regulatory Disclosure will be published before 30 September 2013 according to the BDR and will include the following information:

- A description of the main features and the full terms and conditions of the Group's capital instruments can be viewed on our corporate website: www.cncbinternational.com.

- A detailed breakdown of the Group's CET1 capital, AT1 capital, T2 capital and regulatory deductions, using the standard template as specified by the HKMA, can be viewed on our corporate website: www.cncbinternational.com.

- A full reconciliation between the Group's accounting and regulatory balance sheet, using the standard template as specified by the HKMA, can be viewed on our corporate website: www.cncbinternational.com.

(B) Capital adequacy (cont'd)

(vii) 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 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 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 subsidiary:

		At 30 June 2013	
Names of subsidiary	**Principal activities**	**Total assets**	**Total equity**
		HK$'000	**HK$'000**
Viewcon Hong Kong Limited	Mortgage financing	23,437	23,360

On the other hand, the Bank is required under section 3C(1) of the Banking (Capital) Rules to calculate its total capital on a consolidated basis in respect of the following subsidiaries:

		At 30 June 2013	
Names of subsidiaries	**Principal activities**	**Total assets**	**Total equity**
		HK$'000	**HK$'000**
Carford International Limited	Property holding	52,049	29,389
CITIC Bank International (China) Limited	Banking	16,720,803	1,573,150
CITIC Insurance Brokers Limited	Insurance broker	100,467	73,628
CKWB-SN Limited	Issue of structured notes and investments	-	-
CKWH-UT2 Limited	Issue of subordinated notes	-	-
HKCB Finance Limited	Consumer financing	6,052,187	707,211
Ka Wah International Merchant Finance Limited	Inactive	39,705	39,625
The Ka Wah Bank (Trustee) Limited	Trustee services	5,025	3,432
Viewcon Hong Kong Limited	Mortgage financing	23,437	23,360

Subsidiaries not included in consolidation for regulatory purposes are nominee services companies that are authorised and supervised by a regulator and are subject to supervisory arrangements regarding the maintenance of adequate capital to support business activities comparable to those prescribed for authorised institutions under the Banking (Capital) Rules and the Banking Ordinance. The following subsidiaries are deducted from the Bank's capital base under Part 3 of the Banking (Capital) Rules:

		At 30 June 2013	
Names of subsidiaries	**Principal activities**	**Total assets**	**Total equity**
		HK$'000	**HK$'000**
The Hongkong Chinese Bank (Nominees) Limited	Nominee services	4	4
The Ka Wah Bank (Nominees) Limited	Nominee services	1,954	100
Security Nominees Limited	Nominee services	-	-

As at 30 June 2013, there are no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation but the method of consolidation differs.

There are also no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation.

Unaudited Supplementary Financial Information

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

	At 30 June 2013				
	Loans and advances to customers HK$'000	**Overdue loans and advances to customers HK$'000**	**Impaired loans and advances to customers HK$'000**	**Individual impairment allowances HK$'000**	**Collective impairment allowances HK$'000**
Hong Kong	**61,285,996**	**119,783**	**251,296**	**69,587**	**111,233**
Mainland China	**39,745,754**	**106,023**	**124,938**	**44,997**	**77,690**
United States	**1,316,092**	**558**	**1,905**	**-**	**3,692**
Singapore	**5,824,562**	**18,338**	**18,338**	**12,800**	**44,493**
Others	**7,977,126**	**202,546**	**202,546**	**150,874**	**43,074**
	116,149,530	**447,248**	**599,023**	**278,258**	**280,182**

	At 31 December 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	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

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 three 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 2013		At 31 December 2012	
	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	**57,294**	**0.05**	5,431	0.01
- 1 year or less but over 6 months	**6,488**	**0.01**	75,572	0.07
- over 1 year	**383,466**	**0.33**	341,078	0.32
	447,248	**0.39**	422,081	0.40
Secured overdue loans and advances	**220,387**		210,309	
Unsecured overdue loans and advances	**226,861**		211,772	
	447,248		422,081	
Market value of collateral held against the secured overdue loans and advances	**335,481**		285,939	
Individual impairment allowance made	**254,243**		250,429	

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.
(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 three months at 30 June 2013 and 31 December 2012.

(E) Rescheduled loans

	At 30 June 2013		At 31 December 2012	
	HK$'000	**% of total loans and advances to customers**	HK$'000	% of total loans and advances to customers
Rescheduled loans	**725,594**	**0.62**	687,320	0.65

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 three 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 2013 and 31 December 2012.

(F) Repossessed assets

There were no repossessed assets at 30 June 2013 and 31 December 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 2013			
	Banks and other financial institutions HK$'000	**Public sector entities HK$'000**	**Others HK$'000**	**Total HK$'000**
Asia Pacific excluding Hong Kong	**41,839,475**	**145,993**	**38,434,327**	**80,419,795**
of which mainland China	**37,848,313**	**92,426**	**31,313,202**	**69,253,941**

	At 31 December 2012			
	Banks and other financial institutions HK$'000	Public sector entities HK$'000	Others HK$'000	Total HK$'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

Unaudited Supplementary Financial Information

(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 2013			
	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	**21,505,463**	**12,448,095**	**33,953,558**	**96,783**
Companies and individuals outside mainland China where the credit is granted for use in mainland China	**17,369,625**	**8,516,802**	**25,886,427**	**37,111**
	38,875,088	**20,964,897**	**59,839,985**	**133,894**

	At 31 December 2012 (Restated) (Note)			
	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	14,981,611	5,266,206	20,247,817	105,873
Companies and individuals outside mainland China where the credit is granted for use in mainland China	19,022,148	6,259,926	25,282,074	15,882
	34,003,759	11,526,132	45,529,891	121,755

Note:
Certain comparative figures at the year ended 31 December 2012 have been restated to conform with current period's presentation.

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 the credit risk, market risk, liquidity risk, interest rate risk, operational risk (including legal risk), and capital management. Strategic and Reputation risks are managed closely by the CEO and the Senior Management team. 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 Group continued to further strengthen its risk management infrastructure, tools and capabilities. The Global Risk Indicators ("GRI") were further enhanced to measure the Group’s overall risk profile comprising credit, market, operational (including legal), liquidity, interest rate, strategic and reputational risks. Furthermore, a comprehensive bank-wide stress-testing programme that served as an integral part of the risk management framework and decision-making processes was developed, while new liquidity management tools were implemented to comply with the new regulatory requirements.

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 the portfolio level in terms of product, industry and geography.

(I) Risk management (cont'd)

(ii) 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 a set of GRI, the establishment of a limit structure, and policies for the trading and AFS portfolios. Limits are categorised into the hierarchy of policy limits, business limits and transaction limits. This market risk appetite has been approved by the Asset and Liability Committee ("ALCO") and is endorsed by the Board through the Credit & Risk Management Committee ("CRMC"). The hierarchy of the limit structure is set up to 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 & Markets ("T&M") unit is the primary business unit involved in market risk exposures.

The Market Risk and Liquidity Modelling ("MR&LM") unit is an independent risk measurement and control unit overseen by the Head of MR&LM, who reports to the Chief Risk Officer ("CRO"). MR&LM uses a set of quantitative techniques to identify, measure and control the market risks, which are regularly reported to the 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 the Financial Management Group, the Operations and Technology Group, the Risk Management Group, the Legal Department and the Compliance Department. After obtaining functional clearance, the sponsoring Business Head shall submit the Product Proposal for the approval of the CRO and the Chief Executive Officer ("CEO") / Alternate Chief Executive Officer ("ACEO")/ Deputy CEO ("DCEO") as appropriate.

Methodology and characteristics of the 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)

(ii) Market risk management (cont'd)

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

Value at risk

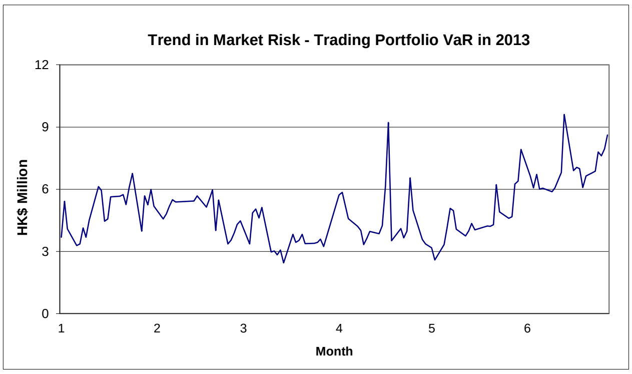
VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and that provides a level of confidence. The model is designed to capture the different risk types including interest rate risk,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

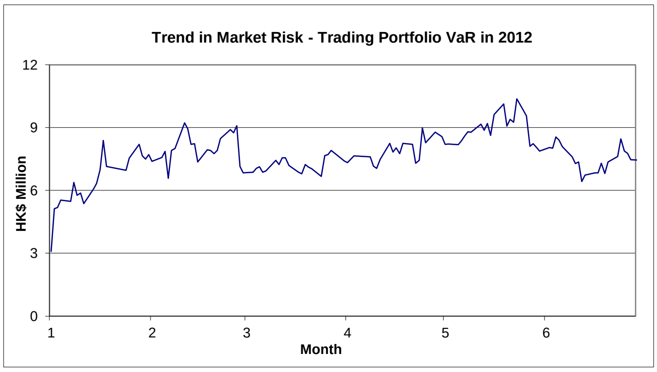
The VaR models used by the Group are predominantly based on historical simulations, and Monte Carlo simulations are also used as a reference. These models derive plausible future scenarios from historical market rates and prices, taking into account the correlation of different markets and rates such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

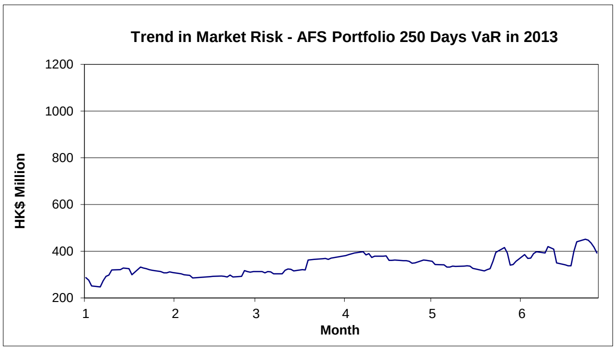
- Potential market movements are calculated with reference to data from the previous two years for the trading portfolios and the AFS portfolios, including the historical market rates, prices and associated volatilities.

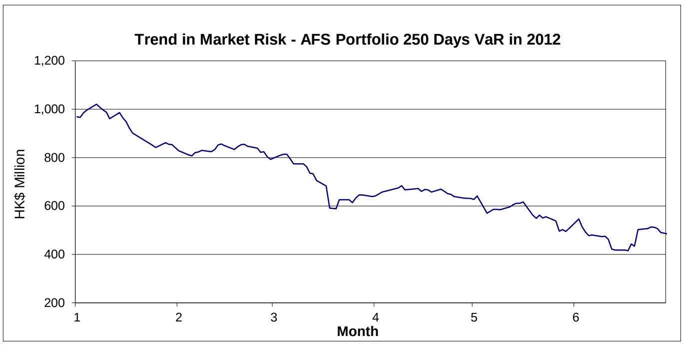
- For the trading portfolio, VaR is calculated with a 99% confidence level and for a one-day holding period.





- 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)

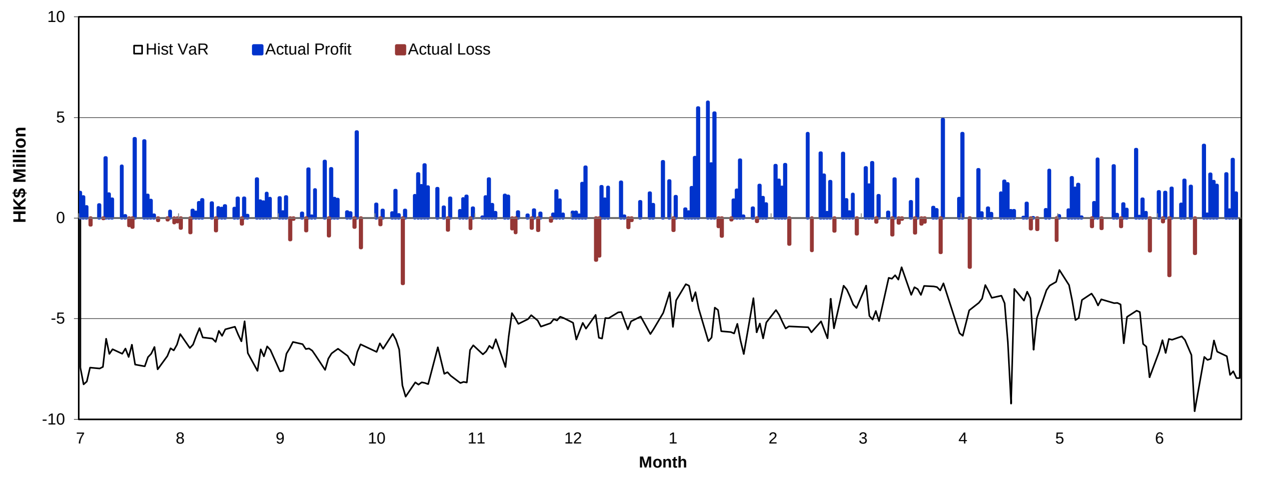
(ii) Market risk management (cont'd)

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

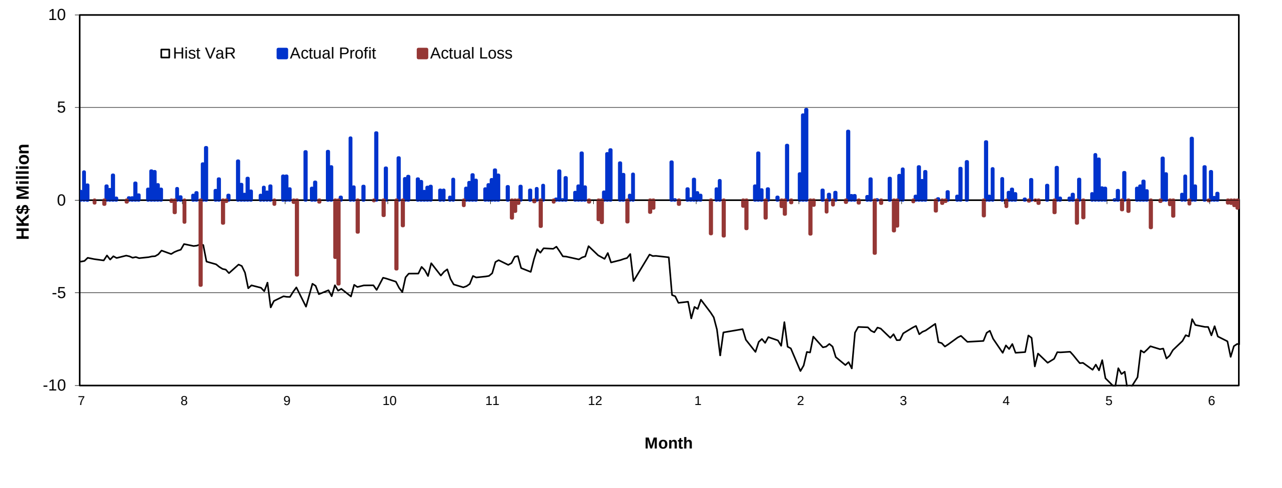
Value at risk (cont'd)

- The Group routinely validates the accuracy of its VaR model for its trading portfolios through back-testing 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 2012 to 30 June 2013, there were no exceptions in the back-testing results (1 July 2011 to 30 June 2012: one exception), which corresponds to the green zone specified by the HKMA and the international Basel principles.

The Group's actual profit and loss back-testing model in July 2012 - June 2013



The Group's actual profit and loss back-testing model in July 2011 - June 2012



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 the 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

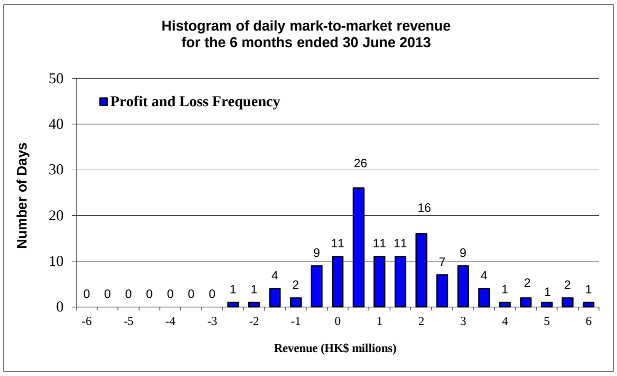
(I) Risk management (cont'd)

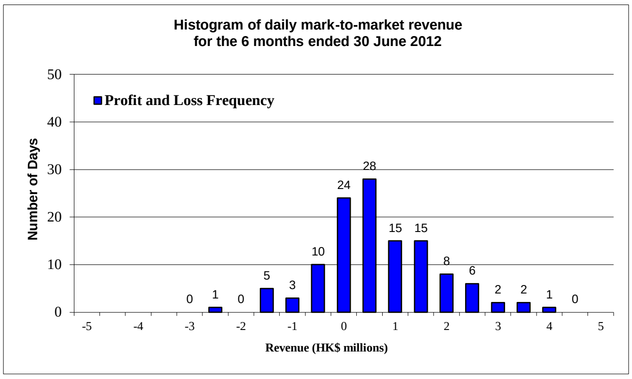
(ii) Market risk management (cont'd)

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

Value at risk (cont'd)

For the six months ended 30 June 2013, the average daily mark-to-market revenue from the Group's trading portfolio and fund investments was a gain of HK$1,018,000 (six months ended 30 June 2012: gain of HK$477,000). The standard deviation of the daily revenue was HK$1,582,000 (six months ended 30 June 2012: HK$1,241,000). The graphs below show the histograms of the Group's daily mark-to-market revenue for the six-months periods ended 30 June 2013 and 2012 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 2013				6 months ended 30 June 2012			
	Maximum	**Minimum**	**Mean**	**At 30 June 2013**	Maximum	Minimum	Mean	At 30 June 2012
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000	HK$'000
Foreign exchange risk	**6,989**	**253**	**1,664**	**1,716**	5,093	998	3,457	4,771
Interest rate risk	**3,747**	**912**	**2,589**	**3,576**	4,235	965	2,139	2,356
Total VaR	**9,604**	**2,444**	**4,939**	**8,611**	10,377	3,086	7,670	7,470

Market Risk for the AFS Portfolio

	6 months ended 30 June 2013				6 months ended 30 June 2012			
	Maximum	**Minimum**	**Mean**	**At 30 June 2013**	Maximum	Minimum	Mean	At 30 June 2012
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000	HK$'000
Interest rate risk	**209,402**	**52,649**	**110,220**	**180,527**	145,944	108,974	127,731	124,915
Credit spread risk	**451,956**	**228,532**	**333,312**	**386,874**	976,851	404,422	673,764	471,645
Total 250-day VaR	**451,090**	**247,525**	**341,000**	**392,721**	1,020,047	415,059	693,413	490,118

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 crisis scenario.

Stress testing results are reported to the 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 2013 were below the stress loss alerts and limits.

Credit spread risk

In addition to interest rate risk and extreme market volatility, significant widening of credit spread such as in financial crisis situation would have a heavy negative impact on the valuation of the AFS portfolios. Also, the extreme market conditions would make the availability of market prices for some of the securities infrequent, and to a certain extent, less reliable, which would further increase the challenge and complexity for the portfolio valuation of some of the securities in the AFS portfolio.

In the risk control of the AFS portfolios, the Bank has a risk management framework that enables the estimation of the fair value of option adjusted spreads in order to calculate the fair value of illiquid securities. In addition, it consists of a 250-day credit spread VaR, credit spread sensitivity risk statistics, stress testing, and 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.

Unaudited Supplementary Financial Information

(I) Risk management (cont'd)

(ii) 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 the ALCO. Methods adopted to measure foreign currency risk exposure against corresponding limits include individual currency positions, overall foreign exchange positions and sensitivities such as Greeks (for foreign exchange options). For the six months ended 30 June 2013, the Group's average daily trading profit and loss from foreign exchange positions was a profit of HK$736,000 (six months ended 30 June 2012: profit of HK$377,000) with a standard deviation of HK$1,107,000 (six months ended 30 June 2012: HK$1,264,000).

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

	At 30 June 2013			
Equivalent in HK$'000	**USD**	**RMB**	**Others**	**Total**
Spot assets	**67,695,039**	**45,614,758**	**2,967,266**	**116,277,063**
Spot liabilities	**(44,002,722)**	**(31,579,455)**	**(14,598,064)**	**(90,180,241)**
Forward purchases	**113,677,779**	**70,725,533**	**30,404,956**	**214,808,268**
Forward sales	**(134,936,123)**	**(85,590,004)**	**(17,985,162)**	**(238,511,289)**
Net option position	**(584,060)**	**1,458,201**	**(846,552)**	**27,589**
Net long/(short) position	**1,849,913**	**629,033**	**(57,556)**	**2,421,390**
Net structural position	**-**	**758,928**	**48,546**	**807,474**

	At 31 December 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 option 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

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 repricing 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 for the Banking Book. Moreover, the Central Treasury unit of T&M 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 Market Risk Policy. The Group mainly uses the present value of a basis point movement and VaR to measure its interest rate risk exposure in the trading book. For the six months ended 30 June 2013, the Group's average daily trading profit and loss from interest rate positions was a gain of HK$281,000 (six months ended 30 June 2012: gain of HK$101,000), with a standard deviation of HK$1,045,000 (six months ended 30 June 2012: HK$923,000).

(I) Risk management (cont'd)

(iii) 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. Such funding liquidity risk is a result of the maturity mismatch of the assets and liabilities that the Group manages. Market liquidity risk is a risk that occurs when additional costs are involved in disposing of a position in the market under abnormal or stressed market conditions. Under these conditions, the bid-ask spreads for the position are much wider than under normal market conditions or there could even be an extreme lack of buyers. Under these market conditions, the Bank will have to pay extra costs in order to dispose of the position.

The liquidity risk management framework comprises the following:

- The management of the Group's liquidity risk is governed by the Liquidity Management Policy, approved by the ALCO and endorsed by the 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 ALCO is delegated by the CRMC to be 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. In addition, the ALCO monitors a set of GRI for liquidity risk. Regular liquidity stress testing, which includes general market-wide, institution-specific and combined (general market-wide and institution-specific) stress scenarios is conducted by the Risk Management Group; and the stress results are regularly reviewed by the ALCO to assess the current risk tolerance level and the level of the liquidity cushion. A Contingency Funding Plan, which is developed by the Central Treasury Unit, is reviewed and approved by the ALCO on a regular basis.
- Daily liquidity management is managed by the Central Treasury unit to monitor funding requirements. This unit is supported by other functional departments including the Financial Management Group and Risk Management Group, which monitor the liquidity risk and provide regular reports to the management, committees and local regulatory bodies. Limits for net cash flow per different time bucket under normal and stress scenarios have been set to ensure that adequate funding and liquid assets are available to meet liquidity needs under normal and stress scenarios. Moreover, limits, triggers or alerts are set for other liquidity risk indicators such as liquidity ratio and loan to deposit ratio. Both quantitative (e.g. statistical methods) and qualitative measures (e.g. liquidity index/premium) are employed to identify and measure market liquidity risk. Limits and alert levels related to market and funding liquidity risk are monitored and reported by the Financial Management group or Risk Management group to the ALCO to review and approve on a regular basis. The Internal Audit department performs periodic reviews to ensure liquidity risk management functions are carried out effectively.

Liquidity management is conducted at the Group and the Bank levels, and at individual overseas branches and subsidiaries. Financial subsidiaries and overseas branches are responsible for implementing their own liquidity management policies under the framework established by the ALCO and local regulatory requirements. Their liquidity situation is monitored as a whole by the ALCO. Policy and respective 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 the liquidity ratio, loans to deposit ratios and maturity mismatch ratio against internal and/or 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 regularly for the short to medium term to permit 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 liquidity risk assessment before launching a new product;
- 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 funding programme to tap debt funding on a regular basis;
- Maintaining a contingency funding plan, which integrates with the results of the scenarios and assumptions used in the stress test, including 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 ("CDs") so as to secure a stable source of term funding. At 30 June 2013, a total of HK$5.7 billion equivalent (31 December 2012: HK$15.6 billion) was raised through several successful CD issuances. Deposit tenor mix and debt maturities are regularly monitored to ensure there is 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 2013, the Group’s average liquidity ratio was 50.1% (for the year ended 31 December 2012: 59.4%). The Group holds a portfolio of high-grade securities with short maturities which can generate liquidity if necessary, either through repurchase arrangements or outright selling in the secondary market.

The Group has always maintained sufficient cash and liquid positions as well as a pool of high-quality assets as a liquidity cushion that can be liquidated in stress scenarios.

(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 its 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. When implementing current capital requirements, the HKMA requires that the Group maintain three prescribed risk-weighted capital ratios. The Group adopts the standardised approach of calculating market risk in its trading portfolios and 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 the 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 ratios, and there have been no material changes in the Group's policy on the management of capital during the year. The capital plan is prepared annually based on the strategic plan and business initiatives. This includes the decision of issuance of capital instruments and is balanced with the level of risk-weighted asset growth.

The Banking (Capital) (Amendment) Rules 2012 came into effect on 1 January 2013, with the requirements being phased in over six years to achieve full implementation by 1 January 2019. These include:

- the imposition of three minimum risk-weighted capital ratios, namely CET1 capital ratio, Tier 1 capital ratio, and total capital ratio, with the gradual phasing in of the minimum capital requirements over three years commencing 1 January 2013;
- the introduction of two capital buffers, namely the capital conservation buffers and countercyclical capital buffer, to be phased in sequentially from 1 January 2016 to 1 January 2019;
- the introduction of capital requirement for counterparty credit risk effective 1 January 2013;
- capital instruments issued on or after 1 January 2013 must meet all of the Basel III criteria to qualify as regulatory capital. Capital instruments issued prior to this date that no longer qualify for inclusion in capital base will be phased out during the 10-year period commencing 1 January 2013.

The capital adequacy ratios at 30 June 2013 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 2013 and the year ended 31 December 2012, and are well above the minimum required ratio set by the HKMA.

Unaudited Supplementary Financial Information

(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. The relevant ORM matters are reported to the Chief Risk Officer 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 Operational Control Officer (“OCO”) of each business and functional unit assists the respective head to manage operational risk and enhance operational quality.

The ORM unit assists management in meeting its 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. The Audit department examines and evaluates the adequacy and control effectiveness of the ORGF on an ongoing basis. Business and support 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 and IT data security, and End User Computing policies are in place under respective business and support 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 support units under the guidance of the ORM unit. ORSA leaders are nominated by the management of each business and support 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 financial impacts and non-financial impacts, including customer impacts and reputational impacts, and the likelihood of there being a significant incident is also assessed. A Risk Grade from ‘Very Low’ to ‘Very High’ will be assigned to the risk factor considering the annual frequency and both financial and non-financial impacts. Based on the assessment results and the review of the existing control standard, 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.

- The Operational Risk Loss Database has been established through the implementation of the Incident Reporting System (“IRS”), which collects all reportable operational risk incidents. 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 the regulatory authorities, the incident data in the IRS is also submitted for their periodic review.

- Key Risk Indicators (“KRI”) comprises a statistical tool that takes into consideration various risk factors and serves to provide predictive and early warning signals for management’s monitoring and action. Through regular monitoring of this data, areas of potential operational control weaknesses can be identified at an early stage and be promptly addressed. The KRI methodology achieves bank-wide coverage and adopts a scientific and magnitude-driven approach 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 the ORM initiatives, and depicts analysis on the trend of operational incidents and operational losses, highlights incidents with a material impact on the Group, and lists incident details during the month. Key reports are also provided to China CITIC Bank Corporation Limited.

The ORM unit continued to cultivate a strong ORM culture in 2013. All upcoming IRS users were required to complete a web-based learning program on IRS to ensure their knowledge and compliance with IRS requirements. This was followed by web-based learning program on ORGF for all newly joined staff. The ongoing objectives are to raise risk awareness, and enrich employees' understanding of the ORGF, and their roles and responsibilities and accountability. 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 road map and tools obtained from the OC, Management Committee and CRMC, the Group will continuously fine-tune and enhance its operational risk management framework in line with industry developments, and will work closely with its strategic shareholder and partner. In the coming year, the Group will focus on (a) continuously promoting the ORSA group-wide; (b) strengthening the ORM oversight of overseas branches and subsidiaries; (c) establishing unit-specific KRIs; (d) establishing and solidifying the OCO community; and (e) continually enhancing 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.

(vi) Legal risk management

The Group remains abreast of all legal and regulatory requirements applicable to its governance and operations, and continuously seeks to develop its people, and enhance its systems and processes to create awareness of new requirements and implement changes as necessary. Group policies and procedures are subject to regular review to ensure they reflect current legal and regulatory requirements. Policies and procedures are promulgated through internal communications and are often accompanied by relevant training. There is a strong process in place to ensure legal and regulatory risks are identified, monitored and mitigated. Any significant failings are reported by the Legal and Compliance functions to the Group's Audit Committee, the CRMC and senior management.

The Legal Department ("Legal") and Compliance Department ("Compliance") have been key partners in the business, providing legal and compliance advice and support to the Group. In the first half of 2013, Legal and Compliance 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. Compliance has also been heavily involved in monitoring and ensuring compliance with changing regulatory requirements in the area of investor and customer data protection. In the second half of 2013, Legal and Compliance will continue to provide the advice and support the Group will require as it strives to meet the challenges these and other changes in the legal and regulatory fields 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 damage 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. Senior management places high priority on ensuring that the Group's business and operational strategies are appropriately defined and are 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, issues management, etc.

Report of the Chief Executive Officer

Operating Environment

The global economy was caught up in continuous turbulence during the first half of 2013. A new wave of debt crises threatened to swipe the Eurozone into chaos in the first quarter while the US economy struggled in a fragile recovery. Despite signs of stabilisation through the second quarter, the debate over the US Federal Reserve's exit plan and Japan's unprecedented attempt at quantitative easing spurred fresh concerns and uncertainties. As an international financial centre, Hong Kong was inevitably hit by the external investment sentiment. Fortunately though, a robust local consumption market and mainland China's relatively stable economy combined to provide a booster effect to Hong Kong's economic growth.

The development of Hong Kong's position as an offshore RMB centre continued to gain ground. The six-month period also marked the rollout of a number of important measures. For instance, the Hong Kong Monetary Authority ("HKMA") raised the limit for RMB net open position and liquidity ratio. The CNH Hong Kong Interbank Offered Rate fixing was launched and the plan of building cross-border financial services in Qianhai proceeded steadily. These have enhanced the efficiency of the flow and the scope of use of offshore RMB, taking Hong Kong's RMB business to a new level.

During the six months under review, China CITIC Bank International Limited ("CNCBI") and its subsidiaries (the "Group") adopted a proactive yet prudent approach to business development. The Group improved assets allocation efficiency through resources integration, regulating the appropriate growth of loans and deposits while increasing profitability by deploying resources wisely. Close cooperation with parent bank China CITIC Bank Corporation Limited ("CNCB") helped to augment the development of a one-stop cross-border financial platform.

The Group posted a record profit for the period and concluded several landmark RMB deals including the first interest rate swap under CNH Hong Kong Interbank Offered Rate fixing and a RMB loan facility arranged for a Qianhai enterprise, the biggest of such loans in size at the time of conclusion.

Business Performance

Earnings

In the first half of 2013, the Group capitalised on the advantage of its leadership in RMB business to capture the opportunities arising from the continuous development of Hong Kong's offshore RMB business. Collaboration with CNCB was further enhanced with the launch of a diverse range of RMB products and services to address customers' investment and risk hedging needs effectively. The Group also focused on improving its interest-bearing assets structure and increasing interest income while reducing interest expense through stringent control over funding costs. With a progressive business strategy, the Group's recurring income and earnings registered significant growth. Operating income rose by 19.9% year-on-year to HK$2,243 million while operating profit before impairment increased by 19.2% to HK$1,252 million.

Risk management enhancement over the years has helped keep the Group's asset quality in check. During the six-month period, net impairment losses were contained at HK$28.35 million merely. Taking into account a HK$20 million surplus in the sales of properties and other items, profit before taxation increased by 16.3% year-on-year to HK$1,245 million. Profit attributable to shareholders rose to a record HK$1,053 million, up 16.4% as compared to 2012.

Net Interest Income

A focus on funding cost management effectively reduced interest expense in the first half of 2013 while asset enhancement resulted in a steady rise in interest income. Continuous growth in total loans and total assets pushed net interest income up by 32.9% year-on-year to HK$1,461 million. Such favourable factors contributed to a marked improvement in the Group's net interest margin by 45 basis points year-on-year to 1.74% during the period compared to 1.29% in the first half of 2012.

Non-interest Income

During the period, the Group's non-interest income increased slightly by 1.5% year-on-year to HK$782 million. Wealth management business posted a significant 65.8% revenue growth from the sale of funds and structured investment products, offsetting the impact of a 18.7% decrease in insurance income. Corporate loans related fee and bills commission income stood at approximately the same levels as in the first half of 2012. Despite the financial market volatility in the first six months of the year, treasury income including gains from available-for-sale securities remained steady at a similar level during the same period last year, but edged up 1.9% year-on-year, thanks to enhanced risk management and close collaboration among departments.

Operating Expenses

In addition to allocating resources to expanding on- and offshore businesses and enhancing system and technological capability and risk management, the Group made a further commitment to retaining and nurturing talent. Against upward adjustment pressure on rental of premises, operating expenses went up 20.9% year-on-year to HK$991 million during the period. Buoyed by an encouraging growth in operating income, however, the Group's cost to income ratio stood at 44.2%, slightly up by 0.3% year-on-year.

Impairment Allowances

The Group has maintained a stringent control on asset quality. Given the volatility in the external economic environment in the first half of 2013, the Group had to make provision for a small number of loans. Net impairment losses in loans, advances and other accounts totalled HK$28.35 million during the period compared to HK$6.91 million in the first half of 2012. Individually assessed loan provisions and collectively assessed loan provisions turned in a net loss of HK$34.03 million and HK$5.03 million respectively, compared with a HK$45.43 million net loss and a HK$28.52 million net write-back during the same period last year. Bad debt recoveries amounted to HK$10.72 million at approximately the same level as a year ago.

Asset Quality

Asset, Loan, and Deposit Sizes

The Group continued to strengthen its risk management framework and its balance sheet structure by adjusting current liability accordingly to reduce interest expense for better yield and to ensure ample liquidity to take on the challenge of market uncertainties. As at end-June 2013, total loans amounted to HK$116.2 billion and total assets reached HK$186.2 billion, up 10.5% and 5.1% respectively as compared to year-end 2012. Fierce competition for customer deposits lingers on among local banks. The Group rolled out a series of successful marketing initiatives to attract customers. Total deposits were maintained at a reasonable level of HK$147.3 billion, a slight 1.6% increase compared to year-end 2012.

Asset Quality Indicators

The Group's asset quality remained stable. The impaired loan ratio was 0.52% as at end-June 2013, a slight increase of 7 basis points from end-December 2012 and at a similar level for the same period last year. Other asset quality indicators were also steady with loan loss coverage maintained at above 93.2%.

Financial Positions

As a result of asset expansion and new capital requirements under the Basel III rules, the Group's total capital ratio dropped to 16.1% from 18.2% at end-December 2012. The ratio remained at a safe level, though. With an established strategy for pursuing active balance sheet management, loan size was enlarged during the period while deposits remained stable. This raised the Group's loans to deposits ratio to a healthy level of 78.9%. Conversely, average liquidity ratio fell noticeably to 50.1% but remained at a very healthy level due primarily to HKMA's decision to relax the limit for RMB liquidity ratio in addition to the Group's rapid RMB deposit growth, which also brought on positive impacts.

CNCBI's Key Financial Ratios

	30 June 2013	31 December 2012
Common Equity Tier 1 ("CET1") capital ratio[1]	10.7%	n/a
Tier 1 capital ratio[1]	10.7%	11.8%
Total capital ratio[1]	16.1%	18.2%
Average liquidity	50.1%	59.4%
Loans to deposits	78.9%	72.5%
Loans to total assets	62.4%	59.3%
Impaired loans	0.52%	0.45%
Coverage[2]	86.7%	98.8%
Loan loss coverage	93.2%	114.8%
Mainland loans to total customer advances	34.2%	31.8%

[1] The capital disclosures at 30 June 2013 under Basel III (effective from 1 January 2013) are not directly comparable with the disclosures at 31 December 2012 as prepared under the Basel II basis.
[2] Calculated by dividing the sum of individually assessed impairment allowances and collateral of impaired loans by the gross impaired loans.

Business Development

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

With a view to building a more effective cross-border platform for capturing increasing business opportunities in mainland China and Asian markets, WBG in 2012 went through a reorganisation which has begun to pay off this year. In particular, customer loans achieved a significant year-on-year growth of 34%, driving interest income to reach new highs during the first half of 2013.

Economic integration between mainland China and Hong Kong continues to gather steam. In a move to leverage on the Group's role as an offshore platform, WBG stepped up collaboration with CNCB and CITIC Group and achieved encouraging development. The total number of customers referred by CNCB and CITIC Group grew significantly. Total customer loans related to referral business multiplied that of the same period in 2012.

Riding on the opportunities from the RMB internationalisation process, WBG continued to develop and launch various RMB measures retain the Group's RMB leadership. Off-shore RMB loans and trade settlement grew by 128% year-on-year and 85% year-on-year respectively. During the period, WBG completed a Qianhai-Hong Kong cross-border RMB loan transaction which was the biggest in size of such loan facilities at the time.

WBG continued to focus its sights on providing one-stop services to various customers and allocating resources to product innovation. WBG relationship managers joined hands with Global Markets product specialists in analysing customers' needs and meeting such needs by providing tailored and flow-based trading products. Fee income from cross-selling of treasury products, therefore, shot up 25% to a record high. Transaction Banking was upbeat with the launch of cross-border trade and cash management solutions. The new Corporate Online Banking platform, rolled out in late 2012, worked smoothly and provided customers with a more effective and efficient tool for regional business transactions.

During the period, CITIC Bank International (China) Limited and CNCBI branches in Singapore, New York, Los Angeles and Macau worked closely with the Hong Kong team to offer customer-oriented regional services developed in accordance with a global account management approach. This has further cemented the Group's role as CNCB's offshore platform for international expansion.

As regards risk management, WBG in collaboration with Risk Management Group completed enhancement of a risk-based pricing system in a bid to optimise the balance sheet structure and improve risk capital efficiency to balance risk and return.

Personal & Business Banking Group ("PBG")

PBG continued to deliver satisfactory incomes and earnings in the first half of 2013. Operating income rose 12% year-on-year to HK$766 million mainly due to the growth of loan and deposit sizes. Net interest income grew by 20% year-on-year to HK$528 million driven by improved net interest margin. Non-interest income dropped slightly 2.6% year-on-year to HK$239 million as a result of investment market volatility. Total retail lending amounted to HK$36.7 billion, up 3.1% as compared to year-end 2012, buoyed by strong loan demand from small- to medium-sized enterprises ("SMEs") and unsecured personal loan performance. Meanwhile, tight liquidity on the mainland fuelled Hong Kong market's competition for deposits in the second quarter. Regardless of this, retail deposits increased 1.2% to HK$65.8 billion during the six-month period.

With continuous emphasis on operating efficiency, the growth of total operating expenses was contained at a reasonable level. Despite an expanded loan book and external market uncertainty, asset quality remained stable with net impairment losses of HK$11 million merely.

In the first half of the year, PBG launched successfully a variety of timely and innovative products including the market's first multi-currency switching savings deposit scheme Flexi Deposit Series; PAYROLL*plus* for attracting stable deposits; Foreign Exchange and Gold Margin Trading Service online platform for Private Banking customers; and a universal life insurance premium financing product for SME and Private Banking customers.

The two New Concept Branches in Kwun Tong and Kwai Fong delivered notable results over the six months since their inception. The pace of deposits and mid-segment customer growth outstripped traditional branches by about 10% and 90% respectively.

Treasury and Markets Group ("TMG")

Volatility was extreme in the treasury market during the first half of this year with an obvious appreciation of RMB and abrupt depreciation of JPY. Talks of the US Fed's QE exit plan caused ripples through the market. In the face of such circumstances, TMG actively explored growth opportunities and provided customers with tailored RMB products swiftly, enabling its Global Markets business to turn in strong results in the first half of 2013. TMG's Global Markets unit generated HK$396 million in revenue, a significant increase of 24% year-on-year. The fee income from cross-selling of treasury products surged by 25% year-on-year.

Market volatility increased customers' risk hedging needs. During the period, sales revenue from structured products accounted for 57% of the total revenue of Global Markets, a slight increase from that of last year. The derivatives trading team reaped satisfactory results and recorded a threefold increase in trading revenue year-on-year. In the area of central treasury management, the internal funding pool has been under the new Liquidity Premium (LP) framework with closer monitoring of LP levels. Related incomes surged as a result.

Active in the offshore RMB bond market, CNCBI acted as a joint lead manager for a new issue of RMB1 billion bonds and co-manager for another new issue of RMB1 billion bonds.

Following the Treasury Markets Association (TMA) announcement on 25 April 2013 to launch the CNH Hong Kong Interbank Offered Rate fixing (CNH HIBOR fixing), CNCBI was appointed as one of the reference banks and completed Hong Kong's first CNH HIBOR interest rate swap with a peer bank on the same day. On 8 June 2013, CNCBI successfully rolled out its Foreign

Exchange and Gold Margin Trading Service online platform for Hong Kong and cross-border customers to trade FX and gold margin through i-banking around the clock.

Risk Management

In the first half of 2013, Risk Management Group continued to focus its efforts on enhancing various risk management measures. This included tightening underwriting practices, conducting rigorous risk reviews, proactively managing vulnerable portfolios, improving the Group's investment strategy and strengthening capital and liquidity management in line with the Group's risk appetite.

Further efforts were made to reinforce risk management infrastructure and tools. The Global Risk Indicator ("GRI") was enhanced to measure with increased accuracy the Group's overall inherent risk profile comprising credit, market, operational, liquidity, interest rate, strategic and reputation risks. Furthermore, Risk Management Group has continued to strengthen the Group's stress-testing programme, liquidity management tools and capital planning process.

The Group's risk policies and procedures are subject to a high degree of oversight. In particular, the Credit and Risk Management Committee ("CRMC") has been empowered by the Board to oversee and approve the strategies, risk appetite, policies and exposures. 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, liquidity, interest rate, strategic and reputation risks. In addition, Audit Department conducts regular independent reviews of the Group's risk management practices to ensure compliance with internal policies and regulatory requirements.

The strategic collaboration between the Group, CNCB and BBVA has effectively strengthened communications via strategic secondment and exchange programmes. The joint efforts also fostered risk knowledge sharing and skills transfer as well as the development of best practices.

Future Outlook

Although the Eurozone economy remains fragile, the recovery in the US and Japan is expected to gain pace and contribute to the stable growth of mainland China and Hong Kong's exports and economy. Hong Kong may be hailed as a highly open economy but its financial market could suffer a heavy blow should capital flows reverse their courses. The Group will continue to reinforce its risk management measures and conduct stringent risk reviews with a view to strengthening resilience and ensuring healthy and stable business development.

Backed by mainland China's steady development, Hong Kong was able to sustain the momentum of its RMB business and expected to benefit further from the Central Government's preferential policies and uninterrupted RMB internationalisation process. The city's standing as an offshore RMB centre will grow further in scale and importance, providing bountiful opportunities for the financial sector. The Group will capitalise on the advantage of the CITIC brand and customer network with the enhanced synergy with CNCB to extend the breadth and depth of cooperation for tapping cross-border RMB business opportunities. WBG and PBG will work closely with TMG to develop customer-oriented products and services.

Turning to branch expansion, the two New Concept Branches launched last year have reaped encouraging results and three more branches will come on stream in the second half of this year. These New Concept Branches will help enrich the Group's customer infrastructure and absorb more deposits to drive further business growth.

Onwards to the mission of being CNCB's offshore platform for international expansion, the Group has always adhered to its development strategy in its pursuit of stable growth, holding on to its leadership in offshore RMB business. The Group believes that by building on its past success it will take business to greater heights in the future.

Zhang Xiaowei
President & Chief Executive Officer
Hong Kong, 26 August 2013