中信银行(国际)
CHINA CITIC BANK INTERNATIONAL

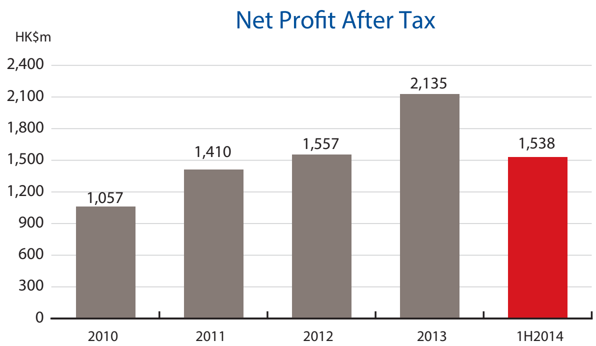
你首选的中资银行
The China Bank of Choice

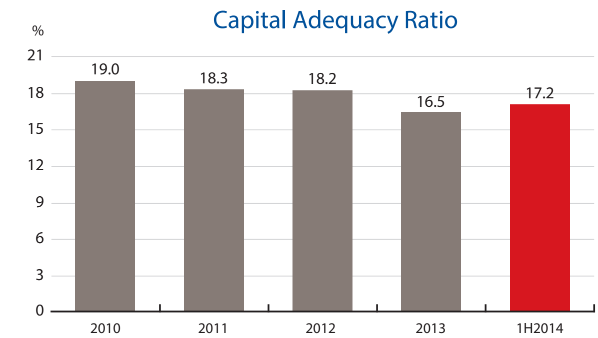
Focus on Fundamentals as We Scale New Heights

2014 Interim Results Highlights

Financial Performance

- **Net profit after tax** for the six months ended 30 June 2014 surged 46.0% year-on-year to HK$1,538m. Revenue jumped 37.5% to HK$3,083m, mainly driven by robust net interest income at HK$2,140m, up HK$679m or 46.5% for the same period.
- **Net fee and commission income** surged 49.3% year-on-year to HK$502m.
- **Operating expenses** were HK$1,206m, up 21.7% year-on-year but 15.8ppts less than revenue growth. Cost to income at 39.1%, down 5.1ppts year-on-year.
- **Net interest margin** at 1.98%, up 24bps year-on-year, largely due to higher RMB and non-RMB interbank loan yields.
- **ROA** at 1.36% and **ROE** at 17.09%, up 18bps and 3.65ppts year-on-year respectively.
- **Total assets** increased 8.8% from end-2013 to record breaking HK$235,264m. Total deposits grew 10.7% from end-2013 to HK$189,152m, of which 25.2% was RMB deposits. Customer loans were HK$137,409m, up 8.2% from end-2013.





Core Businesses

- **Wholesale & Cross-border Banking Group.** Revenue substantially increased 46.5% to HK$1,538m, with profit after provision surged 70.1% year-on-year to HK$1,213m. The growth was driven by strong net interest income and partly by loan fee income. Riding on RMB internationalization and responsive products, the volume of RMB remittance for cross-border trade settlements and treasury product trading grew 13.1% and 27.8% respectively.
- **Personal & Business Banking Group.** Revenue rose 13.1% year-on-year to HK$867m. Non-interest income grew 26.0% year-on-year, notably insurance related income increased 60.0%. With more innovative and competitive deposit products, retail deposits were at record breaking HK$81,310m, up 9.9% from end-2013. There were 26,300 high-net-worth customers under CITIC*first* and Private Banking, with total assets under management up 13.3% to HK$75,851m.
- **Treasury & Markets Group.** Net interest income and trading income jumped 60.2% year-on-year to HK$650m. In April, the Group issued US$300m Additional Tier 1 capital securities, the first ever US dollar denominated security issuance from the Asia Pacific region designed to comply with Basel III requirements, which were unprecedented in the market.

CHINA CITIC BANK INTERNATIONAL LIMITED

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

ANNOUNCEMENT OF 2014 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 2014. The interim financial report is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standards on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity,* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Consolidated Income Statement
for the six months ended 30 June 2014 - unaudited

(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2014	2013
	Note	**HK$'000**	HK$'000
Interest income	4(a)	**3,724,273**	2,504,728
Interest expense	4(b)	**(1,584,344)**	(1,043,919)
Net interest income		**2,139,929**	1,460,809
Fee and commission income		**518,674**	356,145
Fee and commission expense		**(16,439)**	(19,706)
Net fee and commission income	5	**502,235**	336,439
Net trading income	6	**414,963**	410,625
Net gain from financial instruments designated at fair value through profit or loss	7	**975**	1,525
Net hedging (loss)/gain	8	**(1,755)**	223
Net gain on disposal of available-for-sale securities	9	**7,439**	12,187
Other operating income	10	**19,365**	20,758
Operating income		**3,083,151**	2,242,566
Operating expenses	11	**(1,205,961)**	(990,950)
Operating profit before impairment		**1,877,190**	1,251,616
Impairment losses on loans and advances and other accounts	12	**(2,554)**	(28,346)
Operating profit		**1,874,636**	1,223,270
Net (loss)/gain on disposal of property and equipment		**(5)**	20,165
Revaluation (loss)/gain on investment properties		**(857)**	1,100
Profit before taxation		**1,873,774**	1,244,535
Income tax	13	**(335,715)**	(191,066)
Profit for the period		**1,538,059**	1,053,469
Attributable to equity shareholders of the Bank		**1,538,059**	1,053,469

Consolidated Statement of Comprehensive Income
for the six months ended 30 June 2014 - unaudited

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
Profit for the period	**1,538,059**	1,053,469
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	**(41,050)**	23,590
Available-for-sale securities		
- change in fair value	**141,829**	(178,558)
- transfer to income statement on disposal	**(6,969)**	(11,137)
- transfer (from)/to deferred tax	**(32,126)**	31,780
Other comprehensive income for the period	**61,684**	(133,404)
Total comprehensive income for the period	**1,599,743**	920,065
Attributable to equity shareholders of the Bank	**1,599,743**	920,065

Consolidated Statement of Financial Position

at 30 June 2014 - unaudited

(Expressed in Hong Kong dollars)

	Note	At 30 June 2014 HK$'000	At 31 December 2013 HK$'000
Assets			
Cash and balances with banks, central banks and other financial institutions	14	**6,113,957**	12,621,484
Placements with and advances to banks, central banks and other financial institutions	15	**58,120,545**	46,089,324
Trading assets	16	**2,906,712**	2,398,265
Securities designated at fair value through profit or loss	17	**12,522**	63,204
Loans and advances to customers and other accounts	18	**141,748,047**	132,531,544
Available-for-sale securities	19	**25,465,192**	21,661,781
Property and equipment	20		
- Investment property		**179,199**	180,056
- Other property and equipment		**709,310**	719,624
Tax recoverable	24(a)	**4**	6
Deferred tax assets	24(b)	**8,135**	42,618
Total Assets		**235,263,623**	216,307,906
Equity and liabilities			
Deposits and balances of banks and other financial institutions		**5,995,097**	7,522,382
Deposits from customers	21	**173,243,939**	154,658,966
Trading liabilities	22	**2,209,592**	1,568,640
Certificates of deposit issued	23	**15,908,417**	16,175,173
Debt securities issued	25	**1,123,566**	1,151,253
Current taxation	24(a)	**463,451**	179,394
Deferred tax liabilities	24(b)	**13,911**	12,124
Other liabilities	26	**6,470,666**	9,206,405
Loan capital	27	**8,749,056**	8,657,552
Total Liabilities		**214,177,695**	199,131,889
Equity			
Share capital	28(a)	**7,566,271**	7,283,341
Reserves	28(b)	**11,209,489**	9,892,676
Total equity attributable to equity shareholders of the Bank		**18,775,760**	17,176,017
Additional equity instruments	29	**2,310,168**	-
Total Equity		**21,085,928**	17,176,017
Total Equity and Liabilities		**235,263,623**	216,307,906

Consolidated Statement of Changes in Equity
for the six months ended 30 June 2014 - 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))	Additional equity instruments	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	HK$'000
At 1 January 2014	**7,283,341**	**282,930**	**6,589**	**100,000**	**140,901**	**55**	**(4,846)**	**38,349**	**149,500**	**9,179,198**	**9,892,676**	**-**	**17,176,017**
Changes in equity for the six months ended 30 June 2014:													
Profit for the period	-	-	-	-	-	-	-	**-**	-	**1,538,059**	**1,538,059**	**-**	**1,538,059**
Other comprehensive income for the period	-	-	-	-	**(41,050)**	**-**	**102,734**	**-**	**-**	**-**	**61,684**	**-**	**61,684**
Total comprehensive income for the period	-	-	-	-	**(41,050)**	**-**	**102,734**	-	-	**1,538,059**	**1,599,743**	**-**	**1,599,743**
Issue of Additional Tier 1 Capital Securities	-	-	-	-	**-**	**-**	**-**	-	-	**-**	**-**	**2,310,168**	**2,310,168**
Transition to no-par value regime on 3 March 2014 (note 28(a))	**282,930**	**(282,930)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(282,930)**	**-**	**-**
At 30 June 2014	**7,566,271**	**-**	**6,589**	**100,000**	**99,851**	**55**	**97,888**	**38,349**	**149,500**	**10,717,257**	**11,209,489**	**2,310,168**	**21,085,928**
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 six 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 July 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
Changes in equity for the six months ended 31 December 2013:													
Profit for the period	-	-	-	-	-	-	-	-	-	1,082,012	1,082,012	-	1,082,012
Other comprehensive income for the period	-	-	-	-	19,161	-	102,923	-	-	-	122,084	-	122,084
Total comprehensive income for the period	-	-	-	-	19,161	-	102,923	-	-	1,082,012	1,204,096	-	1,204,096
Transfer from retained profits	-	-	-	-	-	-	-	5,108	24,585	(29,693)	-	-	-
At 31 December 2013	7,283,341	282,930	6,589	100,000	140,901	55	(4,846)	38,349	149,500	9,179,198	9,892,676	-	17,176,017

Condensed Consolidated Cash Flow Statement
for the six months ended 30 June 2014 - unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2014 HK$'000	2013 HK$'000
Operating activities			
Cash generated from/(used in) operations		**8,889,455**	(2,032,408)
Overseas tax paid		**(47,475)**	(30,089)
Net cash generated from/(used in) operations		**8,841,980**	(2,062,497)
Investing activities			
Dividends received from equity investment securities		**3,870**	3,804
Purchase of property and equipment		**(57,024)**	(36,963)
Proceeds from disposal of property and equipment		**-**	84,283
Net cash (used in)/generated from investing activities		**(53,154)**	51,124
Financing activities			
Proceeds from issue of Additional Tier 1 Capital Securities		**2,310,168**	-
Interest paid on loan capital		**(248,095)**	(178,683)
Net cash generated from/(used in) financing activities		**2,062,073**	(178,683)
Net increase/(decrease) in cash and cash equivalents		**10,850,899**	(2,190,056)
Cash and cash equivalents at 1 January		**43,612,527**	43,702,447
Cash and cash equivalents at 30 June	30	**54,463,426**	41,512,391

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 2013 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2014 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 2013 accounts, except for the following:

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are 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 32, *Offsetting financial assets and financial liabilities*
- Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets*
- Amendments to HKAS 39, *Novation of derivatives and continuation of hedge accounting*

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

Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on the Group's interim financial report as they are consistent with the policies already adopted by the Group.

Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets*

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or CGU whose recoverable amount is based on fair value less costs of disposal. The amendments do not have an impact on the Group's interim financial report as they are consistent with the policies already adopted by the Group.

Amendments to HKAS 39, *Novation of derivatives and continuation of hedge accounting*

The amendments to HKAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments do not have an impact on the Group's interim financial report as the Group has not novated any of its derivatives.

(3) Segment reporting

Segment information is presented consistently with reportable segments which are regularly reviewed or evaluated internally by the chief operating decision-maker to allocate resources to the segments and to assess their performance. The Group has identified the following four main reportable segments:

Wholesale and cross-border banking business includes wholesale banking business in Hong Kong and overseas branches, and China banking. Wholesale banking mainly comprises corporate lending and syndicated loans, trade financing and cash management. Overseas branches include the management office unit in Hong Kong and the branches operated overseas. China banking mainly includes a branch and a subsidiary bank in China, and the China banking management office in Hong Kong.

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

	Six months ended 30 June 2014				
	Wholesale and cross-border banking HK$'000	**Personal and business banking HK$'000**	**Treasury and markets HK$'000**	**Others HK$'000**	**Consolidated HK$'000**
Net interest income	**1,228,187**	**566,339**	**325,714**	**19,689**	**2,139,929**
Other operating income	**309,675**	**300,528**	**317,178**	**8,402**	**935,783**
Net gain on disposal of available-for-sale securities	**-**	**-**	**7,439**	**-**	**7,439**
Operating income	**1,537,862**	**866,867**	**650,331**	**28,091**	**3,083,151**
Operating expenses	**(228,225)**	**(279,330)**	**(24,909)**	**(673,497)**	**(1,205,961)**
Inter-segment income/(expenses)	**(109,514)**	**(172,655)**	**(51,271)**	**333,440**	**-**
Operating profit/(loss) before impairment	**1,200,123**	**414,882**	**574,151**	**(311,966)**	**1,877,190**
Impairment losses written back/(charged) on loans and advances and other accounts	**12,994**	**(16,942)**	**-**	**1,394**	**(2,554)**
Operating profit/(loss)	**1,213,117**	**397,940**	**574,151**	**(310,572)**	**1,874,636**
Net loss on disposal of property and equipment	**(4)**	**(1)**	**-**	**-**	**(5)**
Revaluation loss on investment properties	**-**	**-**	**-**	**(857)**	**(857)**
Profit/(loss) before taxation	**1,213,113**	**397,939**	**574,151**	**(311,429)**	**1,873,774**
Income tax	**-**	**-**	**-**	**(335,715)**	**(335,715)**
Profit/(loss) for the period	**1,213,113**	**397,939**	**574,151**	**(647,144)**	**1,538,059**
Other segment items:					
Depreciation	**11,265**	**11,454**	**586**	**44,120**	**67,425**
	At 30 June 2014				
Other segment items:					
Segment assets	**133,578,943**	**38,942,840**	**82,868,547**	**(20,126,707)**	**235,263,623**
Segment liabilities	**121,191,611**	**87,132,136**	**26,869,234**	**(21,015,286)**	**214,177,695**
Capital expenditure incurred during the period	**4,084**	**23,987**	**527**	**28,426**	**57,024**

(3) Segment reporting (continued)

(a) Reportable segments (continued)

	Six months ended 30 June 2013				
	Wholesale and cross-border banking HK$'000	Personal and business banking HK$'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 31 December 2013				
Other segment items:					
Segment assets	113,582,102	37,828,073	80,366,118	(15,468,387)	216,307,906
Segment liabilities	104,843,268	79,625,938	30,640,754	(15,978,071)	199,131,889
Capital expenditure incurred during the year	6,749	66,156	14,770	88,353	176,028

(3) Segment reporting (continued)

(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.

	Six months ended 30 June			
	2014	2013	**2014**	2013
	Profit/(loss) before taxation	Profit/(loss) before taxation	**Operating income/(loss)**	Operating income
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**1,638,923**	1,145,807	**2,644,197**	1,991,854
Mainland China	**88,558**	46,370	**217,482**	115,473
United States	**23,602**	30,216	**51,056**	41,150
Singapore	**106,685**	26,265	**154,380**	81,474
Others	**16,012**	(4,125)	**16,042**	12,613
Inter-segment items	**(6)**	2	**(6)**	2
	1,873,774	1,244,535	**3,083,151**	2,242,566

	At 30 June 2014	At 31 December 2013	**At 30 June 2014**	At 31 December 2013
	Total assets	Total assets	**Total liabilities**	Total liabilities
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**214,065,261**	194,916,371	**193,823,177**	178,534,484
Mainland China	**17,351,136**	19,015,509	**15,517,569**	17,198,708
United States	**4,223,507**	3,874,987	**4,156,835**	3,800,062
Singapore	**18,754,741**	13,671,664	**18,612,248**	13,581,566
Others	**1,109,058**	1,345,525	**1,111,887**	1,332,175
Inter-segment items	**(20,240,080)**	(16,516,150)	**(19,044,021)**	(15,315,106)
	235,263,623	216,307,906	**214,177,695**	199,131,889

(4) Interest income and interest expense

(a) Interest income

	Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
Listed securities	**14,033**	516
Unlisted securities	**225,136**	143,462
Others (Note)	**3,485,104**	2,360,750
Interest income on financial assets that are not at fair value through profit or loss	**3,724,273**	2,504,728

(b) Interest expense

	Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
Deposits from customers, banks and other financial institutions, certificates of deposit issued and others	**1,311,563**	840,182
Debt securities issued	**20,962**	21,429
Loan capital issued	**251,819**	182,308
Interest expense on financial liabilities that are not at fair value through profit or loss	**1,584,344**	1,043,919
Of which:		
Loan capital issued repayable after 5 years	**133,804**	135,413

Note:

Included in the above is interest income accrued on impaired financial assets of HK$2,362,000 (six months ended 30 June 2013: HK$4,017,000), which includes interest income on the unwinding of the discount on the loan impairment losses of HK$1,988,000 for the six months ended 30 June 2014 (six months ended 30 June 2013: HK$2,433,000).

(5) Net fee and commission income

	Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
Fee and commission income		
Bills commission	**74,155**	59,796
Card-related income	**11,884**	11,928
General banking services	**45,027**	39,085
Insurance	**133,226**	83,070
Investment and structured investment products	**67,638**	70,840
Loans, overdrafts and facilities fees	**186,426**	91,127
Others	**318**	299
	518,674	356,145
Fee and commission expense	**(16,439)**	(19,706)
	502,235	336,439
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	**272,465**	162,851
- Fee and commission expense	**(6,160)**	(6,446)
	266,305	156,405

(6) Net trading income

	Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
Gains less losses from dealing in foreign currencies	**258,080**	35,528
Gains less losses from trading securities	**138**	396
Gains less losses from other dealing activities	**107,281**	355,416
Net interest income on trading activities	**49,464**	19,285
	414,963	410,625

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

	Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
Net gain	**769**	1,266
Interest income		
- Unlisted	**206**	259
	975	1,525

(8) Net hedging (loss)/gain

	Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
Net (loss)/gain on fair value hedge	**(1,755)**	223

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

	Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
Net revaluation gain transferred from reserves	**6,969**	11,137
Net gain arisen in current period	**470**	1,050
	7,439	12,187

(10) Other operating income

	Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
Dividend income from available-for-sale equity securities		
- Listed	**70**	104
- Unlisted	**3,800**	3,700
Rental income from investment properties		
less direct outgoings of HK$159,000 (six months ended 30 June 2013: HK$66,000)	**3,435**	2,803
Others	**12,060**	14,151
	19,365	20,758

(11) Operating expenses

	Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
(a) Staff costs		
Salaries and other staff costs	**740,155**	600,593
Retirement costs	**37,565**	36,600
	777,720	637,193
(b) Depreciation		
Depreciation of property and equipment		
- Assets held for use under operating leases	**14,618**	12,437
- Other assets	**52,807**	44,021
	67,425	56,458
(c) Other operating expenses		
Property and equipment expenses (excluding depreciation) (Note)		
- Rental of property	**121,659**	109,531
- Others	**71,819**	63,805
Auditors' remuneration	**3,829**	3,352
Advertising	**19,270**	14,818
Communication, printing and stationery	**41,873**	35,749
Legal and professional fees	**14,076**	10,505
Others	**88,290**	59,539
	360,816	297,299
Total operating expenses	**1,205,961**	990,950

Note:

Included in other operating expenses are the minimum lease payment under operating leases of HK$688,000 (six months ended 30 June 2013: HK$653,000) for renting equipment, and HK$115,665,000 (six months ended 30 June 2013: HK$104,431,000) for renting property and other assets for the six months ended 30 June 2014.

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

	Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
Impairment losses (charged)/written back		
- Loans and advances	**(3,393)**	(28,346)
- Other accounts	**839**	-
	(2,554)	(28,346)
Impairment losses (charged)/written back on loans and advances and other accounts		
- Individual assessment	**(16,021)**	(25,813)
- Collective assessment	**13,467**	(2,533)
	(2,554)	(28,346)
of which:		
- Additions	**(150,612)**	(93,679)
- Releases	**128,792**	54,618
- Recoveries	**19,266**	10,715
	(2,554)	(28,346)

(13) Income tax in the consolidated income statement

	Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
Current tax - Hong Kong Profits Tax		
Provision for the period	**264,553**	185,422
Over-provision in respect of prior periods	**-**	(8,844)
	264,553	176,578
Current tax - Overseas		
Provision for the period	**58,606**	5,651
Under/(over)-provision in respect of prior periods	**8,498**	(919)
	67,104	4,732
Deferred tax		
Origination of temporary differences (note 24(b))	**4,058**	9,756
	335,715	191,066

The provision for Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 June 2013: 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 2014 HK$'000	At 31 December 2013 HK$'000
Cash in hand	**247,274**	289,630
Balances with banks	**2,825,127**	6,129,079
Balances with central banks	**1,891,139**	2,318,538
Balances with other financial institutions	**1,150,417**	3,884,237
	6,113,957	12,621,484

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

	At 30 June 2014 HK$'000	At 31 December 2013 HK$'000
Placements with banks	**39,328,127**	38,016,559
Advances to banks	**18,792,418**	8,072,765
	58,120,545	46,089,324
Maturing:		
- Within 1 month	**25,132,728**	17,109,988
- Between 1 month and 1 year	**32,941,520**	28,944,177
- After 1 year	**46,297**	35,159
	58,120,545	46,089,324

There were no impaired advances to banks and other financial institutions at 30 June 2014 and 31 December 2013, nor were there any individually assessed impairment allowances made for them on these two dates.

(16) Trading assets

	At 30 June 2014 HK$'000	At 31 December 2013 HK$'000
Trading securities - Investment funds	**2,510**	2,675
Positive fair values of derivatives (note 35(b))	**2,904,202**	2,395,590
	2,906,712	2,398,265
Issued by:		
Corporate entities	**2,510**	2,675
Analysed by place of listing:		
Unlisted	**2,510**	2,675

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

	At 30 June 2014 HK$'000	At 31 December 2013 HK$'000
Debt securities	**12,522**	63,204
Issued by:		
Sovereigns	**12,522**	12,927
Corporate entities	**-**	50,277
	12,522	63,204
Analysed by place of listing:		
Unlisted	**12,522**	63,204

(18) Loans and advances to customers and other accounts

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

	At 30 June 2014 HK$'000	At 31 December 2013 HK$'000
Gross loans and advances to customers	**137,408,508**	127,016,841
Impairment allowances		
- Individually assessed	**(182,705)**	(160,920)
- Collectively assessed	**(293,482)**	(315,055)
	136,932,321	126,540,866
Accrued interest and other accounts	**4,816,494**	5,992,286
Impairment allowances		
- Individually assessed	**(768)**	(1,608)
	4,815,726	5,990,678
	141,748,047	132,531,544
Included in loans and advances to customers:		
Trade bills	**7,863,653**	8,610,825
Impairment allowances		
- Collectively assessed	**(612)**	(854)
	7,863,041	8,609,971

(18) Loans and advances to customers and other accounts (continued)

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

The following economic sector analysis is based on the categories and definitions used by the HKMA.

	At 30 June 2014		At 31 December 2013	
	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	**410,000**	**2**	15,227	100
- Property investment	**14,686,106**	**92**	14,074,440	100
- Financial concerns	**7,297,290**	**49**	4,073,785	33
- Stockbrokers	**387,652**	**79**	255,937	40
- Wholesale and retail trade	**14,203,330**	**87**	13,762,091	91
- Manufacturing	**6,914,523**	**52**	5,843,972	57
- Transport and transport equipment	**2,135,276**	**48**	2,252,707	46
- Recreational activities	**266,693**	**79**	271,979	78
- Information technology	**1,559,423**	**1**	882,728	5
- Others	**2,858,970**	**72**	2,272,510	57
Individuals				
- Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**15,422**	**100**	17,790	100
- Loans for the purchase of other residential properties	**10,817,179**	**100**	10,254,515	100
- Credit card advances	**315,990**	**-**	318,683	-
- Others	**6,542,593**	**87**	5,853,436	87
Gross loans and advances for use in Hong Kong	**68,410,447**	**78**	60,149,800	82
Trade finance	**14,083,881**	**21**	15,489,383	20
Gross loans and advances for use outside Hong Kong	**54,914,180**	**32**	51,377,658	34
Gross loans and advances to customers	**137,408,508**	**54**	127,016,841	55

(18) Loans and advances to customers and other accounts (continued)

(c) Impaired loans and advances to customers

	At 30 June 2014 HK$'000	At 31 December 2013 HK$'000
Gross impaired loans and advances to customers	**458,742**	406,465
Impairment allowances - Individually assessed	**(182,705)**	(160,920)
	276,037	245,545
Gross impaired loans and advances as a % of total loans and advances to customers	**0.33%**	0.32%

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$237,199,000 (31 December 2013: HK$202,649,000) 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 2014		
	Individual impairment allowances HK$'000	**Collective impairment allowances HK$'000**	**Impaired loans and advances to customers HK$'000**
Property investment	**-**	**825**	**6,700**
Wholesale and retail trade	**2,912**	**37,267**	**6,020**
Trade finance	**106,829**	**28,219**	**182,628**
Gross loans and advances for use outside Hong Kong	**66,555**	**141,174**	**130,385**
	176,296	**207,485**	**325,733**

	At 31 December 2013		
	Individual impairment allowances HK$'000	Collective impairment allowances HK$'000	Impaired loans and advances to customers HK$'000
Property investment	-	84	1,375
Wholesale and retail trade	4,354	47,797	4,353
Trade finance	127,773	43,924	197,296
Gross loans and advances for use outside Hong Kong	25,224	156,887	138,180
	157,351	248,692	341,204

(19) Available-for-sale securities

	At **30 June 2014** **HK$'000**	At 31 December 2013 HK$'000
Certificates of deposit held	**4,850,976**	6,140,890
Debt securities	**11,278,523**	11,231,492
Treasury bills (including Exchange Fund Bills)	**9,263,092**	4,213,637
Equity securities	**72,601**	75,762
	25,465,192	21,661,781
Issued by:		
Sovereigns	**9,335,469**	4,444,409
Banks and other financial institutions	**9,497,047**	11,475,530
Corporate entities	**6,632,676**	5,741,842
	25,465,192	21,661,781
Analysed by place of listing:		
Listed in Hong Kong	**942,444**	77,144
Listed outside Hong Kong	**200,435**	134,165
Unlisted	**24,322,313**	21,450,472
	25,465,192	21,661,781
Fair value of individually impaired debt securities	**133,808**	271,299

(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 2014	**180,056**	**632,009**	**1,158,739**	**1,970,804**
Additions	**-**	**-**	**57,024**	**57,024**
Disposals	**-**	**-**	**(1,896)**	**(1,896)**
Deficit on revaluation	**(857)**	**-**	**-**	**(857)**
Exchange adjustments	**-**	**-**	**(771)**	**(771)**
At 30 June 2014	**179,199**	**632,009**	**1,213,096**	**2,024,304**
The analysis of cost or valuation of the above assets is as follows:				
Cost	**-**	**614,413**	**1,213,096**	**1,827,509**
Valuation				
- 1985	**-**	**17,596**	**-**	**17,596**
- 2014	**179,199**	**-**	**-**	**179,199**
	179,199	**632,009**	**1,213,096**	**2,024,304**
At 1 January 2013	238,348	641,814	1,024,814	1,904,976
Additions	-	-	176,028	176,028
Disposals	(60,466)	(9,805)	(41,849)	(112,120)
Surplus on revaluation	2,174	-	-	2,174
Exchange adjustments	-	-	(254)	(254)
At 31 December 2013	180,056	632,009	1,158,739	1,970,804
The analysis of cost or valuation of the above assets is as follows:				
Cost	-	614,412	1,158,739	1,773,151
Valuation				
- 1985	-	17,597	-	17,597
- 2013	180,056	-	-	180,056
	180,056	632,009	1,158,739	1,970,804
Accumulated depreciation:				
At 1 January 2014	**-**	**278,471**	**792,653**	**1,071,124**
Charge for the period	**-**	**6,810**	**60,615**	**67,425**
Written back on disposals	**-**	**-**	**(1,891)**	**(1,891)**
Exchange adjustments	**-**	**-**	**(863)**	**(863)**
At 30 June 2014	**-**	**285,281**	**850,514**	**1,135,795**
At 1 January 2013	-	271,505	724,518	996,023
Charge for the year	-	13,694	102,564	116,258
Written back on disposals	-	(6,728)	(35,011)	(41,739)
Exchange adjustments	-	-	582	582
At 31 December 2013	-	278,471	792,653	1,071,124
Net book value:				
At 30 June 2014	**179,199**	**346,728**	**362,582**	**888,509**
At 31 December 2013	180,056	353,538	366,086	899,680

(20) Property and equipment (continued)

Investment properties

All investment properties of the Group were revalued on 30 June 2014 by Prudential Surveyors (Hong Kong) Limited, an independent surveyor. The basis of the property valuation was the market value, which is consistent with the definition of fair value under HKFRS 13, *Fair value measurement*. The revaluation deficit of HK$857,000 was recognised by the Group (31 December 2013: revaluation surplus of HK$2,174,000 credited to the income statement), and debited to the income statement. Among the staff of Prudential Surveyors (Hong Kong) Limited are 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 2014 HK$'000	At 31 December 2013 HK$'000
Demand deposits and current deposits	**16,080,329**	15,669,859
Savings deposits	**36,241,126**	26,396,880
Time, call and notice deposits	**120,922,484**	112,592,227
	173,243,939	154,658,966

(22) Trading liabilities

	At 30 June 2014 HK$'000	At 31 December 2013 HK$'000
Negative fair value of derivatives (note 35(b))	**2,209,592**	1,568,640

(23) Certificates of deposit issued

	At 30 June 2014 HK$'000	At 31 December 2013 HK$'000
Non-trading	**15,908,417**	16,175,173

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

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

	At 30 June 2014 HK$'000	At 31 December 2013 HK$'000
Provision for Hong Kong Profits Tax for the period/year	**264,553**	374,852
Provisional Profits Tax paid	**-**	(223,244)
	264,553	151,608
Balance of Profits Tax provision relating to prior years	**151,609**	-
	416,162	151,608
Provision for overseas taxation	**47,285**	27,780
	463,447	179,388
Of which:		
Tax recoverable	**(4)**	(6)
Current taxation	**463,451**	179,394
	463,447	179,388

(b) Deferred tax assets and liabilities recognised

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

Deferred tax arising from:	Depreciation allowances in excess of related depreciation HK$'000	Impairment allowances for loans and advances HK$'000	Revaluation adjustments for properties HK$'000	Revaluation adjustments for available-for-sale securities HK$'000	Tax losses HK$'000	Others HK$'000	Total HK$'000
At 1 January 2014	**34,013**	**(44,897)**	**1,579**	**(2,823)**	**-**	**(18,366)**	**(30,494)**
Charged/(credited) to income statement (note 13)	**3,288**	**1,178**	**42**	**-**	**-**	**(450)**	**4,058**
Charged to reserves	**-**	**-**	**-**	**32,126**	**-**	**-**	**32,126**
Exchange and other adjustments	**2**	**(1)**	**1**	**-**	**-**	**84**	**86**
At 30 June 2014	**37,303**	**(43,720)**	**1,622**	**29,303**	**-**	**(18,732)**	**5,776**
At 1 January 2013	23,562	(42,215)	2,351	9,351	(757)	(19,575)	(27,283)
Charged/(credited) to income statement	10,529	(2,682)	149	-	745	1,296	10,037
Credited to reserves	-	-	(921)	(12,174)	-	-	(13,095)
Exchange and other adjustments	(78)	-	-	-	12	(87)	(153)
At 31 December 2013	34,013	(44,897)	1,579	(2,823)	-	(18,366)	(30,494)

	At 30 June 2014 HK$'000	At 31 December 2013 HK$'000
Net deferred tax assets recognised on the consolidated statement of financial position	**(8,135)**	(42,618)
Net deferred tax liabilities recognised on the consolidated statement of financial position	**13,911**	12,124
	5,776	(30,494)

(c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$2,682,000 at 30 June 2014 (31 December 2013: HK$2,682,000), 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 2014 HK$'000	At 31 December 2013 HK$'000
Non-trading debt securities issued	**1,123,566**	1,151,253

(26) Other liabilities

	At 30 June 2014 HK$'000	At 31 December 2013 HK$'000
Accruals and other payables	**6,470,666**	9,206,405

(27) Loan capital

	At 30 June 2014 HK$'000	At 31 December 2013 HK$'000
Subordinated notes with US$500 million at 6.875% *	**4,149,924**	4,098,142
Subordinated notes with US$300 million at 3.875% **	**2,290,695**	2,277,706
Subordinated notes with US$300 million at 6.000% ***	**2,308,437**	2,281,704
	8,749,056	8,657,552

* Under a US$2 billion Medium Term Note Programme ("the Programme") issued in December 2007 and the new Offering Circular issued in June 2010, the Bank issued subordinated notes on 24 June 2010 with a face value of US$500 million (equivalent to HK$3,888.9 million). The notes bear an interest rate of 6.875% per annum, payable semi-annually. The notes are listed on the Singapore Exchange Securities Trading Limited and will mature on 24 June 2020.

** Under the Programme and the new Offering Circular 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 thereafter fixed at an interest rate of the prevailing five-year US Treasury bonds yield plus 3.250% per annum if the notes are not redeemed on or before the call date at the option of the Bank. The notes are listed on the Singapore Exchange Securities Trading Limited and will mature on 28 September 2022.

*** Under the Programme and the new Offering Circular issued in October 2013, the Bank issued subordinated notes on 7 November 2013 with a face value of US$300 million (equivalent to HK$2,325.8 million) and qualified as Basel III-compliant Tier-2 capital. The notes bear interest at a fixed rate of 6.000% per annum, payable semi-annually until 7 May 2019, and thereafter fixed at the interest rate of the prevailing five-year US Treasury bonds yield plus 4.718% per annum if the notes are not redeemed on the call date. The notes are listed on the Hong Kong Stock Exchange and will mature on 7 May 2024.

(28) Capital and reserves

(a) Share capital

(i) Ordinary shares

	At 30 June 2014		At 31 December 2013	
	No. of shares	**HK$'000**	No. of shares	HK$'000
Ordinary shares, issued and fully paid:				
At 1 January	**7,283,341,176**	**7,283,341**	7,283,341,176	7,283,341
Transition to no-par value regime on 3 March 2014	**-**	**282,930**	-	-
At 30 June/ 31 December	**7,283,341,176**	**7,566,271**	7,283,341,176	7,283,341

As at 31 December 2013, 8,000,000,000 ordinary shares, with par value of $1 each, were authorised for issue. Under the new Hong Kong Companies Ordinance (Cap. 622), effective 3 March 2014, the concepts of "authorised share capital" and "par value" no longer exist. As part of the transition to the no-par value regime, the amount standing to the credit of the share premium account on 3 March 2014 has become part of the Bank's share capital under the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622). These changes do not have an impact on the number of shares in issue or the relative entitlement of any of the members.

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 2014.

(b) Nature and purpose of components of reserves

(i) Share premium

Prior to 3 March 2014, the application of the share premium account was governed by section 48B of the predecessor Hong Kong Companies Ordinance (Cap. 32). In accordance with the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), on 3 March 2014 any amount standing to the credit of the share premium account has become part of the Bank's share capital (see note 28 (a)). The use of share capital as from 3 March 2014 is governed by the new Hong Kong Companies Ordinance (Cap. 622).

(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 297(2) of the new 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 of 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.

(28) Capital and reserves (continued)

(b) Nature and purpose of components of reserves (continued)

(ix) Retained profits

A regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision by earmarking amounts in respect of impairment losses recognised which the Bank will or may incur in loans and advances. Movements in the reserve are earmarked directly through retained profits and in consultation with the HKMA. At 30 June 2014, HK$2,038,325,000 (31 December 2013: HK$1,816,253,000) 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) Additional equity instruments

	At 30 June 2014 HK$'000	At 30 June 2013 HK$'000
Undated non-cumulative subordinated capital securities with US$300 million*	**2,310,168**	-

* Under a US$2 billion Medium Term Note Programme ("the Programme") issued in December 2007 and the new Offering Circular issued in April 2014, the Bank issued undated non-cumulative subordinated capital securities ("Additional Tier 1 Capital Securities") on 22 April 2014 with a face value of US$300 million (equivalent to HK$2,313.47 million). The Additional Tier 1 Capital Securities are undated and bear a 7.250% coupon until the first call date on 22 April 2019. The coupon will be reset every five years if the Additional Tier 1 Capital Securities are not redeemed to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 5.627% per annum.

(30) Cash and cash equivalents

	At 30 June 2014 HK$'000	At 30 June 2013 HK$'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	**6,113,957**	6,830,209
Placements with and advances to banks, central banks and other financial institutions with original maturity within 3 months	**39,377,765**	31,116,442
Treasury bills and certificates of deposit held with original maturity within 3 months:		
- Available-for-sale securities	**8,971,704**	3,565,740
	54,463,426	41,512,391
(ii) Reconciliation with the consolidated statement of financial position		
Cash and balances with banks, central banks and other financial institutions	**6,113,957**	6,830,209
Placements with and advances to banks, central banks and other financial institutions	**58,120,545**	37,010,194
Treasury bills and certificates of deposit held:		
- Available-for-sale securities	**14,114,068**	9,698,664
Amounts shown in the consolidated statement of financial position	**78,348,570**	53,539,067
Less: Amounts with an original maturity of over 3 months	**(23,885,144)**	(12,026,676)
Cash and cash equivalents in the consolidated cash flow statement	**54,463,426**	41,512,391

(31) Maturity profile

The following maturity profile is based on the remaining period at the end of the reporting period date and 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 2014

	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	**6,113,957**	**4,689,303**	**-**	**-**	**-**	**-**	**-**	**1,424,654**
Placements with and advances to banks, central banks and other financial institutions	**58,120,545**	**-**	**25,132,728**	**21,242,379**	**11,699,141**	**46,297**	**-**	**-**
Trading assets	**2,906,712**	**2,904,202**	**-**	**-**	**-**	**-**	**-**	**2,510**
Securities designated at fair value through profit or loss	**12,522**	**-**	**-**	**-**	**12,522**	**-**	**-**	**-**
Loans and advances to customers and other accounts	**141,748,047**	**4,312,011**	**17,906,038**	**21,448,608**	**32,628,893**	**40,516,230**	**20,184,625**	**4,751,642**
Available-for-sale securities	**25,465,192**	**-**	**5,993,444**	**4,140,151**	**4,099,807**	**10,373,823**	**785,366**	**72,601**
Tax recoverable	**4**	**-**	**-**	**-**	**4**	**-**	**-**	**-**
Undated assets	**896,644**	**-**	**-**	**-**	**-**	**-**	**-**	**896,644**
Total assets	**235,263,623**	**11,905,516**	**49,032,210**	**46,831,138**	**48,440,367**	**50,936,350**	**20,969,991**	**7,148,051**
Liabilities								
Deposits and balances of banks and other financial institutions	**5,995,097**	**2,921,585**	**1,547,213**	**1,237,563**	**288,736**	**-**	**-**	**-**
Deposits from customers	**173,243,939**	**52,321,454**	**43,835,266**	**40,211,393**	**34,208,941**	**2,666,885**	**-**	**-**
Trading liabilities	**2,209,592**	**2,209,592**	**-**	**-**	**-**	**-**	**-**	**-**
Certificates of deposit issued	**15,908,417**	**-**	**362,280**	**4,834,956**	**8,569,828**	**2,141,353**	**-**	**-**
Debt securities issued	**1,123,566**	**-**	**-**	**624,207**	**499,359**	**-**	**-**	**-**
Current taxation	**463,451**	**-**	**-**	**-**	**463,451**	**-**	**-**	**-**
Other liabilities	**6,470,666**	**-**	**-**	**-**	**-**	**-**	**-**	**6,470,666**
Loan capital	**8,749,056**	**-**	**-**	**-**	**-**	**4,599,132**	**4,149,924**	**-**
Undated liabilities	**13,911**	**-**	**-**	**-**	**-**	**-**	**-**	**13,911**
Total liabilities	**214,177,695**	**57,452,631**	**45,744,759**	**46,908,119**	**44,030,315**	**9,407,370**	**4,149,924**	**6,484,577**
Asset-liability gap		**(45,547,115)**	**3,287,451**	**(76,981)**	**4,410,052**	**41,528,980**	**16,820,067**	

At 31 December 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	12,621,484	10,776,921	-	-	-	-	-	1,844,563
Placements with and advances to banks, central banks and other financial institutions	46,089,324	-	17,109,988	13,621,681	15,322,497	35,158	-	-
Trading assets	2,398,265	2,395,590	-	-	-	-	-	2,675
Securities designated at fair value through profit or loss	63,204	-	-	-	12,927	-	-	50,277
Loans and advances to customers and other accounts	132,531,544	3,301,471	12,742,223	17,018,866	36,643,787	36,514,072	20,392,862	5,918,263
Available-for-sale securities	21,661,781	-	2,335,891	4,253,526	5,119,604	9,174,797	702,201	75,762
Tax recoverable	6	-	-	-	6	-	-	-
Undated assets	942,298	-	-	-	-	-	-	942,298
Total assets	216,307,906	16,473,982	32,188,102	34,894,073	57,098,821	45,724,027	21,095,063	8,833,838
Liabilities								
Deposits and balances of banks and other financial institutions	7,522,382	1,259,888	4,772,373	1,490,121	-	-	-	-
Deposits from customers	154,658,966	42,066,739	48,034,181	39,743,724	21,102,404	3,711,918	-	-
Trading liabilities	1,568,640	1,568,640	-	-	-	-	-	-
Certificates of deposit issued	16,175,173	-	-	2,434,127	11,551,910	2,189,136	-	-
Debt securities issued	1,151,253	-	-	-	1,151,253	-	-	-
Current taxation	179,394	-	-	-	179,394	-	-	-
Other liabilities	9,206,405	-	-	-	-	-	-	9,206,405
Loan capital	8,657,552	-	-	-	-	2,277,706	6,379,846	-
Undated liabilities	12,124	-	-	-	-	-	-	12,124
Total liabilities	199,131,889	44,895,267	52,806,554	43,667,972	33,984,961	8,178,760	6,379,846	9,218,529
Asset-liability gap		(28,421,285)	(20,618,452)	(8,773,899)	23,113,860	37,545,267	14,715,217	

(32) Material related-party transactions

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

(a) Transactions with group companies

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:

	Immediate parent		Fellow subsidiaries		Associates (note (i))		Related companies (note (ii))	
	Six months ended 30 June							
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Interest income	**-**	-	**4,616**	5,574	**1,709**	1,970	**542,390**	400,233
Interest expense	**(2,938)**	(2,569)	**(20,142)**	(33,325)	**(7,897)**	(7,156)	**(1,219)**	(176)
Other operating income	**134**	-	**-**	-	**19,637**	17,804	**9**	-
Operating expenses	**-**	(1,338)	**2,202**	(3,099)	**(1,732)**	(1,414)	**(204)**	(4)
Trading gain/(loss) on derivatives	**-**	-	**14,166**	(154,057)	**2,592**	-	**74,253**	236,428

	At 30 June 2014/ 31 December 2013							
Assets								
Available-for-sale securities	**-**	-	**-**	-	**-**	-	**227,052**	-
Derivative financial instruments	**-**	-	**1,796**	-	**-**	-	**75,528**	280,838
Other receivables	**-**	-	**1,851**	4,065	**1,320**	2,978	**143,727**	102,155
Liabilities								
Derivative financial instruments	**-**	-	**503**	1,127	**-**	-	**122,464**	52,447
Other payables	**4,016**	4,604	**22,712**	31,137	**993**	727	**11,440**	17,029
Lending activities:								
At 30 June/31 December	**-**	-	**413,827**	408,438	**559,526**	90,000	**27,110,944**	18,647,543
Average for the period/year	**-**	-	**359,094**	511,280	**317,263**	199,500	**22,406,608**	18,175,332
Acceptance of deposits:								
At 30 June/31 December	**407,600**	429,904	**4,383,508**	3,555,608	**2,769,217**	2,464,814	**2,890,842**	1,245,983
Average for the period/year	**414,992**	419,843	**4,126,468**	6,821,887	**2,676,242**	3,293,795	**2,711,722**	1,126,896

	At 30 June 2014/ 31 December 2013							
Off-statement of financial position items								
Acceptances, guarantees and letters of credit - contract amounts in payable	**-**	-	**(75,480)**	(4,371)	**(3,000)**	(9,137)	**-**	-
Lease commitments	**-**	-	**-**	7,137	**7,490**	8,655	**-**	-
Other commitments	**-**	-	**493,349**	572,802	**181,468**	599,938	**-**	-
Derivative financial instruments - notional amounts	**-**	-	**606,604**	972,465	**-**	-	**14,824,414**	12,061,012

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.

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

(32) Material related-party transactions (continued)

(b) Transactions with key management personnel

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

	Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
Short-term employee benefits	**39,939**	27,332
Post-employment benefits	**1,545**	1,484
	41,484	28,816

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 similar as comparable transactions with persons of a similar standing or, where applicable, with other employees.

	2014	2013
	HK$'000	HK$'000
At 1 January	**20,311**	10,876
At 30 June 2014/ 31 December 2013	**36,864**	20,311
Maximum amount during the period/year	**37,761**	24,187

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

(33) 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 2014 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	**2,510**	**-**	**-**	**2,510**
- Positive fair values of derivatives	**2,904,202**	**14,146**	**2,890,056**	**-**
	2,906,712	**14,146**	**2,890,056**	**2,510**
Securities designated at fair value through profit or loss				
- Debt securities	**12,522**	**12,522**	**-**	**-**
Available-for-sale securities				
- Certificates of deposit held	**4,850,976**	**326,109**	**4,524,867**	**-**
- Treasury bills (including Exchange Fund Bills)	**9,263,092**	**9,263,092**	**-**	**-**
- Debt securities	**11,278,523**	**9,612,329**	**1,662,194**	**4,000**
- Equity securities	**72,601**	**48,960**	**-**	**23,641**
	25,465,192	**19,250,490**	**6,187,061**	**27,641**
	28,384,426	**19,277,158**	**9,077,117**	**30,151**
Liabilities				
Trading liabilities				
- Negative fair value of derivatives	**2,209,592**	**647**	**2,208,945**	**-**

		Fair value measurements as at 31 December 2013 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	2,675	-	-	2,675
- Positive fair values of derivatives	2,395,590	14,736	2,380,854	-
	2,398,265	14,736	2,380,854	2,675
Securities designated at fair value through profit or loss				
- Debt securities	63,204	12,927	-	50,277
Available-for-sale securities				
- Certificates of deposit held	6,140,890	314,397	5,826,493	-
- Treasury bills (including Exchange Fund Bills)	4,213,637	4,213,637	-	-
- Debt securities	11,231,492	7,586,688	3,640,804	4,000
- Equity securities	75,762	52,115	-	23,647
	21,661,781	12,166,837	9,467,297	27,647
	24,123,250	12,194,500	11,848,151	80,599
Liabilities				
Trading liabilities				
- Negative fair value of derivatives	1,568,640	451	1,568,189	-

During the period ended 30 June 2014 and year ended 31 December 2013, there were no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy.

(33) Fair value measurement of financial instruments (continued)

(a) Financial assets and liabilities measured at fair value (continued)

(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 based on the analysis of the investee's financial position, results and dividend discounts or other factors. Accordingly, it is not practical to quote significant unobservable inputs.

The following table shows a reconciliation between the opening and the closing balance of fair value measurements in Level 3 of the fair value hierarchy:

	At 30 June 2014				
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 2014	**2,675**	**50,277**	**4,000**	**23,647**	**80,599**
Purchases	-	-	-	-	-
Sales	(243)	-	-	-	(243)
Settlement	-	(51,137)	-	-	(51,137)
Changes in fair value recognised in the income statement					
- Gains less losses dealing in foreign currencies	-	-	-	(6)	(6)
- Gains less losses from trading securities	78	-	-	-	78
- Net gain from financial instruments designated at fair value through profit or loss	-	860	-	-	860
At 30 June 2014	**2,510**	**-**	**4,000**	**23,641**	**30,151**
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	-	-	-	(6)	(6)
- Gains less losses from trading securities	78	-	-	-	78
- Net gain from financial instruments designated at fair value through profit or loss	-	860	-	-	860

(33) Fair value measurement of financial instruments (continued)

(a) Financial instruments carried at fair value (continued)

(iii) Information about Level 3 fair value measurements (continued)

Assets	At 31 December 2013 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	(217)	-	-	-	(217)
Changes in fair value recognised in the income statement					
- Gains less losses dealing in foreign currencies	-	-	-	27	27
- Gains less losses from trading securities	218	-	-	-	218
- Net gain from financial instruments designated at fair value through profit or loss	-	2,394	-	-	2,394
At 31 December 2013	2,675	50,277	4,000	23,647	80,599
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	-	-	-	27	27
- Gains less losses from trading securities	218	-	-	-	218
- Net gain from financial instruments designated at fair value through profit or loss	-	2,394	-	-	2,394

(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.

	At 30 June 2014 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	**251**	**(251)**	**-**	**-**
Available-for-sale securities				
- Debt securities	**-**	**-**	**400**	**(400)**
- Equity securities	**-**	**-**	**2,364**	**(2,364)**

	At 31 December 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	268	(268)	-	-
Securities designated at fair value through profit or loss				
- Debt securities	5,028	(5,028)	-	-
Available-for-sale securities				
- Debt securities	-	-	400	(400)
- Equity securities	-	-	2,365	(2,365)

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.

(33) Fair value measurement of financial instruments (continued)

(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 value at 30 June 2014 and 31 December 2013 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 value of placements with banks, central banks and other financial institutions is mainly priced at market interest rates, and mature within one year. Accordingly, the carrying value approximate the fair value.

The fair value of loans and advances to customers, taking into account the relevant market interest rates and being mostly priced at floating rates close to the market interest rate which is mainly repriced within 3 months, equals their carrying amount.

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 2014 and 31 December 2013, except the following:

	At 30 June 2014				
	Carrying amount HK$'000	**Fair value HK$'000**	**Level 1 HK$'000**	**Level 2 HK$'000**	**Level 3 HK$'000**
Financial liabilities					
Certificates of deposit issued - Non-trading	**15,908,417**	**15,907,147**	**-**	**15,907,147**	**-**
Debt securities issued	**1,123,566**	**1,126,010**	**-**	**1,126,010**	**-**
Loan capital	**8,749,056**	**9,084,681**	**9,084,681**	**-**	**-**
	25,781,039	**26,117,838**	**9,084,681**	**17,033,157**	**-**

	At 31 December 2013				
	Carrying amount HK$'000	Fair value HK$'000	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
Financial liabilities					
Certificates of deposit issued - Non-trading	16,175,173	16,193,461	-	16,193,461	-
Debt securities issued	1,151,253	1,160,906	644,634	516,272	-
Loan capital	8,657,552	8,878,150	8,878,150	-	-
	25,983,978	26,232,517	9,522,784	16,709,733	-

(34) Offsetting Financial Instruments

Master netting arrangement

The Group enters into enforceable master netting arrangements with counterparties. In the event of a default, all outstanding transactions with the counterparty will be terminated and all amounts outstanding will be settled on a net basis. Otherwise, all outstanding transactions with the counterparty are settled on a gross basis and generally do not result in offsetting the assets and liabilities in the statement of financial position. The Group discloses information for financial statement users to evaluate the effect or potential effect of netting arrangements, including the rights of set-off associated with the Group's recognised financial assets and recognised financial liabilities, on the Group's financial position.

		At 30 June 2014 Related amounts that are not offset in the statement of financial position		
	Net amounts of financial instruments presented in the statement of financial position HK$'000	**Financial instruments HK$'000**	**Cash collateral received HK$'000**	**Net amount HK$'000**
Financial assets				
- Derivative financial instruments	**2,904,202**	**(797,763)**	**(103,962)**	**2,002,477**
Financial liabilities				
- Derivative financial instruments	**2,209,592**	**(797,763)**	**-**	**1,411,829**

		At 31 December 2013 Related amounts that are not offset in the statement of financial position		
	Net amounts of financial instruments presented in the statement of financial position HK$'000	Financial instruments HK$'000	Cash collateral received HK$'000	Net amount HK$'000
Financial assets				
- Derivative financial instruments	2,395,590	(865,377)	(439,315)	1,090,898
Financial liabilities				
- Derivative financial instruments	1,568,640	(865,377)	-	703,263

(35) 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 2014			At 31 December 2013		
	Held for hedging HK$'000	**Others (including held for trading) HK$'000**	**Total HK$'000**	Held for hedging HK$'000	Others (including held for trading) HK$'000	Total HK$'000
Currency derivatives						
Forwards	**-**	**148,796,158**	**148,796,158**	-	113,489,808	113,489,808
Swaps	**-**	**139,100,013**	**139,100,013**	-	133,263,896	133,263,896
Options purchased	**-**	**51,424,733**	**51,424,733**	-	47,659,426	47,659,426
Options written	**-**	**48,067,081**	**48,067,081**	-	47,040,492	47,040,492
Interest rate derivatives						
Forwards	**-**	**1,135,642**	**1,135,642**	-	-	-
Swaps	**9,816,167**	**54,032,659**	**63,848,826**	10,200,952	64,109,402	74,310,354
Options purchased	**-**	**-**	**-**	-	-	-
Options written	**-**	**77,497**	**77,497**	-	-	-
	9,816,167	**442,633,783**	**452,449,950**	10,200,952	405,563,024	415,763,976

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 2014			At 31 December 2013		
	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	**345,606**	**73,736**	**320,795**	309,391	143,713	337,855
Currency derivatives	**2,558,596**	**2,135,856**	**7,257,222**	2,086,199	1,424,927	5,717,249
	2,904,202	**2,209,592**	**7,578,017**	2,395,590	1,568,640	6,055,104
	(note 16)	**(note 22)**		(note 16)	(note 22)	

The credit risk-weighted amount is the amount calculated in accordance with the Banking (Capital) Rules on capital adequacy and it depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 150% (31 December 2013: 0% to 150%) for contingent liabilities and commitments, and from 0% to 150% (31 December 2013: 0% to 150%) for exchange rate, interest rate and other derivatives contracts.

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

(35) Derivatives (continued)

(c) Fair value of derivatives designated as hedging instruments

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

	At 30 June 2014		At 31 December 2013	
	Fair value assets HK$'000	**Fair value liabilities HK$'000**	Fair value assets HK$'000	Fair value liabilities HK$'000
Interest rate contracts	**310,212**	**33,987**	267,383	74,983

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 2014 Notional amounts with remaining life of			
	Total HK$'000	**1 year or less HK$'000**	**Over 1 year to 5 years HK$'000**	**Over 5 years HK$'000**
Interest rate derivatives	**65,106,965**	**36,636,704**	**24,595,403**	**3,874,858**
Currency derivatives	**387,387,985**	**255,477,942**	**131,910,043**	**-**
	452,494,950	**292,114,646**	**156,505,446**	**3,874,858**

	At 31 December 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	74,310,354	35,555,991	32,551,370	6,202,993
Currency derivatives	341,453,622	227,156,402	114,297,220	-
	415,763,976	262,712,393	146,848,590	6,202,993

(36) 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 2014 HK$'000	At 31 December 2013 HK$'000
Direct credit substitutes	**6,806,060**	12,032,661
Transaction-related contingencies	**711,324**	1,007,433
Trade-related contingencies	**2,518,049**	3,822,937
Other commitments:		
- which are unconditionally cancellable or automatically cancellable due to deterioration in the creditworthiness of the borrower	**88,570,635**	68,522,761
- with an original maturity of not more than 1 year	**622,851**	1,458,250
- with an original maturity of more than 1 year	**1,640,464**	1,014,658
	100,869,383	87,858,700
Credit risk-weighted amounts	**4,672,361**	5,840,792

Contingent liabilities and commitments are credit-related instruments, including 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 2013: 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 are as follows:

	At 30 June 2014 HK$'000	At 31 December 2013 HK$'000
Authorised and contracted for	**31,645**	25,303
Authorised but not contracted for	**122**	295
	31,767	25,598

(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 2014 HK$'000	At 31 December 2013 HK$'000
Loans and advances to customers and trade bills	**137,408,508**	127,016,841
Impairment allowances	**476,187**	475,975
Total assets	**235,263,623**	216,307,906
Total customers deposits	**189,152,356**	170,834,139
Total equity attributable to equity shareholders of the Bank	**18,775,760**	17,176,017
<u>Financial ratios</u>		
Common Equity Tier 1 ("CET1") capital ratio	**10.2%**	10.1%
Tier 1 capital ratio	**11.6%**	10.1%
Total capital ratio	**17.2%**	16.5%
Average liquidity ratio for the period/year ended* (six months ended 30 June 2013: 50.1%)	**59.1%**	55.3%
Loans to deposits	**72.6%**	74.4%
Loans to total assets	**58.4%**	58.7%
Cost to income (six months ended 30 June 2013: 44.2%)	**39.1%**	44.0%
Return on assets (six months ended 30 June 2013: 1.18%)	**1.36%**	1.11%
Return on average total equity attributable to equity shareholders of the Bank (six months ended 30 June 2013: 13.44%)	**17.09%**	13.22%

* 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") and is in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance.

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(B) Capital adequacy

(i) Capital base - At 30 June 2014

Capital adequacy ratios ("CAR") comply with the Banking (Capital) Rules issued by the HKMA. The CAR are computed on a consolidated basis covering the Bank and some of its subsidiaries as required by the HKMA. 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 2014 HK$'000	At 31 December 2013 HK$'000
CET1 capital: instruments and reserves		
Directly issued qualifying CET1 capital instruments plus any related share premium	**7,566,271**	7,566,271
Retained earnings	**10,717,156**	9,208,893
Disclosed reserves	**492,232**	400,856
CET1 capital before regulatory deductions	**18,775,659**	17,176,020
CET1 capital: regulatory deductions		
Deferred tax assets net of deferred tax liabilities	**-**	39,347
Gains and losses due to changes in own credit risk on fair valued liabilities	**(258,739)**	(165,522)
Cumulative fair value gains arising from the revaluation of land and buildings	**104,583**	105,440
Regulatory reserve for general banking risks	**2,038,325**	1,816,253
Debt valuation adjustments in respect of derivative contracts	**4,385**	1,141
Total regulatory deductions to CET1 capital	**1,888,554**	1,796,659
CET1 capital	**16,887,105**	15,379,361
Additional Tier 1 capital		
Total Additional Tier 1 capital	**2,313,467**	-
Tier 1 capital	**19,200,572**	15,379,361
Tier 2 capital: instruments and provisions		
Qualifying Tier 2 capital instruments plus any related share premium	**7,272,644**	7,893,661
Reserve attributable to fair value gains on revaluation of holdings of land and buildings	**47,063**	47,448
Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	**1,900,259**	1,752,118
Tier 2 capital base before deductions	**9,219,966**	9,693,227
Tier 2 capital: regulatory deductions		
Total regulatory deductions to Tier 2 capital	**-**	-
Total capital (Total capital = Tier 1 + Tier 2)	**28,420,538**	25,072,588

(ii) Risk-weighted amount

- Credit risk	**153,799,903**	141,390,871
- Market risk	**3,710,313**	3,413,838
- Operational risk	**8,222,850**	7,425,588
	165,733,066	152,230,297

(iii) Capital adequacy ratios

- CET1 capital ratio	**10.2%**	10.1%
- Tier 1 capital ratio	**11.6%**	10.1%
- Total capital ratio	**17.2%**	16.5%

(B) Capital adequacy (continued)

(iv) Capital instruments

The following is a summary of the Group's CET1, Additional Tier 1 Capital Securities and Tier 2 capital instruments.

	At 30 June 2014 HK$'000	At 31 December 2013 HK$'000
CET1 capital instruments issued by the Bank		
Ordinary shares:		
7,283,341,176 issued and fully paid ordinary shares	**7,566,271**	7,283,341

	At 30 June 2014 HK$'000	At 31 December 2013 HK$'000
Additional Tier 1 Capital Securities		
Undated non-cumulative subordinated capital securities with US$300 million	**2,310,168**	-

	At 30 June 2014 HK$'000	At 31 December 2013 HK$'000
Tier 2 capital instruments		
Issued by the Bank		
- Subordinated note due 2020 (nominal value: US$500 million)	**4,149,924**	4,098,142
- Subordinated note due 2022 (nominal value: US$300 million)	**2,290,695**	2,277,706
- Subordinated note due 2024 (nominal value: US$300 million)	**2,308,437**	2,281,704
	8,749,056	8,657,552

(v) Additional information

To comply with the Banking (Disclosure) Rules ("BDR"), the Group has established "Regulatory Disclosure" section on its corporate website, www.cncbinternational.com, and included all the information related to the disclosure of regulatory capital instruments and the reconciliation of the Group's published financial statements. The Regulatory Disclosure section will include:

- A description of the main features and the full terms and conditions of the Group's capital instruments.

- A detailed breakdown of the Group's CET1 capital, Additional Tier 1 Capital Securities, Tier 2 capital and regulatory deductions, using the standard template as specified by the HKMA.

- A full reconciliation between the Group's accounting and regulatory balance sheets, using the standard template as specified by the HKMA.

(B) Capital adequacy (continued)

(vi) Basis of consolidation

Unless otherwise stated, all financial information contained in the interim financial report is prepared on the consolidation basis for accounting purpose. 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 below:

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 2014	
Names of subsidiary	**Principal activities**	**Total assets**	**Total equity**
		HK$'000	**HK$'000**
Viewcon Hong Kong Limited	Mortgage financing	**23,435**	**23,375**

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 2014	
Names of subsidiaries	**Principal activities**	**Total assets**	**Total equity**
		HK$'000	**HK$'000**
Carford International Limited	Property holding	**53,065**	**30,140**
CITIC Bank International (China) Limited	Banking	**16,980,744**	**1,727,129**
CITIC Insurance Brokers Limited	Insurance broker	**125,062**	**93,914**
CKWB-SN Limited	Issue of structured notes and investments	**-**	**-**
CKWH-UT2 Limited	Issue of subordinated notes	**-**	**-**
HKCB Finance Limited	Consumer financing	**6,223,969**	**800,130**
Ka Wah International Merchant Finance Limited	Inactive	**40,470**	**40,390**
The Ka Wah Bank (Trustee) Limited	Trustee services	**5,034**	**3,441**
Viewcon Hong Kong Limited	Mortgage financing	**23,435**	**23,375**

Subsidiaries not included in consolidation for regulatory purpose are nominee services companies 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 2014	
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	**-**	**-**
Security Nominees Limited	Nominee services	**-**	**-**

As at 30 June 2014, there are no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation, the method of consolidation of which differs.

There is also no subsidiary which is included in the regulatory scope of consolidation but not in the accounting scope of consolidation.

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

	At 30 June 2014				
	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	**70,936,246**	**209,738**	**293,913**	**91,333**	**116,993**
Mainland China	**43,420,434**	**64,225**	**114,172**	**73,608**	**86,346**
United States	**1,446,336**	**6,942**	**25,191**	**-**	**2,985**
Singapore	**11,213,057**	**-**	**-**	**-**	**54,645**
Others	**10,392,435**	**25,466**	**25,466**	**17,764**	**32,513**
	137,408,508	**306,371**	**458,742**	**182,705**	**293,482**

	At 31 December 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	65,078,764	216,992	256,066	102,230	129,448
Mainland China	44,105,532	103,357	87,403	31,917	84,595
United States	1,213,184	3,032	26,524	-	1,476
Singapore	7,377,259	-	-	-	58,104
Others	9,242,102	36,472	36,472	26,773	41,432
	127,016,841	359,853	406,465	160,920	315,055

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.

(D) Overdue loans and advances to customers

	At 30 June 2014		At 31 December 2013	
	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	**27,009**	**0.02**	52,155	0.04
- 1 year or less but over 6 months	**33,264**	**0.02**	117,966	0.09
- over 1 year	**246,098**	**0.18**	189,732	0.15
	306,371	**0.22**	359,853	0.28
Secured overdue loans and advances	**115,469**		156,932	
Unsecured overdue loans and advances	**190,902**		202,921	
	306,371		359,853	
Market value of collateral held against the secured overdue loans and advances	**193,710**		244,069	
Individual impairment allowance made	**153,113**		160,920	

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 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 2014 and 31 December 2013 respectively.

(E) Rescheduled loans

	At 30 June 2014 HK$'000	At 30 June 2014 % of total loans and advances to customers	At 31 December 2013 HK$'000	At 31 December 2013 % of total loans and advances to customers
Rescheduled loans	**706,411**	**0.51**	728,855	0.57

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 2014 and 31 December 2013 respectively.

(F) Repossessed assets

	At 30 June 2014 HK$'000	At 31 December 2013 HK$'000
Included in loans and advances to customers and other accounts	**4,467**	3,533

The amount represents the estimated market value of the repossessed assets at 30 June 2014 and 31 December 2013 respectively.

(G) Cross-border claims

Cross-border claims are on-statement 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 2014			
	Banks and other financial institutions HK$'000	**Public sector entities HK$'000**	**Others HK$'000**	**Total HK$'000**
Asia Pacific excluding Hong Kong	**65,835,356**	**97,711**	**45,471,708**	**111,404,775**
of which mainland China	**61,750,795**	**91,656**	**32,641,712**	**94,484,163**

	At 31 December 2013			
	Banks and other financial institutions HK$'000	Public sector entities HK$'000	Others HK$'000	Total HK$'000
Asia Pacific excluding Hong Kong	53,435,320	267,743	42,926,522	96,629,585
of which mainland China	49,224,819	102,346	34,078,518	83,405,683

(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 2014			
	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	**56,374,174**	**11,206,425**	**67,580,599**	**103,705**
Companies and individuals outside mainland China where the credit is granted for use in mainland China	**12,154,134**	**2,283,791**	**14,437,925**	**7,220**
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	**15,170,324**	**3,000,674**	**18,170,998**	**64,209**
	83,698,632	**16,490,890**	**100,189,522**	**175,134**

	At 31 December 2013 (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	44,786,344	16,169,750	60,956,094	82,847
Companies and individuals outside mainland China where the credit is granted for use in mainland China	11,452,121	2,747,418	14,199,539	62
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	19,918,337	3,459,172	23,377,509	72,300
	76,156,802	22,376,340	98,533,142	155,209

Note:
Certain comparative figures at the year ended 31 December 2013 have been restated in order 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 Chief Executive Officer ("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, including its (i) Global Risk Indicator (“GRI”), (ii) The Internal Capital Adequacy Assessment Process ("ICAAP"), and (iii) a bank-wide stress testing model. As the GRI has been further refined and recalibrated, the overall risk profile monitoring was improved, and comprised credit risk, market risk, operational risk (including legal risk), liquidity risk, interest rate risk, strategic risk, and reputation risk. Proactive risk management is fundamental to sustain profitability of the Group and ensured risk exposure is well within approved risk appetite.

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 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 (continued)

(ii) Market risk management

Market risk arises from all financial instruments sensitive to market fluctuation, including securities, foreign exchange contracts, equity and derivative instruments, as well as available-for-sale (AFS) securities 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 investment portfolio and liquidity portfolio in securities, which are neither intended to be held to maturity nor purchased for trading. 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 global risk indicators ("GRI"), the establishment of a limit structure, and policies for the trading and AFS portfolios. Limits are ordered according to 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 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 (continued)

(ii) Market risk management (continued)

Methodology and characteristics of market risk model (continued)

Value at risk

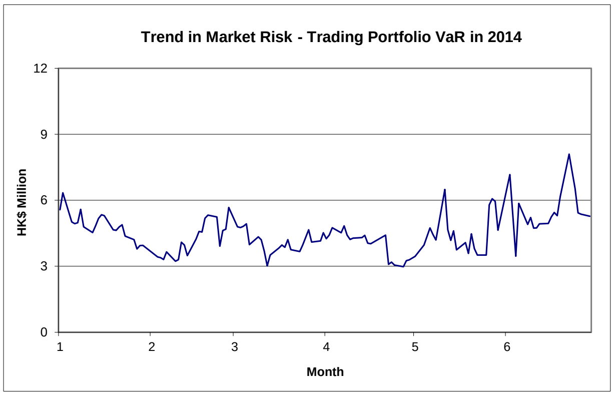
VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The model is designed to capture the different risk types including interest rate risk, foreign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

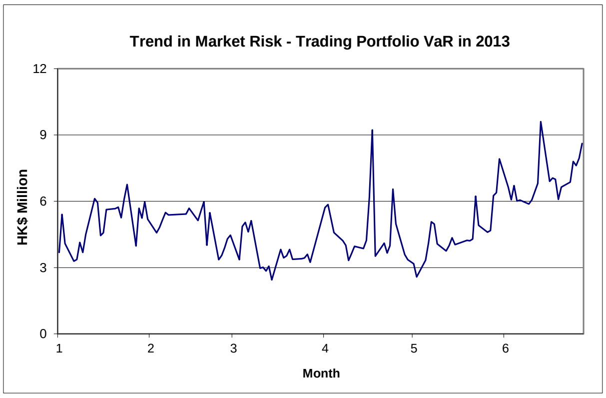
The VaR models used by the Group are predominantly based on historical simulations, and Monte Carlo simulations are also used as a reference. These models derive plausible future scenarios from historical market rates and prices, taking into account the correlation of different markets and rates such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

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

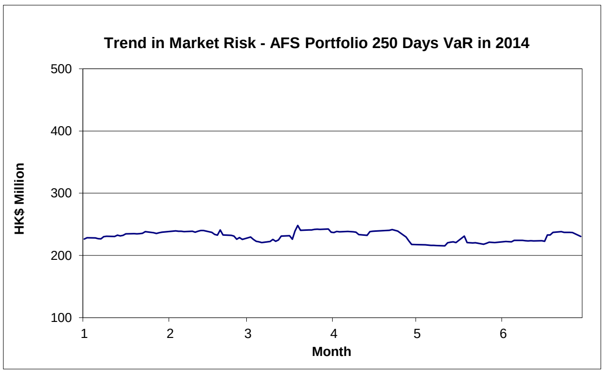
- Potential market movements are calculated with reference to data from the previous two years for the trading portfolios and the AFS portfolios, including the historical market rates, prices and associated volatilities.

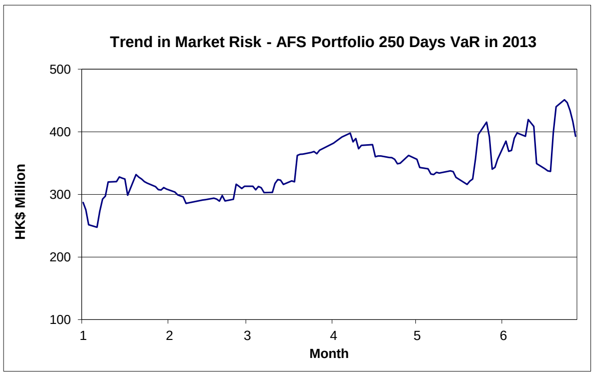
- For the trading portfolio, VaR is calculated with a 99% confidence level and for a one-day holding period.





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





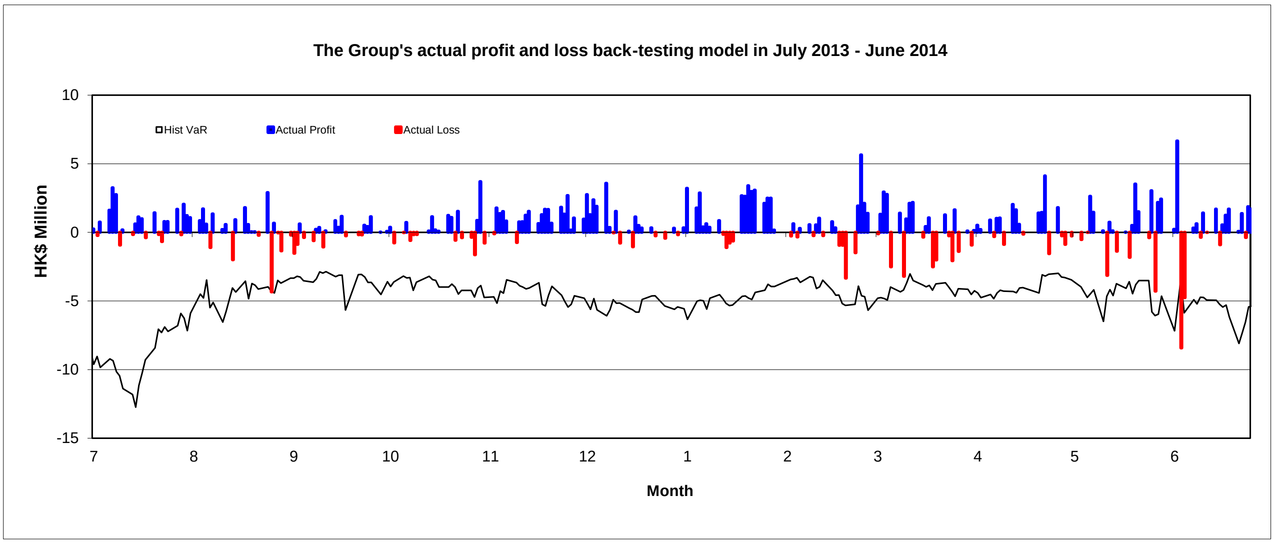
(I) Risk management (continued)

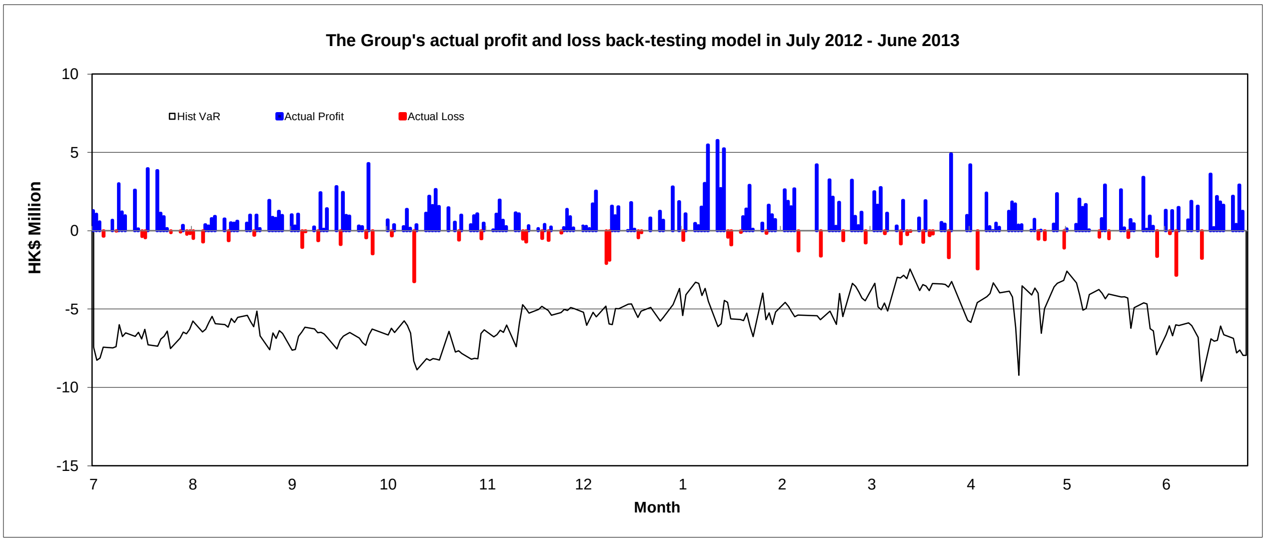
(ii) Market risk management (continued)

Methodology and characteristics of the market risk model (continued)

Value at risk (continued)

- 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 from 1 July 2013 to 30 June 2014, there was one exception in the back-testing results (1 July 2012 to 30 June 2013: no exception), which corresponds to the green zone specified by the HKMA and the international Basel principles.





While VaR calculated using this approach can serve as a good guide for market risk under normal market conditions, it has its limitations. For example, the use of historical data as a proxy may not encompass all potential events and the events beyond the 99% confidence interval are not considered. In order to mitigate such limitations, the MR&LM provides 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

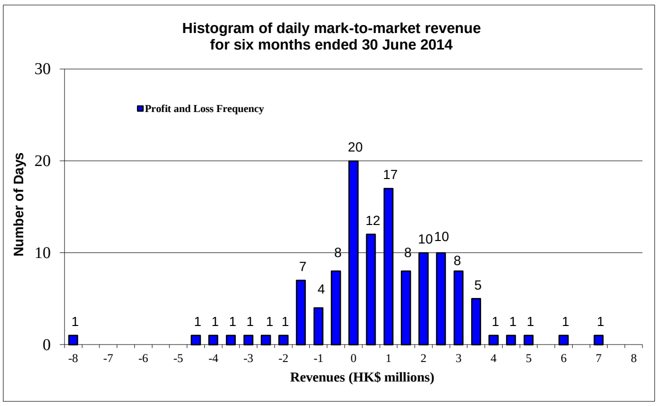
(I) Risk management (continued)

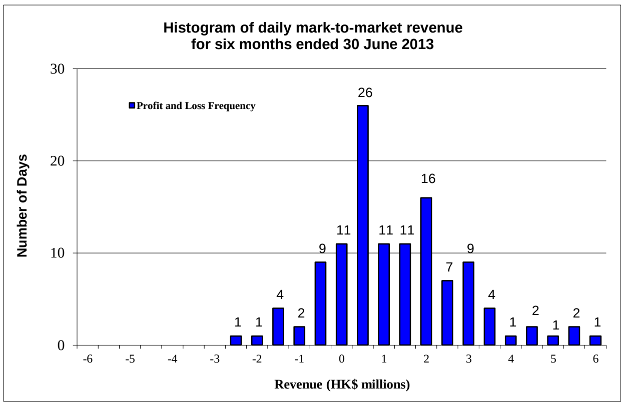
(ii) Market risk management (continued)

Methodology and characteristics of the market risk model (continued)

Value at risk (continued)

For the six months ended 30 June 2014, the average daily mark-to-market revenue from the Group's trading portfolio and fund investments was a gain of HK$608,000 (six months ended 30 June 2013: gain of HK$1,018,000). The standard deviation of the daily revenue was HK$1,998,000 (six months ended 30 June 2013: HK$1,582,000). The graphs below show the histograms of the Group's daily mark-to-market revenue for the six-months periods ended 30 June 2014 and 2013 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%

	Six months ended 30 June 2014				Six months ended 30 June 2013			
	Maximum	**Minimum**	**Mean**	**At 30 June 2014**	Maximum	Minimum	Mean	At 30 June 2013
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000	HK$'000
Foreign exchange risk	**6,128**	**997**	**2,453**	**2,324**	6,989	253	1,664	1,716
Interest rate risk	**5,770**	**2,610**	**3,854**	**5,146**	3,747	912	2,589	3,576
Total VaR	**8,097**	**2,982**	**4,543**	**5,279**	9,604	2,444	4,939	8,611

Market Risk for the AFS Portfolio

	Six months ended 30 June 2014				Six months ended 30 June 2013			
	Maximum	**Minimum**	**Mean**	**At 30 June 2014**	Maximum	Minimum	Mean	At 30 June 2013
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000	HK$'000
Interest rate risk	**282,085**	**208,270**	**257,727**	**275,320**	209,402	52,649	110,220	180,527
Credit spread risk	**268,735**	**214,841**	**241,279**	**220,553**	451,956	228,532	333,312	386,874
Total 250-day VaR	**248,277**	**215,453**	**230,824**	**230,589**	451,090	247,525	341,000	392,721

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 observation of historical 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 portfolio valuation of some of the securities in the AFS portfolio.

In the risk control of the AFS portfolios, the Group 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 (continued)

(ii) Market risk management (continued)

(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 2014, the Group's average daily trading profit and loss from foreign exchange positions was a profit of HK$721,000 (six months ended 30 June 2013: profit of HK$736,000) with a standard deviation of HK$4,037,000 (six months ended 30 June 2013: HK$1,107,000).

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

	At 30 June 2014			
Equivalent in HK$'000	**USD**	**RMB**	**Others**	**Total**
Spot assets	**99,642,470**	**54,601,694**	**4,992,673**	**159,236,837**
Spot liabilities	**(49,851,264)**	**(53,252,918)**	**(15,536,260)**	**(118,640,442)**
Forward purchases	**139,404,392**	**108,262,425**	**28,106,864**	**275,773,681**
Forward sales	**(188,374,957)**	**(107,568,133)**	**(17,538,208)**	**(313,481,298)**
Net option position	**1,288,884**	**(1,137,828)**	**(148,949)**	**2,107**
Net long/(short) position	**2,109,525**	**905,240**	**(123,880)**	**2,890,885**
Net structural position	**-**	**749,198**	**48,526**	**797,724**

	At 31 December 2013			
Equivalent in HK$'000	USD	RMB	Others	Total
Spot assets	79,645,849	59,058,950	4,355,246	143,060,045
Spot liabilities	(46,860,315)	(48,203,556)	(17,850,334)	(112,914,205)
Forward purchases	121,528,234	93,438,490	17,922,579	232,889,303
Forward sales	(152,152,154)	(103,337,170)	(4,564,835)	(260,054,159)
Net option position	89,661	(52,740)	34,676	71,597
Net long/(short) position	2,251,275	903,974	(102,668)	3,052,581
Net structural position	-	767,871	48,532	816,403

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 risks, basis risks among different interest rate benchmarks, yield curve movements 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 2014, the Group's average daily trading profit and loss from interest rate positions was a loss of HK$113,000 (six months ended 30 June 2013: gain of HK$281,000), with a standard deviation of HK$3,336,000 (six months ended 30 June 2013: HK$1,045,000).

Unaudited Supplementary Financial Information

(I) Risk management (continued)

(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 without incurring unacceptable losses. Such funding liquidity risk arises from 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 usual or there could even be an extreme lack of buyers. Under these market conditions, the Bank will incur extra costs to dispose of the position.

The liquidity risk management framework is as follows:

- 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 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 in 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 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, taking into account their different liquidity risk characteristics. 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 requirements. To achieve this, the following liquidity management processes are in place:

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

- Factoring potential drawdown on non-cancellable committed facilities into our normal and stress scenarios to cater for contingent liquidity risk

- 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

- Maintaining access to the interbank money market

- 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 indicators (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 the 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 2014, a total of HK$7.1 billion equivalent (31 December 2013: HK$13.3 billion) of CDs were issued. 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 2014, the Group's average liquidity ratio was 59.1% (for the year ended 31 December 2013: 55.3%). 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 (continued)

(iv) Capital management

The Group's primary objectives when managing capital are:

- 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
- to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The HKMA sets and monitors capital requirements for the Group as a whole. An individual banking subsidiary is directly regulated by its local banking supervisor. The HKMA requires that the Group maintain three prescribed minimum risk-weighted capital ratios, namely, CET1 capital ratio, Tier 1 capital ratio and Total capital ratio.

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. In order to comply with the risk-based supervisory framework of capital adequacy stipulated by the HKMA, the Group conducts ICAAP which assesses the capital add-on required for Pillar 2 risks and hence the minimum capital requirement. Moreover, as part of the capital management policy, the Group conducts capital planning annually to ensure capital adequacy is based on the strategic plan, future business growth and regulatory requirement. The plan covers the issuance of capital instruments if required, to ensure the Group's capital ratios are well above their respective internal triggers and regulatory minimum and trigger ratios. Regular stress testing is performed to ensure that the impact of extreme but plausible scenarios on the risk profile and capital position is considered. Stress testing also gives an insight into the potential impact of significant adverse events and how these could be mitigated.

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

The capital adequacy ratios at 30 June 2014 are computed on the consolidated basis of the Group and some 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 2014 and year ended 31 December 2013, and are well above the minimum required ratios set by the HKMA.

(I) Risk management (continued)

(v) Operational risk management

Definition of operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Governance framework

The Group has established an Operational Risk Governance Framework ("ORGF") to identify, assess, control, monitor and report operational risk. The ORGF encompasses every member within the Group and is governed by policies and guidelines which document the minimum requirements to ensure a consistent approach to manage operational risks. ORM relevant matters are under the oversight of the Credit & Risk Management Committee, a subcommittee of the Board, and the Operational Risk Management Committee ("ORMC"), a committee led by management. The Group's ORM plans and tools are approved by the ORMC and ratified by the CRMC. Implementation of ORM plans and tools is driven by the Group's ORM department and senior management of business and support units.

Management of operational risk

Day-to-day operational risk management lies with our business and support units and the operational control officer ("OCO") of each unit assists the respective heads in this regard.

The ORM department assists management in meeting their responsibility of understanding and managing operational risk and ensuring the development and consistent application of operational risk policies, processes and procedures throughout the Group. Business and support units are responsible for monitoring operational risk and tracking Key Risk Indicators in their areas. The ORM department monitors the Group's overall operational risk exposures and ensures that all material risks are promptly and appropriately escalated to the risk management committees and senior management of the Group for their attention.

The Audit department examines and evaluates the adequacy and control effectiveness of the ORGF on an ongoing basis.

A web-based learning programme on operational risks is required for all new joiners and an annual refresher of ORGF is compulsory for all staff. Training workshops run by the ORM department for all staff have also been introduced with the objectives of raising operational risk awareness and enriching employees' understanding of the ORGF and their roles and responsibilities and accountabilities. This is further reinforced by strong, visible management support which encourages staff to embrace and promote operational excellence.

Risk assessments are conducted on all outsourcing activities and new product programmes.

Tools and methodologies

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

- Operational Risk Self-Assessment ("ORSA") is a tool used to identify, measure and assess the level of risk and effectiveness of control. ORSA has been rolled out across all business and major support units under the guidance of the ORM department. ORSA leaders are nominated by the management of each business and support unit to conduct self assessments bi-annually and identify Key Risk Factors in their daily business and support functions. Each Key Risk Factor is assessed and quantified for financial impact, in terms of the estimated loss impact of each occurrence and estimated number of occurrences. In addition to the financial impact assessment, non-financial impacts including customer, regulatory and reputation impacts are also assessed taking into considerations of both likelihood of the risk materialising and severity of the impact.

- Key Risk Indicators ("KRIs") are statistical tools that take various risk factors into consideration and serve to provide predictive and early warning signals for management's monitoring and action. Through regular monitoring of these KRIs, areas of potential operational control weaknesses can be identified at an early stage and addressed promptly.

  KRIs are developed at 2 levels namely Group level and Business Unit and Support Unit level. The two form a fundamental part of the Group's operational risk management framework.

  Group level KRIs are identified and established by the ORM department, approved by the ORMC and implemented across the Group. The Group level KRI model covers the following major risk classes:

  - Process
    Risks originating from deficiencies in the Group's processes, as a result of ineffective design and management, or errors in execution

(I) Risk management (continued)

(v) Operational risk management (continued)

Tools and methodologies (continued)

- External fraud
  Risks associated with wrongful acts by third parties to obtain unfair or unlawful gain
- Internal fraud
  Risks originating from improper conduct, criminal acts and other unauthorised activities, with the intention of personal benefit
- Human resources
  Risks associated with the management of human resources, including compliance with labour, health, safety and anti-discrimination regulations
- Business practices
  Risks originating from failure to meet customers' expectations due to inadequate practices in the sale of products and provision of services
- Ineffective technology
  Risks originating from ineffective system and technology, whether in terms of design or performance of hardware, software, network or communications

Business Unit and Support Unit level KRIs (BU/SU KRIs) are developed by the respective units based on the ORSA results, and are monitored and tracked for progress towards completion of applicable mitigation plans.

Thresholds are established for each BU/SU KRI by reference to the business' willingness to accept the risk level of each risk factor.

- Operational risk incidents are reported to a centralised operational loss database called the Incident Reporting System ("IRS"). Through the IRS, the ORM department ensures all operational risk incidents are properly investigated, with corrective and preventive actions promptly executed according to agreed timelines. The IRS data serves as a centralized database to produce regular reports for senior management, ORMC and CRMC review of impact of significant incidents and monitoring of operational risk trends. An escalation protocol is in place to ensure that operational risk incidents with significant impact are reported to the respective internal units as well as promptly reported to the regulatory authorities, if deemed necessary.

- Operational Risk Dashboard ("ORD") provides management with an overview of key operational risk issues and the progress of ORSA reviews and KRI evaluation results. This information is submitted to the ORMC and CEO on a monthly basis and to the CRMC on a quarterly basis as part of the Group-wide Risk Status Update Report. The Group-wide Risk Status Update Report captures the implementation status of ORM initiatives, contains analyses of the trend of operational losses, highlights incidents that have a material impact on the Group and lists incident details during the month.

With the endorsement of the long-term ORM road map and tools obtained from the ORMC 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.

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

(I) Risk management (continued)

(vi) Legal risk management

The Group remains abreast of all legal and regulatory requirements applicable to its governance and operations, and continuously seeks to develop its people, enhance its systems and processes, and implement changes as necessary to meet the demands and create awareness of such requirements. Regular reviews are conducted with respect to the Group's policies and procedures to ensure the same reflect the latest legal and regulatory requirements. Issuance of new or substantially revised policies and procedures 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 matters that arise relating to such risks are reported as appropriate by either the Legal or Compliance function to the Group's Audit Committee, the CRMC or 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 all parts of the Group and working with business and support units to ensure relevant controls are in place. In the first half of 2014, 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. Legal and Compliance will remain heavily involved in monitoring and ensuring compliance with changing regulatory requirements in various areas impacting the Group, and will continue to advise and support the Group in meeting the legal and regulatory challenges that lay ahead.

(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

In the first half of 2014, the global economy had been recovering steadily, notably the US economic growth exceeded market expectation at 4% in the second quarter. In China, GDP growth progressed to 7.5% under the ‘micro-stimulation’ policies of the Chinese Central Government’s macroeconomic adjustments, which was generally in line with the annual growth target of 7.5%. During the same period, ‘Shanghai-Hong Kong Stock Connect’ (“SHKSC”) was announced and scheduled for implementation in the fourth quarter. This pilot programme is expected to provide a morale boost for the financial sectors between the Mainland and Hong Kong, and further strengthens the role of Hong Kong as an offshore Renminbi (“RMB”) centre.

China CITIC Bank International Limited (“CNCBI”) and its subsidiary companies (the “Group”) have sustained 2013 strong growth momentum and delivered robust results under prudent risk management. Profit attributable to shareholders increased substantially and total asset was at record high in the first half of 2014.

RMB business has always been a key development focus. To optimise associated opportunities more effectively, CNCBI launched the Hong Kong’s first ever Cross-Border Banking Demand Index, thereby further reinforcing leadership in the RMB market. Through market-oriented and innovative products, the Group made good progress in RMB business and achieved solid growth in related incomes and deposits. Compared to end-2013, total RMB deposits increased 12.8% with retail RMB deposits up 30.0%. As at end-June 2014, RMB customer deposits reached 25.2% of the Group’s total customer deposits.

Business Performance

Earnings

In the first half of 2014, the Group capitalised its competitive advantage on RMB business and leveraged synergistic collaboration with parent company CITIC Group and parent bank China CITIC Bank to achieve impressive results in various business indicators. The Group actively promoted product innovation and diversification and enhanced customer-oriented services to meet various demands in trading, investment and risk hedging.

Operating income grew 37.5% year-on-year to HK$3.08 billion; operating profit before impairment increased 50.0% to HK$1.88 billion. Through prudent risk management, asset quality was maintained with net impairment loss at HK$2.55 million, a steep decline of 91.0%. Profit before taxation was HK$1.87 billion, up 50.6% year-on-year. Profit attributable to shareholders was HK$1.54 billion, up 46.0% for the same period.

Profit attributable to shareholders continued to grow rapidly while operating efficiency and returns showed remarkable improvement. In the first half of 2014, return on assets was 1.36%, up 18 basis points year-on-year, whereas return on equity was 17.09%, up 3.65 percentage points.

Net interest income

Benefiting from RMB and non-RMB interbank loan yields, net interest margin widened to 1.98% in the first half of 2014, up 24 basis points year-on-year. Interest earning asset growth also accelerated progressively, resulting in HK$2.14 billion net interest income, up 46.5% year-on-year.

Non-interest income

Non-interest income was significantly higher. During the reporting period, The People's Bank of China expanded the RMB trading band, resulting in RMB depreciation to as much as 3.5%, which negatively impacted both trading income and RMB structured product commissions. However, the Group's non-interest income increased 20.7% year-on-year to HK$943 million, with fee and commission income grew 49.3%, mainly driven by loan fees and insurance commissions.

Operating expenses

To strengthen competitiveness and meet increasingly rigorous regulatory requirements, the Group has invested more in core infrastructure enhancement, mobile banking development and managing internal controls to ensure sustainability. In addition, the Group controlled unnecessary expenses to improve cost efficiency. For the first half of 2014, operating expenses were HK$1.21 billion, up 21.7% year-on-year but well below revenue growth of 37.5%. Cost to income ratio reduced to 39.1%, down 5.1 percentage points year-on-year, reflecting higher operating efficiency.

Impairment allowances

Impairment losses on loans, advances and other accounts significantly reduced by HK$25.79 million to HK$2.55 million, mainly due to a 79.8% year-on-year increase in bad debt recoveries at HK$19.0 million, and a HK$11.0 million of collective-assessed loan provision write-back during the same period. Individually-assessed loan provision was HK$33.0 million, down HK$1 million year-on-year.

Asset Quality

Asset, Loan, and Deposit Scale

The Group continues to enhance its risk management infrastructure and asset-liability management, and proactively adjusted relative scale and structure of loans and deposits to ensure asset quality while maintaining ample liquidity and robust profitability. As at end-June 2014, total loans were HK$137.41 billion, up HK$10.39 billion or 8.2% from year-end 2013. Total assets reached HK$235.26 billion, up HK$18.96 billion or 8.8% for the same period. By actively expanding the customer base and growing retail deposits, total deposits hit HK$189.15 billion in June, up HK$18.32 billion or 10.7% from year-end 2013.

Asset Quality Indicators

As at end-June 2014, impaired loan ratio remained flat as end-2013 and down 19 basis points year-on-year at 0.33%. Non-performing loan coverage ratio was 103.8%, slightly below end-2013 at 117.1% and up 10.6 percentage points year-on-year, indicating benign asset quality was maintained.

Financial Positions

Total capital adequacy ratio increased 70 basis points from 16.5% as at end-2013 to 17.2% in end-June 2014; whereas common equity tier1 ("CET1") capital ratio reached 10.2%. The Group's capital adequacy was well above regulatory requirements of Hong Kong Monetary Authority. A rapid growth in retail deposits was achieved by proactively managing the balance sheet. Loan to deposit ratio reduced 1.8 percentage points from 74.4% as at end-2013 to 72.6%. Consolidated average liquidity ratio increased 3.8 percentage points from 55.3% as at end-2013 to 59.1%.

CNCBI's Key Financial Ratios

	2014	2013
	30 June	31 December
Common Equity Tier 1 ("CET1") capital ratio	10.2%	10.1%
Tier 1 capital ratio	11.6%	10.1%
Total capital ratio	17.2%	16.5%
Average liquidity	59.1%	55.3%
Loans to deposits	72.6%	74.4%
Loans to total assets	58.4%	58.7%
Impaired loans	0.33%	0.32%
Coverage1	91.5%	89.5%
Loan loss coverage	103.8%	117.1%
Mainland loans to total customer advances	31.6%	34.7%

[1] 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")

Business momentum remained strong despite keen market competition. Cross-border business has achieved a satisfactory result by enhancing collaboration among marketing groups in Hong Kong, Singapore, Macau, the US and CITIC Bank International (China) Limited ("CBI (China)"). Net interest and non-interest income increased 38.7% and 88.3% respectively, reflecting the capability and achievement in providing customer-oriented services. In the first half of the year, customer loans and deposits increased 10.4% and 13.1% respectively from end-2013, demonstrating the potential for record high operating income for the full year.

China banking and overseas branches accounted for 30.5% of WBG's total income growth. The surge in net interest income of CBI (China) was driven by prudently managed deposit costs and a widened net interest margin. Overseas branches achieved steady growth, notably Singapore Branch made remarkable progress on customer loan, deposit and revenue growth. WBG was committed to strengthening the customer referral network with CITIC Group and CNCB. The associated growth in loans, deposits and net interest income has been satisfactory in the first half of 2014.

Riding on RMB internationalisation, WBG collaborated closely with Treasury and Markets Group to develop flexible and customer-oriented products. The volume of RMB remittance for cross-border trade settlements and treasury product trading grew 13.1% and 27.8% year-on-year respectively.

Transaction banking is a key business focus for the year. The Group is dedicated to enhancing customer experience further by strengthening core infrastructure and promoting online banking as a preferred banking channel, particularly for fund remittances. The associated remittance and fund management income surged more than 70% year-on-year.

Structured finance and syndication improved significantly with enhanced customer relationship management and robust pipeline conversion. Syndicated loan balances grew 26.5% from end-2013, while momentum in loan participation accelerated during the first half of 2014. CNCBI was the lead arranger in over one-third of the deals that were made in Hong Kong, driving syndicated loan fee income to quadruple year-on-year.

Asset quality remained as WBG's top priority. While business was experiencing rapid growth, vigilant risk management was placed on all fronts. In addition to developing business that was commensurate with the Group's risk appetite, periodic stress testing was an integral part of WBG's proactive monitoring of the credit portfolio. The key was to drive business growth in a disciplined manner while promoting a tight risk control environment.

Personal & Business Banking Group (“PBG”)

PBG continued to increase balance sheet scale and expand customer base. With an improving income mix and structure, the first half of 2014 saw solid results.

Further to last year’s success in launching innovative deposit products, which included ‘Flexi Deposit Series’ and ‘Payroll Plus Account’, PBG introduced ‘Maxi Saving Deposit’ in March to enhance retail deposit growth for the Group. As at end-June 2014, retail deposits reached a record high of HK$81.31 billion, up 9.9% from end-2013. In the midst of the continuing sluggish mortgage market, PBG focused on the development of small-to-medium-sized enterprise (“SMEs”) loans. Total retail lending increased 3.2% to HK$38.3 billion compared to end-2013, with net interest income up 7.3% over the same period.

In respond to market changes, PBG provided customers appealing investment products, the result being a strong performance in non-interest income which grew 26.0% year-on-year. In particular, an encouraging result of over 60% increase has been shown in insurance commission income.

In the first half of 2014, total operating income of PBG reached HK$867 million, up 13.1% year-on-year. To support long-term sustainable growth, more resources were allocated to technology, sales and services channels and branch network, resulting in a 12.1% year-on-year increase in operating expenses to HK$452 million.

Asset quality of PBG was maintained with credit costs at HK$16.9 million; whereas profit before taxation is up 13.1% year-on-year to HK$398 million.

A more diversified product portfolio and an enhancement of sales and services have deepened the relationship with existing customers while attracting new customers. The number of high-net-worth customers of CITICfirst and Private Banking has increased 8.8% to 26,300 compared to end-2013, while the relevant total assets under management increased 13.3% to HK$75.9 billion.

Entering the second half of 2014, PBG will continue to focus on enhancing e-banking capabilities and synergies with CNCB to further accelerate the growth in high-net-worth customer business.

Treasury and Markets Group ("TMG")

Foreign exchange market was extremely volatile in the first half of the year, notably being a rare sharp RMB depreciation in February and March. Despite facing a challenging market, TMG seized the opportunities in the RMB market, with total operating income increased 60.2% year-on-year drastically to HK$650 million.

Central Treasury Management optimised the RMB business opportunity, Net interest income from RMB interbank portfolio surged tenfold year-on-year to HK$300 million.

On the other hand, although RMB depreciation became steady during April to June, sales and transaction income of the relevant structured products were affected. TMG marketing team actively diversified the range of structured products in other currencies, while the derivative trading team leveraged on the trading opportunities arising from market fluctuations. Trading revenue slightly increased 1% year-on-year.

On FX businesses, TMG continued to participate actively in Hong Kong's CNH market and become one of the most active market players, taking a 12% share of the CNH interbank FX market as at June 2014. In the first half of the year, TMG partnered with PBG and jointly organised a series of seminars to explore customers' needs, with the intent to promote the online FX and Gold margin platform and to build up the market position as a FX bank. Future strategic focus is to increase the FX flow business with CNCB branches.

To meet Basel III Tier 1 capital requirement, the Group successfully issued US$300 million Additional Tier 1 capital securities in April. This was the first ever US dollar denominated security issuance from Asia Pacific region designed to comply with Basel III requirements. This issuance further enhanced the Group's capital structure and thereby reinforced its competitiveness among peers to build a solid foundation for business growth.

Risk Management

During the first half of 2014, Risk Management Group continued to improve risk management practices. This included strengthening credit approval and the review process, proactively managing vulnerable portfolios, improving investment strategy and strengthening capital and liquidity management in line with the Group's risk appetite.

Further efforts have been deployed to reinforce the risk management tools and practices, which included its (i) Global Risk Indicator ("GRI"), (ii) Internal Capital Adequacy Assessment Process ("ICAAP") and (iii) a Bank-wide stress testing model. The Global Risk Indicator ("GRI") was enhanced and recalibrated to measure the Group's overall inherent risk profile comprising credit, market, operational (including legal), 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 have been improving steadily. The Board's delegated Credit and Risk Management Committee ("CRMC") has been responsible for approving the risk strategies, risk appetite 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. These policies include the eight major risks as well as other risk factors. In addition, the 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 among 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 economic future is looking brighter, the Group will stay vigilant on potential uncertainties that might affect the global market. Firstly, the geopolitical climate has yet to improve as there are armed conflicts between Russia and the Ukraine, and an ongoing war between Israel and Hamas in Gaza. Secondly, in response to the gradually improving employment market in the United States, it is expected that the quantitative easing policy will end by October, leading to greater uncertainties in the interest rate market.

Hong Kong's economy is comparatively prosperous and steady as the low unemployment rate has encouraged local consumption. However, the drop in Mainland tourist consumption in Hong Kong together with a lower per capita spending will undermine the local retail sector.

For Hong Kong banking sector, the second quarter saw decelerated domestic lending and accelerated capital inflow, which helped improve the structure of loans and deposits of the local banks. As at end-March, specially mentioned loans in local retail banks was only 1.12% of total loans extended, indicating benign asset quality of the banks in Hong Kong with healthy and steady development expected.

In the second half of 2014, the Group will further strengthen the ability to grow retail deposits, maintain steady deposit growth and control funding costs. The Group will also capitalise synergies with CNCB to reinforce leadership in cross-border RMB business. RMB exchange rate increasingly stabilised in June and is expected to appreciate in the second half of the year, resulting in potentially higher income from trading and RMB structured products.

Furthermore, the Group will innovate and develop low-capital consumption products to boost non-interest income growth and contribution, thereby further strengthening revenue structure and growth momentum. The Group will also focus on e-finance and develop customer-centric channels to provide efficient, real-time and self-service banking services. The overall goal is to further enhance customer experience, operating efficiency and market competitiveness.

Zhang Xiaowei

Chief Executive Officer

Hong Kong, 27 August 2014