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You are reminded that this Offering Circular has been delivered to you on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to forward, deliver or otherwise provide access of this Offering Circular to any other person.

The materials relating to the offering of securities to which this Offering Circular relates do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licenced broker or dealer and the underwriters or any affiliate of the underwriters is a licenced broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Bank (as defined in this Offering Circular) in such jurisdiction.

This Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of CITIC Bank International Limited (formerly known as CITIC Ka Wah Bank Limited) (the **Bank**), The Hongkong and Shanghai Banking Corporation Limited and The Royal Bank of Scotland plc (the **Arrangers**), Banco Bilbao Vizcaya Argentaria, S.A., Barclays Bank PLC, The Hongkong and Shanghai Banking Corporation Limited, Merrill Lynch International, The Royal Bank of Scotland plc and UBS AG, Hong Kong Branch (the **Dealers**), any person who controls the Arrangers or the Dealers, any director, officer, employee nor agent of the Bank, the Arrangers or the Dealers, or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any such alteration or change to the Offering Circular distributed to you in electronic format or any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Arrangers or the Dealers.

Restrictions: Nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of any of the Bank, the Arrangers or the Dealers to subscribe or purchase any of the securities described therein. Any securities to be issued will not be registered under the Securities Act and may not be offered or sold in the United States unless registered under the Securities Act or pursuant to an exemption from such registration. Access has been limited so that it shall not constitute a general solicitation in the United States or elsewhere. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

If you receive the Offering Circular by e-mail, you should not reply by e-mail to the Offering Circular, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.



CITIC BANK INTERNATIONAL LIMITED

(incorporated with limited liability in Hong Kong)

US\$2,000,000,000 Medium Term Note Programme

On 30 November 2007, CITIC Bank International Limited (formerly known as CITIC Ka Wah Bank Limited) (the **Issuer** or the **Bank**) established a U.S.\$2,000,000,000 Medium Term Note Programme (the **Programme**) and issued an offering circular on that date describing the Programme. This Offering Circular supersedes the previous offering circular (including any supplement thereto) issued in respect of the Programme prior to the date hereof. Any Notes (as defined below) issued under this Programme on or after the date of this Offering Circular are issued subject to the provisions described herein. This does not affect any Notes issued prior to the date of this Offering Circular.

Under the Programme, the Issuer, subject to compliance with all relevant laws, regulations and directives, may from time to time issue notes (the **Notes**) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

Notes may be issued in bearer or registered form (respectively **Bearer Notes** and **Registered Notes**). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed US\$2,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under “*Summary of the Programme*” and any additional Dealer appointed under the Programme from time to time by the Issuer (each a **Dealer** and together the **Dealers**), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the **relevant Dealer** shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the **SGX-ST**) for the listing and quotation of Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. The approval in-principle from, and the admission of any Notes to the Official List of, the SGX-ST are not to be taken as indications of the merits of the Issuer, the Programme or the Notes. Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under “*Terms and Conditions of the Notes*”) of Notes will be set out in a pricing supplement (the **Pricing Supplement**) which, with respect to Notes to be listed on the SGX-ST, will be delivered to the SGX-ST before the date of listing of the Notes of such Tranche.

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes.

The Issuer may agree with any Dealer and the Trustee (as defined herein) that the Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event (in the case of Notes intended to be listed on the SGX-ST) a supplementary offering circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

See “Investment Considerations” for a discussion of certain factors to be considered in connection with an investment in the Notes.

Arrangers

HSBC

The Royal Bank of Scotland

Dealers

**Barclays
BofA Merrill Lynch
The Royal Bank of Scotland**

**BBVA
HSBC
UBS**

The date of this Offering Circular is 2 August 2012

To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything that would make the statements therein, in light of the circumstances which they were made misleading. The Issuer, having made all reasonable enquiries, confirms that this Offering Circular contains or incorporates all information which is material in the context of the issue and offering of the Notes, that the information contained or incorporated in this Offering Circular is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which would make this Offering Circular or any of such information or the expression of any such opinions or intentions misleading. The Issuer accepts responsibility accordingly.

No person is or has been authorised by the Issuer or the Trustee to give any information or to make any representations other than those contained in this Offering Circular in connection with the Programme or the Notes and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer, the Dealers or the Trustee.

Neither the Arrangers (as specified under “*Summary of the Programme*”), the Dealers nor the Trustee has separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arrangers, the Dealers, the Trustee or any of them as to the accuracy or completeness of the information contained or incorporated in this Offering Circular or any other information provided by the Issuer in connection with the Programme.

This Offering Circular is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, the Arrangers, the Dealers or the Trustee that any recipient of this Offering Circular should purchase any of the Notes. Each investor contemplating purchasing Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer, any of the Arrangers or the Dealers or the Trustee to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Arrangers, the Dealers and the Trustee expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Offering Circular when deciding whether or not to purchase any Notes.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the **Securities Act**), and are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act). For a further description of certain restrictions on the offering and sale of the Notes and on distribution of this Offering Circular, see “*Subscription and Sale*”.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. None of the Issuer, the Arrangers, the Dealers and the Trustee represents that this Offering Circular may be lawfully distributed, or that any Notes may be

lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Arrangers, the Dealers or the Trustee which would permit a public offering of any Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of the Notes in the United States, the European Economic Area (including the United Kingdom and The Netherlands), Singapore, Japan, Hong Kong and the People's Republic of China. See "*Subscription and Sale*".

CERTAIN DEFINITIONS

Unless otherwise specified or the context requires, references herein to **US dollars** and **US\$** are to the lawful currency of the United States of America (the **USA** or the **US**), references to **Hong Kong dollars**, **HK dollars** and **HK\$** are to the lawful currency of Hong Kong, references to **Renminbi**, **RMB** and **CNY** are to the lawful currency of the People's Republic of China (the **PRC**), references to **Sterling** and **£** are to the lawful currency of the United Kingdom and references to **EUR**, **euro** and **€** are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

In addition, references to **Macau** are to the Macau Special Administrative Region of the PRC, references to **Mainland China** are to the PRC excluding Hong Kong and Macau and references to **Greater China** are to the PRC including Hong Kong and Macau.

For convenience only and unless otherwise noted, all translations from HK\$ into US\$ in this Offering Circular were made at the rate of HK\$7.80 to US\$1.00 and all translations from EUR into US\$ in this Offering Circular were made at the rate of EUR\$1.00 to US\$1.29169 which is the reference rate used for the audited financial statements of the Bank for the year ended 31 December 2011. No representation is made that the HK dollar amounts referred to in this Offering Circular could have been or could be converted into US dollars at any particular rate or at all.

Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

FORWARD-LOOKING STATEMENTS

The Bank has included statements in this Offering Circular which contain words or phrases such as **will**, **would**, **aim**, **aimed**, **will likely result**, **is likely**, **are likely**, **believe**, **expect**, **expected to**, **will continue**, **will achieve**, **anticipate**, **estimate**, **estimating**, **intend**, **plan**, **contemplate**, **seek to**, **seeking to**, **trying to**, **target**, **propose to**, **future**, **objective**, **goal**, **project**, **should**, **can**, **could**, **may**, **will pursue** and similar expressions or variations of such expressions, that are “forward-looking statements”. Actual results may differ materially from those suggested by the forward-looking statements due to certain risks or uncertainties associated with the Bank's expectations with respect to, but not limited to, its ability to successfully implement its strategy, its ability to integrate recent or future mergers or acquisitions into its operations, future levels of non-performing assets and restructured assets, its growth and expansion, the adequacy of its provision for credit and investment losses, technological changes, investment income, its ability to market new products, cash flow projections, the outcome of any legal or regulatory proceedings it is or becomes a party to, the future impact of new accounting standards, its ability to pay dividends, its ability to roll over its short-term funding sources, its exposure to operational, market, credit, interest rate and currency risks and the market acceptance of and demand for Internet banking services.

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IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF NOTES, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN THE APPLICABLE PRICING SUPPLEMENT MAY OVER-ALLOT (PROVIDED THAT, IN THE CASE OF ANY TRANCHE OF NOTES TO BE ADMITTED TO TRADING ON A REGULATED MARKET IN THE EUROPEAN ECONOMIC AREA, THE AGGREGATE PRINCIPAL AMOUNT OF NOTES ALLOTTED DOES NOT EXCEED 105 PER CENT. OF THE AGGREGATE PRINCIPAL AMOUNT OF THE RELEVANT TRANCHE) OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES OF THE SERIES (AS DEFINED BELOW) OF WHICH SUCH TRANCHE FORMS PART AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF A STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION.

ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE RELEVANT TRANCHE OF NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE OF NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT TRANCHE OF NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISING MANAGER(S) (OR PERSON(S) ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this Offering Circular:

- (a) the most recently published audited financial statements of the Issuer and the most recently published unaudited interim financial results of the Issuer; and
- (b) all supplements or amendments to this Offering Circular circulated by the Issuer from time to time,

save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

The Issuer will provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the Issuer at its office set out at the end of this Offering Circular. In addition, such documents will be available free of charge from the office of Citibank, N.A., London Branch (the **Principal Paying Agent**) at 21st Floor, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom.

If the terms of the Programme are modified or amended in a manner which would make this Offering Circular, as so modified or amended, inaccurate or misleading, a new offering circular will be prepared.

GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuer may from time to time issue Notes denominated in any currency, subject to as set out herein. A summary of the terms and conditions of the Programme and the Notes appears below. The applicable terms of any Notes will be agreed between the Issuer and the relevant Dealer prior to the issue of the Notes and will be set out in the Terms and Conditions of the Notes endorsed on, attached to, or incorporated by reference into, the Notes, as modified and supplemented by the applicable Pricing Supplement attached to, or endorsed on, such Notes, as more fully described under “*Form of the Notes*”.

This Offering Circular and any supplement will only be valid for Notes issued under the Programme during the period of 12 months from the date of this Offering Circular in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed US\$2,000,000,000 or its equivalent in other currencies. For the purpose of calculating the US dollar equivalent of the aggregate nominal amount of Notes issued under the Programme from time to time:

- (a) the US dollar equivalent of Notes denominated in another Specified Currency (as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under “*Form of the Notes*”) shall be determined, at the discretion of the Issuer, either as of the date on which agreement is reached for the issue of Notes or on the preceding day on which commercial banks and foreign exchange markets are open for business in Hong Kong, in each case on the basis of the spot rate for the sale of the US dollar against the purchase of such Specified Currency in the Hong Kong foreign exchange market quoted by any leading international bank selected by the Issuer on the relevant day of calculation;
- (b) the US dollar equivalent of Dual Currency Notes, Index Linked Notes and Partly Paid Notes (each as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under “*Form of the Notes*”) shall be calculated in the manner specified above by reference to the original nominal amount on issue of such Notes (in the case of Partly Paid Notes regardless of the subscription price paid); and
- (c) the US dollar equivalent of Zero Coupon Notes (as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under “*Form of the Notes*”) and other Notes issued at a discount or a premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.

SUMMARY FINANCIAL AND OTHER INFORMATION

The following tables set forth the summary consolidated financial and other information of the Bank as at and for the periods indicated. The summary consolidated financial information as at and for the years ended 31 December 2010 and 2011 set forth below is derived from the Bank's audited consolidated financial statements and should be read in conjunction with the audited consolidated financial statements of the Bank and the notes thereto included elsewhere in this Offering Circular. Certain items in the consolidated financial statements of the Bank as at and for the years ended 31 December 2010 and 2011 have been aggregated for the purpose of presentation of the summary financial information in the tables below.

The Bank's audited consolidated financial statements for the years ended 31 December 2010 and 2011 were prepared in accordance with Hong Kong Financial Reporting Standards (**HKFRSs**). The accounting policies of the Bank have been summarised in note 2 to the Bank's audited consolidated financial statements for the year ended 31 December 2011.

	Year ended 31 December		
	2010	2011	2011
	(in millions)		
INCOME STATEMENT			
Interest income	HK\$2,831	HK\$3,573	US\$458
Interest expense.	(1,018)	(1,712)	(219)
Net interest income	1,813	1,861	239
Non-interest income	1,193	1,557	200
Operating expenses	(1,452)	(1,652)	(212)
Operating profit before impairment	1,554	1,766	227
Impairment losses	(262)	(103)	(13)
	1,292	1,663	214
Non-operating income.	(131)	29	4
Profit before taxation	1,161	1,692	218
Income tax	(104)	(282)	(36)
Profit for the year	HK\$1,057	HK\$1,410	US\$182

STATEMENT OF FINANCIAL POSITION

ASSETS

Cash and balances with banks, central banks and other financial institutions	HK\$21,225	HK\$12,944	US\$1,659
Placements with and advances to banks, central banks and other financial institutions	12,229	35,839	4,595
Trading assets	1,634	2,080	267
Securities designated at fair value through profit or loss	646	356	46
Loans and advances to customers and other accounts	90,715	96,365	12,354
Available-for-sale securities	20,858	22,905	2,937
Tangible fixed assets	741	832	107
Tax recoverable	60	3	0
Deferred tax assets	101	102	13
TOTAL ASSETS	HK\$148,209	HK\$171,426	US\$21,978

EQUITY AND LIABILITIES

Deposits and balances of banks and other financial institutions	HK\$1,850	HK\$5,121	US\$657
Deposits from customers	113,466	127,040	16,287
Trading liabilities	1,478	1,331	171
Certificates of deposit issued	6,985	12,124	1,554
Debt securities issued	232	398	51
Current taxation	19	122	16
Deferred tax liabilities	2	2	0
Other liabilities	3,061	3,990	512
Loan capital	7,764	8,193	1,050
Total liabilities	HK\$134,857	HK\$158,321	US\$20,298
Equity			
Share capital	HK\$7,283	HK\$7,283	US\$934
Reserves	6,069	5,822	746
Total equity attributable to equity shareholders of the Bank	13,352	13,105	1,680
Total equity and liabilities	HK\$148,209	HK\$171,426	US\$21,978

	As at 31 December	
	2010	2011
OTHER INFORMATION (unaudited)		
Capital adequacy ratio ⁽¹⁾	19.0%	18.3%
Core capital ratio	11.2%	10.4%
Average liquidity ratio ⁽²⁾	44.7%	43.6%
Loans to deposits	73.7%	67.3%
Loans to total assets	59.9%	54.7%
Collective assessment coverage ⁽³⁾	0.4%	0.4%
Cost to income	48.3%	48.3%
Return on assets	0.8%	0.9%
Return on average total equity attributable to equity shareholders of the Bank	8.2%	10.2%

Notes:

- (1) As at 31 December 2011 and 31 December 2010, the capital adequacy ratio were computed on a consolidated basis covering the Bank and certain of its subsidiaries as required by the Hong Kong Monetary Authority (the **HKMA**) for its regulatory purposes, and was in accordance with Banking (Capital) Rules.
- (2) The average liquidity ratio is computed on a consolidated basis covering the Bank and certain of its subsidiaries as required by the HKMA for its regulatory purposes, and is in accordance with the Fourth Schedule to the Banking Ordinance.
- (3) The ratios represented collectively assessed impairment allowance divided by gross loans and advances.

TIER I AND TIER II CAPITAL BASE

	As at 31 December		
	2010	2011	2011
	(in millions)		
Core capital			
Paid-up ordinary share capital	HK\$7,283	HK\$7,283	US\$934
Share premium	283	283	36
Reserves	3,991	4,406	565
Profit and loss account	1,057	216	28
Less: Net deferred tax assets	(99)	(101)	(13)
Less: Deduction from core capital	(515)	(4)	(1)
Total core capital after deductions	HK\$12,000	HK\$12,083	US\$1,549
Eligible supplementary capital			
Reserves attributable to fair value gains on revaluation of land and building	HK\$3	HK\$3	US\$0
Regulatory reserve for general banking risks	733	1,111	142
Collectively assessed impairment allowances	360	347	44
Perpetual subordinated debt	1,972	1,950	250
Term subordinated debt	5,791	5,814	745
Less: Deductions from supplementary capital items	(515)	(5)	(1)
Total supplementary capital after deductions	HK\$8,344	HK\$9,220	US\$1,180
Total capital base after deductions	HK\$20,344	HK\$21,303	US\$2,729
Total deductions from the core capital and supplementary capital . . .	HK\$1,030	HK\$9	US\$2

SUMMARY OF THE PROGRAMME

The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. Words and expressions defined in “Form of the Notes” and “Terms and Conditions of the Notes” shall have the same meanings in this summary.

Issuer: CITIC Bank International Limited

The Issuer is incorporated and licensed in Hong Kong with business operations and presence spanning across Hong Kong, Macau, the PRC, the United States, Singapore and the Cayman Islands. It is wholly owned by CITIC International Financial Holdings Limited, a company incorporated in Hong Kong, which in turn is majority-owned by China CITIC Bank Corporation Limited.

Description: Medium Term Note Programme

Arrangers: The Hongkong and Shanghai Banking Corporation Limited and The Royal Bank of Scotland plc

Dealers: Banco Bilbao Vizcaya Argentaria, S.A., Barclays Bank PLC, The Hongkong and Shanghai Banking Corporation Limited, Merrill Lynch International, The Royal Bank of Scotland plc and UBS AG, Hong Kong Branch

and any other Dealers appointed in accordance with the Programme Agreement

Certain Restrictions: Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “*Subscription and Sale*”) including the following restrictions applicable at the date of this Offering Circular.

Notes having a maturity of less than one year

Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in Section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see “*Subscription and Sale*”.

Trustee: Citibank, N.A., London Branch

Principal Paying Agent and

Agent Bank: Citibank, N.A., London Branch

Registrar and Transfer Agent: Citigroup Global Markets Deutschland AG

CMU Lodging Agent:	Citibank, N.A., Hong Kong Branch
Programme Size:	Up to US\$2,000,000,000 (or its equivalent in other currencies calculated as described under “ <i>General Description of the Programme</i> ”) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, any other currency agreed between the Issuer and the relevant Dealer.
Redenomination:	The applicable Pricing Supplement may provide that certain Notes may be redenominated in euro. The relevant provisions applicable to any such redenomination are contained in Condition 5.
Maturities:	Such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price:	Notes may be issued on a fully-paid or (in the case of the Notes other than Subordinated Notes) a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes:	The Notes will be issued in bearer or registered form as described in “ <i>Form of the Notes</i> ”. Registered Notes will not be exchangeable for Bearer Notes and <i>vice versa</i> .
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the Dealer.
Floating Rate Notes:	<p>Floating Rate Notes will bear interest at a rate determined:</p> <ul style="list-style-type: none"> (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; (c) or on such other basis as may be agreed between the Issuer and the relevant Dealer. <p>The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each series of Floating Rate Notes.</p>

Index Linked Notes: Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree.

Other provisions in relation to

Floating Rate Notes and

Index Linked Interest Notes: Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both. Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.

Dual Currency Notes: Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.

Zero Coupon Notes: Zero Coupon Notes will be offered and sold at a discount to their nominal amount, or offered and sold at their nominal amount and be redeemed at a premium, and will not bear interest.

Redemption: The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons or regulatory reasons or pursuant to a winding-up of the Issuer following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer.

The applicable Pricing Supplement may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Pricing Supplement.

Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see “*Certain Restrictions — Notes having a maturity of less than one year*” above.

Denomination of Notes: Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see “*Certain Restrictions*” above.

Taxation:	All payments of principal and interest in respect of the Notes, Receipts and Coupons will be made without deduction for or on account of withholding taxes imposed by Hong Kong, subject as provided in Condition 9. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 9, be required to pay additional amounts to cover the amounts so deducted.
Negative Pledge:	The terms of the Senior Notes will contain a negative pledge provision as further described in Condition 4.
Events of Default for Senior Notes: .	Events of default for Senior Notes are set out in Condition 11.1.
Cross Default:	The terms of the Senior Notes will contain a cross default provision as further described in Condition 11.1.
Status of the Senior Notes:	The Senior Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of the negative pledge in Condition 4) unsecured obligations of the Issuer, ranking <i>pari passu</i> and without any preference among themselves. The payment obligations of the Issuer under the Senior Notes will rank at least equally with all other unsecured and unsubordinated obligations of the Issuer, present and future, including liabilities in respect of deposits, save for such exceptions as may be provided by applicable legislation and subject to Condition 4.
Status, Events of Default and other terms of Subordinated Notes:	Subordinated Notes will be Dated Subordinated Notes or Undated Subordinated Notes as indicated in the applicable Pricing Supplement. The status of the Subordinated Notes and events of default applicable to Subordinated Notes are set out in Conditions 3.2 and 11.2, respectively. Subordinated Notes do not have the benefit of a negative pledge or cross default provision.
Listing:	Approval in-principle has been received from the SGX-ST for the listing and quotation of Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List of the SGX-ST. The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series. For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes will be traded on the SGX-ST in a minimum board lot size of S\$200,000 (or its equivalent in other currencies).

Unlisted Notes may also be issued.

The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s).

- Governing Law: The Notes and the Trust Deed and any non-contractual obligations arising out of or in connection with the Notes and the Trust Deed will be governed by, and shall be construed in accordance with, English law, except that the provisions of the Notes and the Trust Deed relating to subordination shall be governed by, and construed in accordance with, the laws of Hong Kong.
- Selling Restrictions: There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom and The Netherlands), Singapore, Japan, Hong Kong and the PRC and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see “*Subscription and Sale*”.
- United States Selling Restrictions: . . Regulation S, Category 1 or 2, as specified in the applicable Pricing Supplement. TEFRA C or D/TEFRA not applicable, as specified in the applicable Pricing Supplement.
- Clearing Systems: The CMU Service, Clearstream, Luxembourg, Euroclear and/or any other clearing system as specified in the applicable Pricing Supplement, see “*Form of the Notes*”.

FORM OF THE NOTES

The Notes of each Series will be in either bearer form, with or without interest coupons attached, or registered form, without interest coupons attached.

Bearer Notes

Each Tranche of Bearer Notes will be in bearer form and will be initially issued in the form of a temporary bearer global note (a **Temporary Bearer Global Note**) or, if so specified in the applicable Pricing Supplement, a permanent bearer global note (a **Permanent Bearer Global Note**, together with any Temporary Bearer Global Note, the **Bearer Global Notes**) which, in either case, will be delivered on or prior to the original issue date of the Tranche to either (i) a common depositary (the **Common Depositary**) for, Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**) or (ii) a sub-custodian for the Central Moneymarkets Unit Service, operated by the Hong Kong Monetary Authority (the **CMU Service**).

Whilst any Bearer Note is represented by a Temporary Bearer Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Bearer Global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Bearer Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and/or the CMU Lodging Agent and (in the case of a Temporary Bearer Global Note delivered to a Common Depositary for Euroclear and Clearstream, Luxembourg) Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent (as defined in “*Terms and Conditions of the Notes*”). On and after the date (the **Exchange Date**) which is 40 days after a Temporary Global Note is issued, interests in such Temporary Global Note will be exchangeable (free of charge) upon a request as described therein either for (a) interests in a Permanent Bearer Global Note of the same Series or (b) for definitive Bearer Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Pricing Supplement and subject, in the case of definitive Bearer Notes, to such notice period as is specified in the applicable Pricing Supplement), in each case against certification of beneficial ownership as described above unless such certification has already been given, provided that the purchasers in the United States and certain U.S. persons will not be able to receive definitive Bearer Notes. The CMU Service may require that any such exchange for a Permanent Global Bearer Note is made in whole and not in part and in such event, no such exchange will be effected until all relevant account holders (as set out in a CMU Instrument Position Report or any other relevant notification supplied to the CMU lodging Agent by the CMU Service) have so certified. The holder of a Temporary Bearer Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Note for an interest in a Permanent Bearer Global Note or for definitive Bearer Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Bearer Global Note will be made through Euroclear and/or Clearstream, Luxembourg against presentation or surrender (as the case may be) of the Permanent Bearer Global Note without any requirement for certification.

In respect of a Bearer Global Note held through the CMU Service, any payments of principal, interest (if any) or any other amounts shall be made to the person(s) for whose account(s) interests in the relevant Bearer Global Note are credited (as set out in a CMU Instrument Position Report or any other relevant notification supplied to the CMU Lodging Agent by the CMU Service) and, save in the case of final payment, no presentation of the relevant Bearer Global Note shall be required for such purpose.

The applicable Pricing Supplement will specify that a Permanent Bearer Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Notes with, where applicable, receipts, interest coupons and talons attached upon either (a) not less than 60 days' written notice (i), in the case of Notes held by a Common Depositary for Euroclear and Clearstream, Luxembourg, from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) to the Principal Paying Agent as described therein or (ii), in the case of Notes held through a sub-custodian for the CMU Service, from the relevant account holders therein to the CMU Lodging Agent as described therein or (b) only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) an Event of Default (as defined in Condition 11) has occurred and is continuing, (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have, or in the case of Notes cleared through the CMU Service, the CMU Service has, been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system satisfactory to the Trustee is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Bearer Notes represented by the Permanent Bearer Global Note in definitive form and a certificate to such effect signed by two directors of the Issuer is given to the Trustee. The Issuer will promptly give notice to Noteholders in accordance with Condition 15 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, (a) in the case of Notes held by a Common Depositary for Euroclear and Clearstream, Luxembourg, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) or, (b) in the case of Notes held through a sub-custodian for the CMU Service, the relevant account holders therein, may give notice to the Principal Paying Agent or, as the case may be, the CMU Lodging Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent or, as the case may be, the CMU Lodging Agent.

The following legend will appear on all Bearer Notes which have an original maturity of more than one year and on all receipts and interest coupons relating to such Notes:

“ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.”

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Notes which are represented by a Bearer Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear, Clearstream, Luxembourg or the CMU Service, as the case may be.

Registered Notes

The Registered Notes of each Tranche offered and sold in reliance on Regulation S, which will be sold outside the United States (and, in the case of Notes being offered or sold in reliance on Category 2 of Regulation S, only to non-U.S. persons), will initially be represented by a global note in registered form (a **Registered Global Note**, together with any Bearer Global Note, the **Global Notes**). Prior to expiry of the distribution compliance period (as defined in Regulation S), if any, applicable to each Tranche of Notes, beneficial interests in a Registered Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 2 and may not be held otherwise than through Euroclear, Clearstream, Luxembourg or the CMU Service and such Registered Global Note will bear a legend regarding such restrictions on transfer.

Registered Global Notes will be deposited with a Common Depositary for, and registered in the name of a common nominee of, Euroclear, Clearstream, Luxembourg and/or deposited with a sub-custodian for the CMU Service (if applicable), as specified in the applicable Pricing Supplement. Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 7.4) as the registered holder of the Registered Global Notes. None of the Issuer, the Trustee, the Principal Paying Agent, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 7.4) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, Exchange Event means that (i) an Event of Default has occurred and is continuing, (ii) the Issuer has or will become subject to adverse tax consequences which would not be suffered where the Notes represented by the Registered Global Notes in definitive form or (iii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg and, in the case of Notes cleared through the CMU Service, the CMU Service have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any case, no successor or alternative clearing system is available. The Issuer will promptly give notice to Noteholders in accordance with Condition 15 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, (a) in the case of Notes registered in the name of a nominee for a Common Depositary for Euroclear and Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Registered Global Note) and/or, (b) in the case of Notes held through a sub-custodian for the CMU Service, the relevant account holders therein, may give notice to the Registrar or the CMU Lodging Agent, as the case may be, requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar or the CMU Lodging Agent, as the case may be.

Transfer of Interests

Interests in a Registered Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Note. No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the applicable procedures of Euroclear, Clearstream, Luxembourg and the CMU Service, in each case to the extent applicable.

General

Pursuant to the Agency Agreement (as defined under “*Terms and Conditions of the Notes*”), the Principal Paying Agent or, as the case may be, the CMU Lodging Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN and, where applicable, a CMU instrument number which are different from the common code, CMU instrument number and ISIN assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act), if any, applicable to the Notes of such Tranche.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear and/or Clearstream, Luxembourg or the CMU Service, each person (other than Euroclear and/or Clearstream, Luxembourg or the CMU Service) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg or the CMU Service as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear and/or Clearstream, Luxembourg or the CMU Service as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Trustee and their agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purposes the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer, the Trustee and their agents as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions **Noteholder** and **holder of Notes** and related expressions shall be construed accordingly.

Any reference herein to Euroclear and/or Clearstream, Luxembourg and/or the CMU Service shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or as may otherwise be approved by the Issuer, the Principal Paying Agent and the Trustee.

No Noteholder, Receiptholder or Couponholder (as defined under “*Terms and Conditions of the Notes*”) shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

If the applicable Pricing Supplement specifies any modification to the Terms and Conditions of the Notes as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1, 6, 7, 8 (except Condition 8.2), 12, 13, 14, 15 (insofar as such Notes are not listed or admitted to trade on any stock exchange) or 19, they will not necessitate the preparation of a supplement to this Offering Circular. If the Terms and Conditions of the Notes of any Series are to be modified in any other respect, a supplement to this Offering Circular will be prepared, if appropriate.

For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a paying agent in Singapore, where such Notes may be presented or surrendered for payment or redemption, in the event that any of the Global Notes representing such Notes is exchanged for definitive Notes. In addition, in the event that any of the Global Notes is exchanged for definitive Notes, an announcement of such exchange will be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

APPLICABLE PRICING SUPPLEMENT

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Notes issued under the Programme.

[Date]

CITIC BANK INTERNATIONAL LIMITED

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

**under the US\$2,000,000,000
Medium Term Note Programme**

This document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 2 August 2012. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular.

[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Offering Circular dated [original date]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated [current date], save in respect of the Conditions which are extracted from the Offering Circular dated [original date] and are attached hereto.]

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Pricing Supplement]

[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination must/may need to] be £100,000 or its equivalent in any other currency.]

- | | | |
|----|-----------------------------------|---|
| 1. | Issuer: | CITIC Bank International Limited |
| 2. | (a) Series Number: | [●] |
| | (b) Tranche Number: | [●] <i>(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)</i> |
| 3. | Specified Currency or Currencies: | [●] |
| 4. | Aggregate Nominal Amount: | |
| | (a) Series: | [●] |
| | (b) Tranche: | [●] |
| 5. | [(a)] Issue Price: | [●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] <i>(in the case of fungible issues only, if applicable)</i>] |
| | [(b)] Net Proceeds: | [●] <i>(required only for listed issues)</i> |

6. (a) Specified Denominations:

[●] Notes

*(N.B. Following the entry into force of Directive 2010/73/EU (the **2010 PD Amending Directive**) on 31 December 2010, Notes to be admitted to trading on a regulated market within the European Economic Area with a maturity date which will fall after the implementation date of the 2010 PD Amending Directive in the relevant European Economic Area Member State (which is due to be no later than 1 July 2012) must have a minimum denomination of €100,000 (or equivalent) in order to benefit from Transparency Directive exemptions in respect of wholesale securities. Similarly, Notes issued after the implementation of the 2010 PD Amending Directive in a Member State must have a minimum denomination of €100,000 (or equivalent) in order to benefit from the wholesale exemption set out in Article 3.2(d) of the Prospectus Directive in that Member State.)*

Notes (including Notes denominated in Sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of Section 19 of the FSMA and] which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies). (Note — where multiple denominations above [€100,000] or equivalent are being used with respect to Bearer Notes, the following sample wording should be followed:

“[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Notes in definitive form will be issued with a denomination above [€199,000].”)

(N.B. If an issue of Notes is (i) NOT admitted to trading on a European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the €[1,000]/[100,000] minimum denomination is not required.)

(In the case of Registered Notes, this means the minimum integral amount in which transfers can be made.)

(b) Calculation Amount:

[●] *(If only one Specified Denomination, insert the Specified Denomination.*

If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)

7. (a) Issue Date:

[●]

(b) Interest Commencement Date:

[specify/Issue Date/Not Applicable] (N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)

8. Maturity Date: *[Fixed rate - specify date/Floating rate - Interest Payment Date falling on or about [specify month and year]]*¹
9. Interest Basis: *[[●] per cent. Fixed Rate] [[LIBOR/EURIBOR/HIBOR] +/- [●] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Dual Currency Interest] [specify other] (further particulars specified below)*
10. Redemption/Payment Basis: *[Redemption at par] [Index Linked Redemption] [Dual Currency Redemption] [Partly Paid] [Instalment] [specify other]*
11. Change of Interest Basis or Redemption/Payment Basis: *[Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis]*
12. Put/Call Options: *[Investor Put] [Issuer Call] [(further particulars specified below)]*
13. (a) Status of the Notes: *[Senior/[Dated/Undated]Subordinated]*
- (b) Date Board approval for issuance of Notes obtained: *[●] [and [●], respectively]]/[None required] (N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes)*
14. Listing: *[Singapore/specify other/None]*
15. Method of distribution: *[Syndicated/Non-syndicated]*

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16. Fixed Rate Note Provisions *[Applicable/Not Applicable] (If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Rate(s) of Interest: *[●] per cent. per annum [payable [annually/semi-annually/quarterly/other specify]] in arrear] (If payable other than annually, consider amending Condition 6)*
- (b) Interest Payment Date(s): *[[●] in each year² up to and including the Maturity Date]/[specify other] (N.B. This will need to be amended in the case of long or short coupons)*
- (c) Fixed Coupon Amount(s): *[●] per Calculation Amount³*
(Applicable to Notes in definitive form)
- (d) Broken Amount(s): (Applicable to Notes in definitive form) *[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]*

¹ Note that for Hong Kong dollar and Renminbi denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification it will be necessary to use the second option here.

² Note that for certain Hong Kong dollar and Renminbi denominated Fixed Rate Notes the Interest Payment Dates are subject to modification and the following words should be added: “provided that if any Interest Payment Date falls on a day which is not a Business Day, the Interest Payment Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month in which event the Interest Payment Date shall be brought forward to the immediately preceding Business Day. For these purposes, “Business Day” means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and currency deposits) in Hong Kong and [●].”

³ For Hong Kong dollar and Renminbi denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following alternative wording is appropriate: “Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest [HK\$0.01, HK\$0.005/CNY0.01, CNY0.005] being rounded upwards.”

- (e) Day Count Fraction: [30/360 or Actual/Actual (ICMA) or Actual/365 (Fixed)⁴ or *[specify other]*]
- (f) [Determination Date(s): [●] in each year (*Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon² N.B. This will need to be amended in the case of regular interest payment dates which are not of equal duration² N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA)*)]
- (g) Party responsible for calculating the amount of interest payable per Calculation Amount (if not the Principal Paying Agent): [●]
- (h) Other terms relating to the method of calculating interest for Fixed Rate Notes: [None/Give details]
17. Floating Rate Note Provisions [Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
- (a) Specified Period(s)/Specified Interest Payment Dates: [●]
- (b) First Interest Payment Date: [●]
- (c) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/*[specify other]*]
- (d) Additional Business Centre(s): [●]
- (e) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/*specify other*]
- (f) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent): [●]
- (g) Screen Rate Determination:
- Reference Rate: [●] (*Either LIBOR, EURIBOR, HIBOR or other, although additional information is required if other - including fallback provisions in the Agency Agreement*)
 - Interest Determination Date(s): [●] (*Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling, Hong Kong dollar or euro LIBOR), first day of each Interest Period if Sterling LIBOR or Hong Kong dollar LIBOR or HIBOR and the second day on which the TARGET 2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR*)
 - Relevant Screen Page: [●] (*In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately*)

⁴ Applicable to Hong Kong dollar and Renminbi denominated Fixed Rate Notes.

- (h) ISDA Determination:
- Floating Rate Option: [●]
 - Designated Maturity: [●]
 - Reset Date: [●]
- (i) Margin(s): [+/-] [●] per cent. per annum
- (j) Minimum Rate of Interest: [●] per cent. per annum
- (k) Maximum Rate of Interest: [●] per cent. per annum
- (l) Day Count Fraction: [Actual/Actual (ISDA) Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 30E/360 30E/360 (ISDA) Other] (See Condition 6 for alternatives)
- (m) Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: [●]
18. Zero Coupon Note Provisions [Applicable/Not Applicable] (If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Accrual Yield: [●] per cent. per annum
- (b) Reference Price: [●]
- (c) Any other formula/basis of determining amount payable: [●]
- (d) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions 8.6(c) and 8.11 apply/specify other] (Consider applicable day count fraction if not U.S. dollar denominated)
19. Index Linked Interest Note Provisions [Applicable/Not Applicable] (If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Index/Formula: [Give or annex details]
- (b) Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Principal Paying Agent): [●]
- (c) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: [Need to include a description of market disruption or settlement disruption events and adjustment provisions]
- (d) Specified Period(s)/Specified Interest Payment Dates: [●]
- (e) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other]

- (f) Additional Business Centre(s): [●]
- (g) Minimum Rate of Interest: [●] per cent. per annum
- (h) Maximum Rate of Interest: [●] per cent. per annum
- (i) Day Count Fraction: [●]
20. Dual Currency Interest Note Provisions [Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Rate of Exchange/method of calculating Rate of Exchange: [Give or annex details]
- (b) Party, if any, responsible for calculating the principal and/or interest due (if not the Principal Paying Agent): [●]
- (c) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [Need to include a description of market disruption or settlement disruption events and adjustment provisions]
- (d) Person at whose option Specified Currency(ies) is/are payable: [●]

PROVISIONS RELATING TO REDEMPTION

21. Issuer Call: [Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Optional Redemption Date(s): [●]
- (b) Optional Redemption Amount and method, if any, of calculation of such amount(s): [[●] per Calculation Amount/specify other]
- (c) If redeemable in part:
- (i) Minimum Redemption Amount: [●] per Calculation Amount
- (ii) Maximum Redemption Amount: [●] per Calculation Amount
- (d) Notice period (if other than as set out in the Conditions): [●] *(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent or Trustee)*
22. Investor Put: [Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Optional Redemption Date(s): [●]
- (b) Optional Redemption Amount and method, if any, of calculation of such amount(s): [[●] per Calculation Amount/specify other]

- (c) Notice period (if other than as set out in the Conditions): [●] (*N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent or Trustee*)
23. Final Redemption Amount: [●] per Calculation Amount/specify other/see Appendix]
24. Early Redemption Amount payable on redemption for taxation reasons or regulatory reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 8.6): [●] per Calculation Amount/specify other/see Appendix]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25. Form of Notes: [Bearer Notes: Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]]
- [Bearer Notes: Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]
- [Bearer Notes: Permanent Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event/at any time at the request of the Issuer]]
- [Registered Notes: Registered Global Note ([●] nominal amount)]
- (Ensure that this is consistent with the wording in the "Form of the Notes" section in the Offering Circular and the Notes themselves. N.B. The exchange upon notice/at any time options for Bearer Notes should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect: "[€] and integral multiples of [€]] in excess thereof up to and including [€]]." Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.)*
26. Additional Financial Centre(s) or other special provisions relating to Payment Days: [Not Applicable/give details] (*Note that this paragraph relates to the place of payment and not Interest Period end dates to which sub-paragraphs 16(b), 17(d) and 19(f) relate*)
27. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]

28. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/give details. *N.B. a new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues*]
29. Details relating to Instalment Notes:
- (a) Instalment Amount(s): [Not Applicable/give details]
- (b) Instalment Date(s): [Not Applicable/give details]
30. Redenomination applicable: Redenomination [not] applicable (If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))
31. Payment of US Dollar Equivalent¹ [Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)

In respect of Notes denominated in Renminbi, notwithstanding all other provisions in the Conditions, if by reason of Inconvertibility, Non-transferability or Illiquidity, the Issuer is not able to satisfy payments of principal or interest (in whole or in part) in respect of Notes when due in Renminbi in Hong Kong, the Issuer shall, on giving not less than five nor more than 30 days' irrevocable notice to the Noteholders prior to the due date for payment, settle any such payment (in whole or in part) in US dollars on the due date at the US Dollar Equivalent of any such Renminbi denominated amount.

In such event, payments of the US Dollar Equivalent of the relevant principal or interest in respect of the Notes denominated in Renminbi shall be made in accordance with the Conditions applicable for payment of U.S. dollars.

In the event of a payment pursuant to this paragraph 31, the following modification shall be made in respect of the Conditions:

The definition of "**Payment Day**" in Condition 7.6 in relation to any sum payable in Renminbi, shall mean a day (other than a Saturday, Sunday or public holiday) on which commercial banks and foreign exchange markets are open for business in the relevant place of presentation and on which foreign exchange transactions may be carried out in US dollars in New York City.

In this paragraph 31:

"**Determination Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for general business (including dealings in foreign exchange) in Hong Kong and in New York City.

¹ Applicable to Notes denominated in Renminbi.

“Determination Date” means the day which is two Determination Business Days before the due date of the relevant amount under the Conditions.

“Governmental Authority” means any *de facto* or *de jure* government (or any agency or instrumentality thereof), court, tribunal, administrative or other governmental authority or any other entity (private or public) charged with the regulation of the financial markets (including the central bank) of Hong Kong.

“Illiquidity” means the general Renminbi exchange market in Hong Kong becomes illiquid as a result of which the Issuer cannot obtain sufficient Renminbi in order to satisfy its obligation to pay interest or principal in respect of the Notes as determined by the Issuer in good faith and in a commercially reasonable manner following consultation with two Renminbi Dealers.

“Inconvertibility” means the occurrence of any event that makes it impossible (where it had previously been possible) for the Issuer to convert any amount due in respect of the Notes in the general Renminbi exchange market in Hong Kong, other than where such impossibility is due solely to the failure of the Issuer to comply with any law, rule or regulation enacted by any Governmental Authority (unless such law, rule or regulation is enacted after [*pricing date*] and it is impossible for the Issuer, due to an event beyond its control, to comply with such law, rule or regulation).

“Non-transferability” means the occurrence of any event that makes it impossible for the Issuer to transfer Renminbi between accounts inside Hong Kong or from an account inside Hong Kong to an account outside Hong Kong, other than where such impossibility is due solely to the failure of the Issuer to comply with any law, rule or regulation enacted by any Governmental Authority (unless such law, rule or regulation is enacted after [*pricing date*] and it is impossible for the Issuer, due to an event beyond its control, to comply with such law, rule or regulation).

“Renminbi Dealer” means an independent foreign exchange dealer of international reports active in the Renminbi exchange market in Hong Kong.

“Spot Rate”, means the CNY/U.S. Dollar official fixing rate, expressed as the amount of CNY per one U.S. Dollar, for settlement in two Determination Business Days reported by the Treasury Markets Association which appears on Reuters page <CNHFIX> at approximately 11:15 a.m. (Hong Kong time).

If such rate is not available, the Calculation Agent will determine the Spot Rate at or around 11.00 a.m. (Hong Kong time) on the Determination Date as the most recently available CNY/U.S. dollar official fixing rate for settlement in two Determination Business Days reported by The State Administration of Foreign Exchange of the PRC, which is reported on the Reuters Screen Page CNY=SAEC. Reference to a page on the Reuters Screen means the display page so designated on the Reuter Monitor Money Rates Service (or any successor service) or such other page as may replace that page for the purpose of displaying a comparable currency exchange rate.

“**US Dollar Equivalent**” means the Renminbi amount converted into US dollars using the Spot Rate for the relevant Determination Date.

In respect of Notes denominated in Renminbi and cleared through CMU, the CMU Lodging Agent shall act as the Calculation Agent, notwithstanding any other provisions of this Pricing Supplement or the Conditions, in the event of any Inconvertibility, Non-transferability or Illiquidity relating to such Notes.

In respect of Notes denominated in Renminbi and cleared through Euroclear/Clearstream, the Principal Paying Agent shall act as the Calculation Agent, notwithstanding any other provisions of this Pricing Supplement or the Conditions, in the event of any Inconvertibility, Non-transferability or Illiquidity relating to such Notes.

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this paragraph 31 by the Calculation Agent, will (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agents and all Noteholders.

32. Other terms:

[Not Applicable/*give details*]

DISTRIBUTION

33. (a) If syndicated, names of Managers:

[Not Applicable/*give names*]

(b) Stabilising Manager(s) (if any):

[Not Applicable/*give name*]

34. If non-syndicated, name of relevant Dealer:

[Not Applicable/*give name*]

35. U.S. Selling Restrictions:

[Reg. S Category 1/2]; TEFRA D/TEFRA C/TEFRA not applicable]

36. Additional selling restrictions:

[Not Applicable/*give details*]

OPERATIONAL INFORMATION

37. Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s):

[CMU/Not Applicable/*give name(s) and number(s)*]

38. Delivery:

Delivery [against/free of] payment

39. Additional Paying Agent(s) (if any): ☐

ISIN: ☐

Common Code: ☐

(insert here any other relevant codes such as a CMU instrument number)

[LISTING APPLICATION]

This Pricing Supplement comprises the pricing supplement required to list the issue of Notes described herein pursuant to the US\$2,000,000,000 Medium Term Note Programme of CITIC Bank International Limited.]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

The Singapore Exchange Securities Trading Limited (the **SGX-ST**) assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this Pricing Supplement. The approval in-principle from, and the admission of the Notes to the Official List of, the SGX-ST are not to be taken as indications of the merits of the Issuer, the Programme or the Notes.

Signed on behalf of the Issuer:

By:

Duly authorised

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the rules of the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Pricing Supplement in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Pricing Supplement (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to “Form of the Pricing Supplement” for a description of the contents of the applicable Pricing Supplement which will specify which of such terms are to apply in relation to the relevant Notes.

This Note is one of a Series (as defined below) of Notes issued by CITIC Bank International Limited (the **Issuer**) pursuant constituted by a Trust Deed (such Trust Deed as modified and/or supplemented and/or restated from time to time, the **Trust Deed**) dated 30 November 2007 made between the Issuer and Citibank, N.A., London Branch (the **Trustee**, which expression shall include any successor as Trustee).

References herein to the **Notes** shall be references to the Notes of this Series and shall mean:

- (a) in relation to any Notes represented by a global Note (a **Global Note**), units of each Specified Denomination in the currency specified herein or, if none is specified, the currency in which the Notes are denominated (the **Specified Currency**);
- (b) any Global Note in bearer form (each a **Bearer Global Note**);
- (c) any Global Notes in registered form (each a **Registered Global Note**);
- (d) any definitive Notes in bearer form (**Definitive Bearer Notes**, together with the Bearer Global Notes, the **Bearer Notes**) issued in exchange for a Global Note in bearer form; and
- (e) any definitive Notes in registered form (**Definitive Registered Notes**, together with the Registered Global Notes, the **Global Notes**) (whether or not issued in exchange for a Global Note in registered form).

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 30 November 2007 and made between the Issuer, the Trustee, Citibank, N.A., London Branch as issuing and principal paying agent and agent bank (the **Principal Paying Agent**, which expression shall include any successor principal paying agent), Citibank, N.A., Hong Kong Branch as CMU lodging agent (the **CMU Lodging Agent**, which expression shall include any successor CMU lodging agent) and the other paying agents named therein (together with the Principal Paying Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents) and Citigroup Global Markets Deutschland AG as registrar (the **Registrar**, which expression shall include any successor registrar) and a transfer agent and the other transfer agents named therein (together with the Registrar, the **Transfer Agents**, which expression shall include any additional or successor transfer agents). For the purposes of these Terms and Conditions (the **Conditions**), all references (other than in relation to the determination of interest and other amounts payable in respect of the Notes) to the Principal Paying Agent shall, with respect to a Series of Notes to be held in the CMU Service (as defined below), be deemed to be a reference to the CMU Lodging Agent and all such references shall be construed accordingly.

Interest bearing Definitive Bearer Notes have interest coupons (**Coupons**) and, if indicated in the applicable Pricing Supplement, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons. Definitive Bearer Notes repayable in instalments have receipts (**Receipts**) for the payment of the instalments of principal (other than the final instalment) attached on issue. Definitive Registered Notes and Global Notes do not have Receipts, Coupons or Talons attached on issue.

The final terms for this Note (or the relevant provisions thereof) are set out in the Pricing Supplement attached to or endorsed on this Note which supplements the Conditions and to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Note. References to the **applicable Pricing Supplement** are to the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Note.

Any reference to **Noteholders** or **holders** in relation to any Notes shall mean (in the case of Definitive Bearer Notes) the holders of the Notes and (in the case of Definitive Registered Notes) the persons in whose name the Notes are registered and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to **Receiptholders** shall mean the holders of the Receipts and any reference herein to **Couponholders** shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

The Trustee acts for the benefit of the Noteholders, the Receiptholders and the Couponholders in accordance with the provisions of the Trust Deed.

As used herein, **Tranche** means Notes which are identical in all respects (including as to listing) and **Series** means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices (as set out in the applicable Pricing Supplement).

Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the registered office for the time being of the Trustee being at 14th Floor, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom and at the specified office of each of the Paying Agents. Copies of the applicable Pricing Supplement are obtainable during normal business hours at the specified office of each of the Paying Agents save that, if this Note is an unlisted Note of any Series, the applicable Pricing Supplement will only be obtainable during normal business hours at the specified office of each of the Paying Agents save that, if this Note is an unlisted Note of any Series, the applicable Pricing Supplement will only be obtainable by a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the Issuer and the Trustee or, as the case may be, and the relevant Paying Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, and are bound by, all the provisions of the Trust Deed, the Agency Agreement and the applicable Pricing Supplement which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed.

Words and expressions defined in the Trust Deed and the Agency Agreement or used in the applicable Pricing Supplement shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Trust Deed or the Agency Agreement and the applicable Pricing Supplement, the applicable Pricing Supplement will prevail.

1. FORM, DENOMINATION AND TITLE

The Notes are issued in bearer form or in registered form as specified in the applicable Pricing Supplement and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination and Notes in bearer form may not be exchanged for Notes in registered form and *vice versa*.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Pricing Supplement.

This Note may be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Pricing Supplement.

This Note may also be a Senior Note, an Undated Subordinated Note or a Dated Subordinated Note, as indicated in the applicable Pricing Supplement.

Definitive Bearer Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in the Conditions are not applicable.

Subject as set out below, title to Definitive Bearer Notes, Receipts and Coupons will pass by delivery and title to Definitive Registered Notes will pass upon registration of transfers in the register which is kept by the Registrar in accordance with the provisions of the Trust Deed and the Agency Agreement. The Issuer, the Paying Agents, the Trustee, the Registrar and the Transfer Agents will (except as otherwise required by law) deem and treat the bearer of any Definitive Bearer Note, Receipt or Coupon and the registered holder of any Definitive Registered Note as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes, but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank SA/NV (**Euroclear**) and/or Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**) and/or a sub-custodian for the Central Moneymarkets Unit Service operated by the Hong Kong Monetary Authority (the **CMU Service**), each person (other than Euroclear or Clearstream, Luxembourg or the CMU Service) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg or the CMU Service as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg or the CMU Service as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Paying Agents, the Registrar, the Trustee and the Transfer Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer, any Paying Agent, the Registrar, the Trustee and any Transfer Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions **Noteholder and holder of Notes** and related expressions shall be construed accordingly. In determining whether a particular person is entitled to a particular nominal amount of Notes as aforesaid, the Trustee may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of manifest error, be conclusive and binding on all concerned.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg and the CMU Service, as the case may be.

References to Euroclear and/or Clearstream, Luxembourg and/or the CMU Service shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or as may otherwise be approved by the Issuer, the Principal Paying Agent and the Trustee.

2. TRANSFERS OF REGISTERED NOTES

2.1 Transfers of interests in Registered Global Notes

Transfers of beneficial interests in Registered Global Notes will be effected by Euroclear, Clearstream, Luxembourg or the CMU Service, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing system acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Definitive Registered Notes or for a beneficial interest in another Registered Global Note only in the authorised denominations set out in the applicable Pricing Supplement and only in accordance with the rules and operating procedures for the time being of Euroclear, Clearstream, Luxembourg or the CMU Service and in accordance with the terms and conditions specified in the Trust Deed and the Agency Agreement. Transfers of a Registered Global Note registered in the name of a nominee for Euroclear, Clearstream, Luxembourg or the CMU Service shall be limited to transfers of such Registered Global Note, in whole but not in part, to another nominee of Euroclear, Clearstream, Luxembourg or the CMU Service or to a successor if Euroclear, Clearstream, Luxembourg or the CMU Service or such successor's nominee.

2.2 Transfers of Definitive Registered Notes

Subject as provided in Condition 2.5 below, upon the terms and subject to the conditions set forth in the Trust Deed and the Agency Agreement, a Definitive Registered Note may be transferred in whole or in part (in the authorised denominations set out in the applicable Pricing Supplement). In order to effect any such transfer (i) the holder or holders must (A) surrender the Definitive Registered Note for registration of the transfer of the Definitive Registered Note (or the relevant part of the Definitive Registered Note) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (B) complete and deposit such other certifications as may be required by the Registrar or, as the case may be, the relevant Transfer Agent and (ii) the Registrar or, as the case may be, the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer, the Trustee and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 3 to the Agency Agreement). Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Definitive Registered Note in definitive form of a like aggregate nominal amount to the Definitive Registered Note (or the relevant part of the Definitive Registered Note) transferred. In the case of the transfer of part only of a Definitive Registered Note, a new Definitive Registered Note in respect of the balance of the Definitive Registered Note not transferred will be authenticated and delivered or (at the risk of the transferor) sent to the transferor.

2.3 Registration of transfer upon partial redemption

In the event of a partial redemption of Notes under Condition 8, the Issuer shall not be required to register the transfer of any Definitive Registered Note, or part of a Definitive Registered Note, called for partial redemption.

2.4 Costs of registration

Noteholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

2.5 Closed Periods

No Noteholder may require the transfer of a Registered Note to be registered during the period of (i) 15 days ending on (and including) the due date for redemption of, or payment of any Instalment Amount in respect of, that Note and (ii) during the period of seven days ending on (and including) any Record Date.

2.6 Exchanges and transfers of Definitive Registered Notes generally

Holders of Definitive Registered Notes may exchange such Notes for interests in a Registered Global Note of the same type at any time.

3. STATUS OF THE NOTES

3.1 Status of the Senior Notes

The Notes the status of which is specified in the applicable Pricing Supplement as Senior (the **Senior Notes**) and any relative Receipts and Coupons constitute direct, unconditional, unsubordinated and (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Senior Notes shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations including liabilities in respect of deposits.

3.2 Status of the Subordinated Notes

*This Condition 3.2 applies only to Notes specified in the applicable Pricing Supplement as being either Dated Subordinated Notes or Undated Subordinated Notes. Undated Subordinated Notes and Dated Subordinated Notes are together referred to in the Conditions as **Subordinated Notes**.*

(a) Provisions relating to Dated Subordinated Notes

If the Notes are specified as Dated Subordinated Notes in the applicable Pricing Supplement, the Dated Subordinated Notes and the relative Receipts and Coupons constitute direct, unconditional, unsecured and, in accordance with this Condition 3.2(a), subordinated obligations of the Issuer, ranking *pari passu* without any preference among themselves.

In the event of the Winding-Up of the Issuer, the claims of the Trustee, the Noteholders, the Receiptholders and the Couponholders against the Issuer in respect of the Dated Subordinated Notes and the relative Receipts and Coupons will be subordinated in right of payment to the claims of depositors and all other unsubordinated creditors of the Issuer and will rank at least *pari passu* in right of payment with all other Subordinated Indebtedness, present and future, of the Issuer in the manner provided in the Trust Deed. Claims in respect of the Notes will rank in priority to the rights and claims of holders of subordinated liabilities which by their terms rank or are expressed to rank in right of payment junior to the Notes and of all classes of equity securities of the Issuer. Any amounts paid to the Trustee in the Winding-Up of the Issuer as aforesaid will be held on trust for distribution in satisfaction of the claims of unsubordinated creditors to the extent (if any) not fully paid and thereafter in or towards payment of the amounts due under the Dated Subordinated Notes and the relative Receipts and Coupons. For

these purposes, **Subordinated Indebtedness** means all indebtedness which is subordinated, in the event of the winding-up of the Issuer, in right of payment to the claims of depositors and other unsubordinated creditors of the Issuer, and for this purpose indebtedness shall include all liabilities, whether actual or contingent.

The provisions of this Condition 3.2(a) apply only to the principal and interest in respect of the Dated Subordinated Notes and nothing in this Condition 3.2(a) shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Trustee or the rights and remedies of the Trustee in respect thereof.

(b) ***Provisions relating to Undated Subordinated Notes***

If the Notes are specified as Undated Subordinated Notes in the applicable Pricing Supplement, the Undated Subordinated Notes and any relative Receipts and Coupons are direct, unsecured and subordinated obligations of the Issuer, conditional as described below and rank *pari passu* without any preference among themselves.

The rights of the holders of the Undated Subordinated Notes and any relative Receipts and Coupons will, in the event of the Winding-Up (as defined in Condition 11.2) of the Issuer, be subordinated in right of payment to the claims of Prior Creditors. In the event of the Winding-Up of the Issuer, there shall be payable by the Issuer in respect of each Undated Subordinated Note (in lieu of any other payment by the Issuer), but subject as provided in this Condition, such amount, if any, as would have been payable to the Noteholder thereof if, at the close of business on the day prior to the commencement of the Winding-Up of the Issuer and thereafter, such Noteholder were the holder of a class of fully paid, validly issued preference shares in the capital of the Issuer having a preferential right to a return of assets in the Winding-Up of the Issuer over the holders of all issued shares (including for this purpose other preference shares issued) for the time being in the Issuer's capital on the assumption that such preference share was entitled to receive on a return of assets in such Winding-Up of the Issuer an amount (disregarding any tax credit which would have been given in relation to dividends payable on such preference share) equal to the principal amount of such Undated Subordinated Note together with Arrears of Interest, if any, and accrued interest as provided below.

The Issuer's obligation to make any payment of interest and, where applicable, any repayment of principal in respect of any Undated Subordinated Notes is conditional upon the Issuer being able to make such payment and remain Solvent immediately thereafter.

For the purposes of this Condition, **Solvent** and **Solvency** means that the Issuer:

- (1) is able to pay its debts as they fall due; and
- (2) has Assets that exceed its Liabilities (other than its Liabilities to persons in respect of Primary Capital Indebtedness).

The Trust Deed contains provisions requiring a certificate as to the Solvency of the Issuer to be signed by (i) two directors of the Issuer or, (ii) in certain circumstances as provided in the Trust Deed, the Auditors or, (iii) if the Issuer is in Winding-Up, the liquidator of the Issuer to be delivered to the Trustee prior to any payment of principal or interest and also prior to the purchase of any Undated Subordinated Notes beneficially by or for the account of the Issuer or any of its Subsidiaries. Any such certificate or report shall be treated and accepted by the Issuer, the Trustee, the Noteholders and the Couponholders as correct and sufficient evidence of such Solvency.

In these Conditions, the following expressions have the following meanings:

Assets means the unconsolidated gross assets of the Issuer and **Liabilities** means the unconsolidated gross liabilities (including contingent liabilities) of the Issuer, all as shown in the latest published balance sheet having the benefit of an unqualified Auditors' report, but with such adjustments as the Auditors or, if the Issuer is in Winding-Up, the liquidator shall determine;

Auditors means the independent certified public accountants for the time being of the Issuer;

Primary Capital Indebtedness means (i) any money payable under the Undated Subordinated Notes and (ii) Undated Subordinated Indebtedness, the right to payment by the Issuer by the terms whereof is, or is expressed to be, subordinated in the event of a Winding-Up of the Issuer to the claims of all or any of the creditors of the Issuer (including all or any of the creditors in respect of the Undated Subordinated Indebtedness) so that it ranks *pari passu* with, or junior to, claims against the Issuer in respect of (i) undated subordinated notes or (ii) undated subordinated guarantees or is required by the terms of any agreement herebefore or hereafter entered into by the Issuer to be so subordinated but is not so subordinated;

Prior Creditors means creditors of the Issuer (including creditors in respect of the principal and interest payable in respect of notes issued or guaranteed by the Issuer which do not constitute Primary Capital Indebtedness) except creditors in respect of Primary Capital Indebtedness;

Undated Subordinated Indebtedness means any liability of the Issuer howsoever arising for the payment of money (including (i) the principal and interest payable in respect of dated subordinated notes, (ii) the principal and interest payable in respect of undated subordinated notes, (iii) any amounts payable by the Issuer under dated subordinated guarantees and (iv) any amounts payable by the Issuer under undated subordinated guarantees) the right to payment of which by the Issuer by the terms whereof is, or is expressed to be, subordinated in the event of a Winding-Up of the Issuer to the claims of all or any of the creditors; and

Subsidiary a subsidiary or subsidiary undertaking of the Issuer whose affairs are for the time being required to be fully consolidated in the consolidated accounts of the Issuer.

(c) ***Set-off***

Subject to applicable law, no Noteholder, Receipholder or Couponholder may exercise, claim or plead any right of set-off, counter-claim or retention in respect of any amount owed to it by the Issuer arising under or in connection with the Subordinated Notes, the relative Receipts or the Coupons and each Noteholder, Receipholder and Couponholder shall, by virtue of being the holder of any Subordinated Note, Receipt or Coupon, be deemed to have waived all such rights of such set-off, counter-claim or retention.

In the event that any Noteholder, Receipholder or Couponholder nevertheless receives (whether by set-off or otherwise) directly in a Winding-Up Proceeding in respect of the Issuer any payment by, or distribution of assets of, the Issuer of any kind or character, whether in cash, property or securities, in respect of any amount owing to it by the Issuer arising under or in connection with the Notes, other than in accordance with this Condition 3.2, such Noteholder, Receipholder or Couponholder shall, subject to applicable law, immediately pay an amount equal to the amount of such payment or discharge to the liquidator for the time being in the winding up of the Issuer for distribution and each Noteholder, Receipholder or Couponholder, by virtue of becoming a holder of any Subordinated Note, Receipt or Coupon, shall be deemed to have so agreed and undertaken with and to the Issuer and all depositors and other unsubordinated creditors of the Issuer for good consideration.

4. **NEGATIVE PLEDGE (SENIOR NOTES ONLY)**

So long as any of the Senior Notes and the relative Receipts or Coupons remains outstanding (as defined in the Trust Deed) the Issuer will not create or permit to subsist, and will procure that no Subsidiary of the Issuer creates or permits to subsist, any mortgage, charge, pledge, lien or other form of encumbrance or security interest (**Security**) upon the whole or any part of its undertaking, assets or revenues, present or future, to secure any International Investment Securities (as defined below) or to secure any guarantee of or indemnity in respect of any International Investment Securities unless, at the same time or prior thereto, the Issuer's obligations under the Senior Notes are, to the satisfaction of the Trustee, (a) secured equally and rateably therewith or benefit from a guarantee or indemnity that is secured equally and rateably therewith, as the case may be, or (b) have the benefit of such other security, guarantee, indemnity or other arrangement as the Trustee shall, in its absolute discretion, deem not materially less beneficial to the interests of the Noteholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.

For the purposes of this Condition, **International Investment Securities** means any present or future indebtedness in the form of, or represented by, bonds, debentures, notes or other investment securities which are for the time being, or are capable of being, quoted, listed, ordinarily dealt in or traded on any stock exchange or over-the-counter or other securities market outside Hong Kong.

5. **REDENOMINATION**

5.1 **Redenomination**

Where redenomination is specified in the applicable Pricing Supplement as being applicable, the Issuer may, without the consent of the Noteholders, the Receiptholders and the Couponholders but after prior consultation with the Trustee, on giving prior notice to the Principal Paying Agent, Euroclear and Clearstream, Luxembourg and/or as applicable, the CMU Service and at least 30 days' prior notice to the Noteholders in accordance with Condition 15, elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be redenominated in euro.

The election will have effect as follows:

- (a) the Notes and the Receipts shall be deemed to be redenominated in euro in the denomination of euro 0.01 with a nominal amount for each Note and Receipt equal to the nominal amount of that Note or Receipt in the Specified Currency, converted into euro at the Established Rate, provided that, if the Issuer determines, with the agreement of the Principal Paying Agent and the Trustee, that the then market practice in respect of the redenomination in euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, the stock exchange (if any) on which the Notes may be listed and the Paying Agents of such deemed amendments;
- (b) save to the extent that an Exchange Notice has been given in accordance with paragraph (d) below, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate nominal amount of Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01;
- (c) if definitive Notes are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer in the denominations of euro 1,000, euro 10,000, euro 100,000 and (but only to the extent of any remaining amounts less than euro 1,000 or such smaller denominations as the Principal Paying Agent and the Trustee may approve) euro 0.01 and such other denominations as the Principal Paying Agent shall determine and notify to the Noteholders;

- (d) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date on which the Issuer gives notice (the **Exchange Notice**) that replacement euro-denominated Notes, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Notes and Receipts so issued will also become void on that date although those Notes and Receipts will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Notes, Receipts and Coupons will be issued in exchange for Notes, Receipts and Coupons denominated in the Specified Currency in such manner as the Agent may specify and as shall be notified to the Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Notes;
- (e) after the Redenomination Date, all payments in respect of the Notes, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Notes to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;
- (f) if the Notes are Fixed Rate Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated:
 - (i) in the case of the Notes represented by a Global Note, by applying the Rate of Interest to the aggregate outstanding nominal amount of the Notes represented by such Global Note; and
 - (ii) in the case of definitive Notes, by applying the Rate of Interest to the Calculation Amount;
 and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form comprises more than one Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding; and
- (g) if the Notes are Floating Rate Notes, the applicable Pricing Supplement will specify any relevant changes to the provisions relating to interest; and
- (h) such other changes shall be made to this Condition as the Issuer may decide, after consultation with the Principal Paying Agent and the Trustee, and as may be specified in the notice, to conform it to conventions then applicable to instruments denominated in euro.

5.2 Definitions

In the Conditions, the following expressions have the following meanings:

Established Rate means the rate for the conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Union regulations) into euro established by the Council of the European Union pursuant to Article 140 of the Treaty;

euro means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty;

Redenomination Date means (in the case of interest bearing Notes) any date for payment of interest under the Notes or (in the case of Zero Coupon Notes) any date, in each case specified by the Issuer in the notice given to the Noteholders pursuant to Condition 5.1 above and which falls on or after the date on which the country of the Specified Currency first participates in the third stage of European economic and monetary union; and

Treaty means the Treaty on the functioning of the European Union, as amended.

6. INTEREST

6.1 Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding nominal amount (or if it is a Partly Paid Note, the nominal amount paid up) from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Notes are in definitive form, except as provided in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Pricing Supplement, amount to the Broken Amount so specified.

As used in the Conditions, **Fixed Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where a Fixed Coupon Amount or Broken Amount is specified in the applicable Pricing Supplement, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form comprises more than one Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 6.1:

- (a) if “Actual/Actual (ICMA)” is specified in the applicable Pricing Supplement:
 - (i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or

- (ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
 - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
 - (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year;
- (b) if “30/360” is specified in the applicable Pricing Supplement, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360; and
- (c) if “Actual/365 (Fixed)” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365.

In these Conditions:

Determination Period means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

sub-unit means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

6.2 Interest on Floating Rate Notes and Index Linked Interest Notes

(a) *Interest Payment Dates*

Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount (or if it is a Partly Paid Note, the nominal amount paid up) from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (i) the Specified Interest Payment Date(s) in each year specified in the applicable Pricing Supplement; or
- (ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls the number of months or other period specified as the Specified Period in the applicable Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in the Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

In these Conditions, if a Business Day Convention is specified in the applicable Pricing Supplement and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (A) in any case where Specified Periods are specified in accordance with Condition 6.2(a)(ii) above, the Floating Rate Convention, such Interest Payment Date (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) below shall apply mutatis mutandis or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Interest Payment Date shall be the last Business Day in the month which falls in the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (C) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Conditions, **Business Day** means a day which is both:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and each Additional Business Centre specified in the applicable Pricing Supplement; and
- (b) either (i) in relation to any sum payable in a Specified Currency other than euro and Renminbi, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Melbourne and Wellington, respectively), (ii) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET 2) System (the **TARGET 2 System**) is open and (iii) in relation to any sum payable in Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks in Hong Kong are generally open for business and settlement of Renminbi payments in Hong Kong.

(b) ***Rate of Interest***

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Pricing Supplement.

(i) **ISDA Determination for Floating Rate Notes**

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any). For the purposes of this subparagraph

(i), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent under an interest rate swap transaction if the Principal Paying Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the **ISDA Definitions**) and under which:

- (A) the Floating Rate Option is as specified in the applicable Pricing Supplement;
- (B) the Designated Maturity is a period specified in the applicable Pricing Supplement; and
- (C) the relevant Reset Date is either (a) if the applicable Floating Rate Option is based on the London inter-bank offered rate (**LIBOR**) on the Euro-zone inter-bank offered rate (**EURIBOR**) or on the Hong Kong inter-bank offered rate (**HIBOR**), the first day of that Interest Period or (b) in any other case, as specified in the applicable Pricing Supplement.

For the purposes of this subparagraph (i), **Floating Rate**, **Calculation Agent**, **Floating Rate Option**, **Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Pricing Supplement the Minimum Rate of Interest shall be deemed to be zero.

(ii) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (A) the offered quotation; or
- (B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR, or Hong Kong time, in the case of HIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Principal Paying Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no such offered quotation appears or, in the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Pricing Supplement as being other than LIBOR or EURIBOR or HIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Pricing Supplement.

(c) ***Minimum Rate of Interest and/or Maximum Rate of Interest***

If the applicable Pricing Supplement specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Pricing Supplement specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(d) ***Determination of Rate of Interest and calculation of Interest Amounts***

The Principal Paying Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Principal Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Principal Paying Agent will calculate the amount of interest (the **Interest Amount**) payable on the Floating Rate Notes or Index Linked Interest Notes for the relevant Interest Period by applying the Rate of Interest to:

- (A) in the case of Floating Rate Notes or Index Linked Interest Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (B) in the case of Floating Rate Notes or Index Linked Interest Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note or an Index Linked Interest Note in definitive form comprises more than one Calculation Amount, the Interest Amount payable in respect of such Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 6.2:

- (i) if “Actual/Actual (ISDA)” or “Actual/Actual” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if “Actual/365 (Fixed)” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365;
- (iii) if “Actual/365 (Sterling)” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

- (iv) if “Actual/360” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 360;
- (v) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D1” is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

- (vi) if “30E/360” or “Eurobond Basis” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D1” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D2 will be 30; and

- (vii) if “30E/360 (ISDA)” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

- “Y1” is the year, expressed as a number, in which the first day of the Interest Period falls;
- “Y2” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;
- “M1” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;
- “M2” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;
- “D1” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and
- “D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31 and D2 will be 30.

(e) ***Notification of Rate of Interest and Interest Amounts***

The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Trustee and any stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed by no later than the first day of each Interest Period and notice thereof to be published in accordance with Condition 15 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 15. For the purposes of this paragraph, the expression London Business Day means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(f) ***Determination or Calculation by Trustee***

If for any reason at any relevant time the Principal Paying Agent or, as the case may be, the Calculation Agent defaults in its obligation to determine the Rate of Interest or the Principal Paying Agent defaults in its obligation to calculate any Interest Amount in accordance with subparagraph (b)(i) or subparagraph (b)(ii) above or as otherwise specified in the applicable Pricing Supplement, as the case may be, and in each case in accordance with paragraph (d) above, the Trustee shall determine the Rate of Interest (or shall, at the expense of the Issuer, appoint an agent on its behalf to do so) at such rate as, in its absolute discretion (having such

regard to the foregoing provisions of this Condition and the terms of the applicable Pricing Supplement, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Pricing Supplement), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Principal Paying Agent or the Calculation Agent, as applicable.

(g) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 6.2, whether by the Principal Paying Agent or, if applicable, the Calculation Agent or, if applicable, the Trustee, shall (in the absence of wilful default, bad faith and manifest error) be binding on the Issuer, the Trustee, the Principal Paying Agent, the Calculation Agent (if applicable), the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence of wilful default and bad faith) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent or, if applicable, the Calculation Agent or the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

6.3 Interest on Dual Currency Interest Notes

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Pricing Supplement.

6.4 Interest on Partly Paid Notes

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Pricing Supplement.

6.5 Accrual of interest

Each interest-bearing Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (a) the date on which all amounts due in respect of such Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Principal Paying Agent and notice to that effect has been given to the Noteholders in accordance with Condition 15.

6.6 Deferral of interest on Undated Subordinated Notes

Where during the 12 calendar months preceding a date on which interest is due to be paid in respect of the Undated Subordinated Notes no dividend has been declared or paid on any class of share capital of the Issuer, such due date shall be referred to as an **Optional Interest Payment Date**.

The Issuer may if it so elects, but shall not be obliged to, pay on any Optional Interest Payment Date the interest that is due to be paid on such date in respect of the Undated Subordinated Notes and any failure to pay shall not constitute a default by the Issuer for any purpose. Any interest not paid on an Optional Interest Payment Date shall (except to the extent such interest shall subsequently have been paid) constitute **Arrears of Interest**.

In relation to the Undated Subordinated Notes, Arrears of Interest may, prior to the commencement of the Winding-Up of the Issuer, be paid in whole or in part upon the expiration of not less than seven days' notice given to the holders of the Notes in accordance with Condition 15, but payment in respect of Interest Periods during which Arrears of Interest have accrued shall be made taking the earliest Interest Period first. Arrears of Interest shall otherwise only become payable on (i) the due date for repayment of the Undated Subordinated Notes to which such Arrears of Interest relate, (ii) the date on which any declaration or payment of any dividend on any class of share capital of the Issuer is made or (iii) the commencement of the Winding-Up of the Issuer (except for the purposes of a reconstruction, amalgamation or otherwise the terms of which have previously been approved by the Trustee or by an Extraordinary Resolution of Noteholders or which is permitted under Condition 16.3 or Condition 17. If notice is given by the Issuer of its intention to pay any Arrears of Interest, the Issuer shall be obliged to do so upon the expiration of such notice. Arrears of Interest shall not themselves bear interest.

The Issuer shall give notice in accordance with Condition 15:

- (1) not more than 30 days nor less than seven days prior to any Optional Interest Payment Date in respect of which it will elect not to make any payment of interest in accordance with the above provisions, of such election; and
- (2) of any date on which Arrears of Interest shall have become payable.

7. PAYMENTS

7.1 Method of payment

Subject as provided below:

- (a) payments in a Specified Currency other than euro and Renminbi will be made by credit or transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Melbourne and Wellington, respectively);
- (b) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque; and
- (c) payments in Renminbi will be made by transfer to a Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 9, and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto.

7.2 Presentation of Definitive Bearer Notes, Receipts and Coupons

Payments of principal in respect of Definitive Bearer Notes not held in CMU will (subject as provided below) be made in the manner provided in Condition 7.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Definitive Bearer Notes, and payments of interest in respect of Definitive Bearer Notes will (subject as provided below)

be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Payments of instalments of principal (if any) in respect of Definitive Bearer Notes not held in CMU, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 7.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 7.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Definitive Bearer Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the Definitive Bearer Note to which it appertains. Receipts presented without the Definitive Bearer Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any Definitive Bearer Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive bearer form not held in CMU (other than Dual Currency Notes, Index Linked Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 9) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 10) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in definitive bearer form not held in CMU becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A Long Maturity Note is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

In the case of Definitive Bearer Notes held in CMU, payment will be made to the person(s) for whose account(s) interests in the relevant Definitive Bearer Note are credited as being held with CMU in accordance with the CMU Rules at the relevant time as notified to the CMU Lodging Agent by the CMU in a relevant CMU Instrument Position Report or any relevant notification by CMU, which notification shall be conclusive evidence of the records of CMU (save in the case of manifest error) and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.

If the due date for redemption of any Definitive Bearer Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant Definitive Bearer Note.

In relation to any Undated Subordinated Note in definitive form, if any payment is to be made in respect of interest the Interest Payment Date for which falls on or after the date on which the Winding-Up of the Issuer is deemed to have commenced, such payment shall be made only against presentation of the relevant Note, Receipt and the Coupon for any such Interest Payment Date. In addition, any Undated Subordinated Note in definitive form presented for payment after an order is made or an effective resolution is passed for the Winding-Up of the Issuer must be presented together with all Coupons in respect of Arrears of Interest relating to Interest Payment Dates falling prior to such commencement of the Winding-Up of the Issuer, failing which there shall be withheld from any payment otherwise due to the holder of such Undated Subordinated Note such proportion thereof as the Arrears of Interest due in respect of any such missing Coupon bears to the total of the principal amount of the relevant Undated Subordinated Note, all Arrears of Interest in respect thereof and interest (other than Arrears of Interest) accrued on such Undated Subordinated Note in respect of the Interest Accrual Period current at the date of the commencement of the Winding-Up.

7.3 Payments in respect of Bearer Global Notes

Payments of principal and interest (if any) in respect of any Bearer Global Note will (subject as provided below) be made in the manner specified above in relation to Definitive Bearer Notes and otherwise in the manner specified in the relevant Bearer Global Note (i) in the case of a Bearer Global Note lodged with CMU, to the person(s) for whose account(s) interests in the relevant Bearer Global Note are credited as being held by CMU in accordance with the CMU Rules, or (ii) in the case of a Bearer Global Note not lodged with CMU, against presentation or surrender, as the case may be, of such Bearer Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Bearer Global Note, distinguishing between any payment of principal and any payment of interest, will be made (in the case of a Global Note not lodged with CMU) on such Bearer Global Note by the Paying Agent to which it was presented or (in the case of a Global Note lodged with CMU) on withdrawal of the Bearer Global Note by the CMU Lodging Agent, and in each such case such record shall be *prima facie* evidence that the payment in question has been made.

7.4 Payments in respect of Definitive Registered Notes and Registered Global Notes

Payments of principal (other than instalments of principal prior to the final instalment) in respect of each Definitive Registered Note and each Registered Global Note will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Definitive Registered Note or Registered Global Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Note appearing in the register of holders of the Notes in registered form maintained by the Registrar (the **Register**) (i) where in global form, at the close of the business day (being for this purpose, in respect of Notes clearing through Euroclear and Clearstream, Luxembourg, a day on which Euroclear and Clearstream, Luxembourg are open for business, and in respect of Notes clearing through the CMU Service, the CMU Service is open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (a) a holder does not have a Designated Account or (b) the principal amount of the Notes held by a holder is less than US\$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, **Designated Account** means the account (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account and, in the case of a payment in Renminbi, means the Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong, details of which appear on the Register at the close of business on the fifth business day before the due date for payment) maintained by a holder with a Designated Bank and identified as such in the Register and **Designated Bank** means (in the case of payment in a Specified Currency other than euro and Renminbi) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Melbourne or Wellington, respectively) and (in the case of a payment in euro) any bank which processes payments in euro and (in the case of a payment in Renminbi) a bank in Hong Kong.

Payments of interest and payments of instalments of principal (other than the final instalment) in respect of each Definitive Registered Note and each Registered Global Note will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Note in registered form appearing in the Register (i) where in global form, at the close of the business day (being for this purpose, in respect of Notes clearing through Euroclear and Clearstream, Luxembourg, a day on which Euroclear and Clearstream, Luxembourg are open for business, and in respect of Notes clearing through the CMU Service, the CMU Service is open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the fifth day (in the case of Renminbi) and on the fifteenth day (in the case of a currency other than Renminbi) (whether or not such fifth day or fifteenth day is a business day) before the relevant due date (the **Record Date**) at his address shown in the Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest or an instalment of principal (other than the final instalment) in respect of a Note in registered form, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) and instalments of principal (other than the final instalment) in respect of the Notes in registered form which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Note in registered form on redemption and the final instalment of principal will be made in the same manner as payment of the principal amount of such Note.

Holders of Notes in registered form will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Note in registered form as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holder by the Registrar in respect of any payments of principal or interest in respect of Notes in registered form.

None of the Issuer, the Trustee or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

7.5 General provisions applicable to payments

The holder of a Global Note (if the Global Note is not lodged with CMU) or (if the Global Note is lodged with CMU) the person(s) for whose account(s) interests in such Global Note are credited as being held in CMU in accordance with the CMU Rules as notified to the CMU Lodging Agent by CMU in a relevant CMU Instrument Position Report or any other relevant notification by CMU (which notification, in either case, shall be conclusive evidence of the records of CMU save in the case of manifest error), shall be the only person(s) entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note or such person(s) for whose account(s) interests in such Global Note are credited as being held in CMU (as the case may be) in respect of each amount so paid. Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or the CMU Service, as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear, Clearstream, Luxembourg or the CMU Lodging Agent, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Definitive Bearer or Bearer Global Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

- (a) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;
- (b) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (c) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

7.6 Payment Day

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day (as defined below), the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, **Payment Day** means any day which (subject to Condition 10) is:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
 - (i) in the case of Notes in definitive form only the relevant place of presentation;
 - (ii) London;
 - (iii) each Additional Financial Centre specified in the applicable Pricing Supplement; and
- (b) either (A) in relation to any sum payable in a Specified Currency other than euro and Renminbi, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Melbourne and Wellington, respectively), (B) in relation to any sum payable in euro, a day on which the TARGET 2 System is open or (C) in relation to any sum payable in Renminbi, a day (other than a Saturday, Sunday or public holiday) on which banks and foreign exchange markets are open for business and settlement of Renminbi payments in Hong Kong.

7.7 Interpretation of principal and interest

Any reference in the Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (a) any additional amounts which may be payable with respect to principal under Condition 9 or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed;
- (b) the Final Redemption Amount of the Notes;
- (c) the Early Redemption Amount of the Notes;

- (d) the Optional Redemption Amount(s) (if any) of the Notes;
- (e) in relation to Notes redeemable in instalments, the Instalment Amounts;
- (f) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 8.6); and
- (g) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in the Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 9 or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed, and any Arrears of Interest (if applicable).

8. REDEMPTION AND PURCHASE

8.1 Redemption at maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note (including each Index Linked Redemption Note and Dual Currency Redemption Note) which is not an Undated Subordinated Note will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement in the relevant Specified Currency on the Maturity Date. If this Note is an Undated Subordinated Note, it has no final maturity and is only redeemable in accordance with the following provisions of this Condition 8 or Condition 11.

8.2 Redemption for tax reasons

Subject (in the case of Subordinated Notes) to Condition 8.12, the Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note, an Index Linked Interest Note nor a Dual Currency Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note, an Index Linked Interest Note or a Dual Currency Interest Note), on giving not less than 30 nor more than 60 days' notice to the Trustee and the Principal Paying Agent and, in accordance with Condition 15, the Noteholders (which notice shall be irrevocable), if the Issuer satisfies the Trustee immediately before the giving of such notice that (a) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of Hong Kong or any political subdivision or any authority thereof or therein, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes and (b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts or give effect to such treatment, as the case may be, were a payment in respect of the Notes then due.

Prior to giving any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee (i) a certificate signed by two Directors of the Issuer stating that the requirement referred to in (a) above will apply on the next Interest Payment Date and cannot be avoided by the Issuer taking reasonable measures available to it and (ii) in the case of Subordinated Notes, a copy of the written consent of the HKMA as referred to in Condition 8.12; and the Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders, Receiptholders and the Couponholders.

Notes redeemed pursuant to this Condition 8.2 will be redeemed at their Early Redemption Amount referred to in Condition 8.6 below together (if appropriate) with interest accrued to (but excluding) the date of redemption and, in the case of Undated Subordinated Notes, all Arrears of Interest (if any) as provided in Condition 6.6.

8.3 Redemption of the Undated and/or Dated Subordinated Notes for regulatory reasons

Subject to Condition 8.12, the Undated Subordinated Notes and/or the Dated Subordinated Notes, as the case may be, may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note, an Index Linked Interest Note nor a Dual Currency Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note, an Index Linked Interest Note or a Dual Currency Interest Note) on giving not less than 30 nor more than 60 days' notice to the Trustee and the Principal Paying Agent and, in accordance with Condition 15, the Noteholders (which notice shall be irrevocable) following the occurrence of a Regulatory Redemption Event.

For the purposes of this Condition 8.3, a **Regulatory Redemption Event** occurs if the Issuer satisfies the Trustee immediately before the giving of the notice of redemption referred in this Condition 8.3 that the Undated and/or Dated Subordinated Notes will no longer qualify (in whole but not in part) as subordinated debt for inclusion in Category II Supplementary Capital (or equivalent) of the Issuer as a result of amendments to the relevant provisions of the Banking Ordinance (Cap.155) of Hong Kong, Banking (Capital) Rules (Cap. 155L), or any successor legislation, or any statutory guidelines issued by the Hong Kong Monetary Authority or any successor thereto (the **HKMA**) in relation thereto, after the Issue Date (excluding for the avoidance of doubt, non-qualification (a) solely by virtue of the Issuer already having on issue securities with an aggregate principal amount up to or in excess of the limit of Category II Supplementary Capital (or equivalent) as permitted from time to time by the HKMA or (b) solely as a result of any discounting requirements as to the eligibility of the Undated and/or Dated Notes for such inclusion pursuant to the relevant legislation and statutory guidelines in force from time to time (including, for the avoidance of doubt, any discounting pursuant to the implementation in Hong Kong by the HKMA of Basel III transitional arrangements in respect of capital instruments that are not compliant with Basel III as set out in the publication entitled "Basel III: A global regulatory framework for more resilient banks and banking systems" published by the Basel Committee on Banking Supervision in December 2010 and revised in June 2011)) provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which it is determined that a Regulatory Redemption Event has occurred.

Prior to giving any notice of redemption pursuant to this Condition 8.3, the Issuer shall deliver to the Trustee (i) a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer to redeem have occurred and (ii) a copy of the written consent of the HKMA; and the Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders, Receiptholders and the Couponholders.

Notes redeemed pursuant to this Condition 8.3 will be redeemed at the Early Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant date fixed for redemption and, in the case of Undated Subordinated Notes, all Arrears of Interest (if any) as provided in Condition 6.6.

8.4 Redemption at the option of the Issuer (Issuer Call)

If Issuer Call is specified in the applicable Pricing Supplement, the Issuer may, having given:

- (a) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 15; and
- (b) not less than 15 days before the giving of the notice referred to in (a) above, notice to the Trustee and the Principal Paying Agent and, in the case of a redemption of Registered Notes, the Registrar;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date and, in the case of Undated Subordinated Notes, all Arrears of Interest (if any) as provided in Condition 6.6. Any such redemption must be of a nominal amount not less than the

Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Pricing Supplement. In the case of a partial redemption of Notes, the Notes to be redeemed (**Redeemed Notes**) will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg and/or the CMU Service (as appropriate), (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 15 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by definitive Notes or represented by a Global Note shall in each case bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of definitive Notes outstanding and Notes outstanding represented by such Global Note, respectively, bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, provided that, if necessary, appropriate adjustments shall be made to such nominal amounts to ensure that each represents an integral multiple of the Calculation Amount. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 8.4 and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 15 at least five days prior to the Selection Date.

8.5 Redemption at the option of the Noteholders other than holders of Undated Subordinated Notes (Investor Put)

If this Note is a Senior Note or a Dated Subordinated Note and Investor Put is specified in the applicable Pricing Supplement, then, if and to the extent specified in the applicable Pricing Supplement, upon the holder of this Senior Note or this Dated Subordinated Note, as the case may be, giving to the Issuer, in accordance with Condition 15, not less than 15 nor more than 30 days' notice (or such other notice period as is specified in the applicable Pricing Supplement) (which notice shall be irrevocable), the Issuer will, upon the expiry of such notice, redeem subject to, and in accordance with, the terms specified in the applicable Pricing Supplement in whole (but not in part) such Senior Note or such Dated Subordinated Note, as the case may be, on the Optional Redemption Date and at the relevant Optional Redemption Amount as specified in, or determined in the manner specified in, the applicable Pricing Supplement, together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date. It may be that before an Investor Put can be exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable Pricing Supplement.

If this Senior Note or this Dated Subordinated Note, as the case may be, is in definitive form, to exercise the right to require redemption of this Senior Note or this Dated Subordinated Note, as the case may be, the holder of this Senior Note or this Dated Subordinated Note, as the case may be, must deliver such Senior Note, or such Dated Subordinated Note, as the case may be, on any Business Day (as defined in Condition 6) falling within the notice period at the specified office of any Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes), at any time during the normal business hours of such Paying Agent or, as the case may be, the Registrar falling within the notice period, accompanied by a duly signed and completed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or, as the case may be, the Registrar (a **Put Notice**) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition accompanied by, if this Note is in definitive form, this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control and, in the case of Registered Notes, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Notes so surrendered is to be redeemed, an address to which a new Registered Note in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 2.2. If this Senior Note or this Dated Subordinated Note, as the case may be, is represented by a Global Note or is in definitive form and held through Euroclear, Clearstream, Luxembourg or the CMU Service, to exercise the right to require redemption of this Senior Note or this Dated Subordinated Note, as the case may be, the holder of this Senior Note or this Dated Subordinated Note, as the case may be, must, within the notice period, give notice to the Principal Paying Agent (in the case of Bearer Notes) or the Registrar

(in the case of Registered Notes) of such exercise in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg and the CMU Service (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or the CMU Service or any common depositary, as the case may be, for them to the Principal Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) by electronic means) in a form acceptable to Euroclear, Clearstream, Luxembourg and the CMU Service from time to time.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg or the CMU Service given by a holder of any Senior Note or any Dated Subordinated Note pursuant to this Condition 8.5 shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and the Trustee has declared the Senior Notes or Dated Subordinated Notes to be due and payable pursuant to Condition 11 in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this paragraph.

8.6 Early Redemption Amounts

For the purpose of Condition 8.2 and Condition 8.3 (if this Note is a Subordinated Note) above and Condition 11.1 (if this Note is a Senior Note) or Condition 11.2 (if this Note is a Subordinated Note), each Note will be redeemed at its Early Redemption Amount calculated as follows:

- (a) in the case of a Note (other than a Zero Coupon Note, an Instalment Note and a Partly Paid Note) with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (b) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note and a Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Pricing Supplement or, if no such amount or manner is so specified in the applicable Pricing Supplement, at its nominal amount; or
- (c) in the case of a Zero Coupon Note, at an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

^y is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Pricing Supplement.

8.7 Instalments

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 8.6.

8.8 Partly Paid Notes

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Pricing Supplement.

8.9 Purchases

The Issuer or any of its Subsidiaries may at any time purchase Notes (provided that, in the case of Definitive Bearer Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. If purchases are made by tender, tenders must be available to all Noteholders alike. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent and/or the Registrar for cancellation.

8.10 Cancellation

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and the Notes purchased and cancelled pursuant to Condition 8.9 above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be reissued or resold.

8.11 Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 8.1, 8.2, 8.3, 8.4 or 8.5 above or upon its becoming due and repayable as provided in Condition 11 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 8.6(c) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (a) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Principal Paying Agent, the Registrar or the Trustee and notice to that effect has been given to the Noteholders in accordance with Condition 15.

8.12 Conditions for Redemption and Purchase in respect of Subordinated Notes

Notwithstanding any other provision in these Conditions, Subordinated Notes may not be redeemed (other than pursuant to Condition 8.1 or Condition 11.2) or purchased by the Issuer or any of its Subsidiaries without the prior written consent of the Hong Kong Monetary Authority or any successor thereto (the **HKMA**). Accordingly, the Issuer shall not redeem any of the Subordinated Notes (other than pursuant to Condition 8.1 or Condition 11.2) and the Issuer or any of its Subsidiaries shall not purchase any of the Subordinated Notes unless the prior written consent of the HKMA thereto shall have been obtained, provided however, that if from time to time the consent of the HKMA is not a requirement of any such Subordinated Notes to constitute Category II Supplementary Capital (or equivalent) of the Issuer for the purposes of, and as defined in, the Banking Ordinance (Cap. 155) of Hong Kong, or any successor legislation, then the condition to the redemption or purchase and cancellation of the relevant Notes set out in this Condition 8.12 shall not apply for so long as such consent is not required.

For the avoidance of doubt, this provision shall not apply to the Issuer or any of its Subsidiaries holding the Subordinated Notes in a purely nominee capacity.

9. TAXATION

All payments of principal, premium and interest in respect of the Notes, Receipts and Coupons by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**Taxes**) imposed or levied by or on behalf of Hong Kong or any political subdivision or any authority thereof or therein having power to tax, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of the withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

- (a) presented for payment by or on behalf of, a holder who is liable to the Taxes in respect of such Note, Receipt or Coupon by reason of his having some connection with Hong Kong other than the mere holding of such Note, Receipt or Coupon; or
- (b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any other law implementing or complying with, or introduced in order to conform to, such Directive; or
- (c) presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union; or
- (d) presented for payment more than 30 days after the Relevant Date except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming that day to have been a Payment Day (as defined in Condition 7.6).

As used in these Conditions, **Relevant Date** means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent, the Trustee or the Registrar on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect is duly given to the Noteholders by the Issuer in accordance with Condition 15.

10. PRESCRIPTION

The Notes, Receipts and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 9) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 7.2 or any Talon which would be void pursuant to Condition 7.2.

11. EVENTS OF DEFAULT AND ENFORCEMENT

11.1 Events of Default relating to Senior Notes

The Trustee at its discretion may, and if so requested in writing by the holders of at least 25 per cent. in principal amount of the Senior Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject in each case to being indemnified and/or secured and/or put in funds to its satisfaction), give notice in writing to the Issuer that each Senior Note is, and each Senior Note shall, unless such Event of Default shall have been remedied prior to the giving of such notice, thereupon immediately become, due and repayable at its Early Redemption Amount, together with accrued interest (if any) as provided in the Trust Deed if any of the following events (each an **Event of Default**) shall occur:

- (a) **Payment default:** a default is made for more than seven days in the payment of any principal or 14 days in the payment of any interest due in respect of the Senior Notes;

- (b) **Other defaults:** the Issuer does not perform or comply with one or more of its other obligations in the Senior Notes, which default, in the opinion of the Trustee, is incapable of remedy or, if in the opinion of the Trustee it is capable of remedy, is not, in the opinion of the Trustee, remedied within 30 days after written notice of such default shall have been given to the Issuer by the Trustee;
- (c) **Insolvency:** the Issuer or any Principal Subsidiary is (or is, or could be deemed by law or a court to be) insolvent or bankrupt or is unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due) (but excluding any deferral, rescheduling or other readjustment of any deposits in the ordinary course of business of the Issuer) or proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any part of (or a particular type of) the debts of the Issuer or any of its Principal Subsidiaries;
- (d) **Cross-acceleration:** (i) any other present or future indebtedness of the Issuer or any of its Subsidiaries for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised, provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (d) have occurred equals or exceeds US\$20,000,000 or its equivalent in any other currency (on the basis of the middle spot rate for the relevant currency against the US dollar as quoted by any lead bank on the day on which this paragraph operates) on the day on which such indebtedness becomes due and payable or is not paid or any such amount becomes due and payable or is not paid under any such guarantee or indemnity;
- (e) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any material part of the property, assets or turnover of the Issuer or any of its Principal Subsidiaries and is not discharged or stayed within 60 days;
- (f) **Winding-up:** an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or any of its Principal Subsidiaries, or the Issuer or any of its Principal Subsidiaries ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by the Trustee or by an Extraordinary Resolution of the Noteholders, or (ii) which is permitted under Condition 16.3 or (iii) in the case of a Principal Subsidiary, whereby the undertaking and assets of such Principal Subsidiary are transferred to or otherwise vested in the Issuer or another of its Principal Subsidiaries;
- (g) **Security enforced:** an encumbrancer takes possession of an administrative or other receiver or an administrator is appointed of the whole or any substantial part of the property, assets or turnover of the Issuer or any of its Principal Subsidiaries (as the case may be) and is not discharged within 60 days;
- (h) **Nationalisation:** any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Issuer or any of its Principal Subsidiaries;
- (i) **Illegality:** it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Senior Notes;
- (j) **Consent and authorisations:** any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, license, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable

the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under the Senior Notes, (b) to ensure that those obligations are legally binding and enforceable and (c) to make the Senior Notes admissible in evidence in the courts of Hong Kong is not taken, fulfilled or done; or

- (k) **Analogous events:** any event occurs which, under the laws of any relevant jurisdiction, has an analogous effect to any of the events referred to in any of the foregoing paragraphs,

PROVIDED that, in the case of the occurrence of any of the events specified in Conditions 11.1 (b), (c), (d), (e), (f) (other than the winding-up, dissolution or administration of the Issuer), (g), (h), (i), (j) or (k), the Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Noteholders.

For this purpose, **Principal Subsidiary** means any Subsidiary of the Issuer:

- (a) whose profits from ordinary activities before taxation (**pre-tax profit**) or (in the case of a Subsidiary which itself has subsidiaries) consolidated pre-tax profit, as shown by its latest audited income statement, are at least 15 per cent. of the consolidated pre-tax profit as shown by the latest published audited consolidated income statement of the Issuer and its Subsidiaries including, for the avoidance of doubt, the Issuer and its consolidated Subsidiaries' share of profits of Subsidiaries not consolidated and of jointly controlled entities and after adjustments for minority interests; or
- (b) whose gross assets or (in the case of a Subsidiary which itself has subsidiaries) gross consolidated assets, as shown by its latest audited balance sheet, are at least 15 per cent. of the amount of the consolidated gross assets of the Issuer and its Subsidiaries, as shown by the latest published audited consolidated balance sheet of the Issuer and its Subsidiaries, plus any amount represented by the investment of the Issuer in each Subsidiary whose financial statements are not consolidated with the consolidated audited financial statements of the Issuer and after adjustment for minority interests;

provided that, in relation to paragraphs (a) and (b) above:

- (i) in the case of it corporation or other business entity becoming a Subsidiary after the end of the financial period to which the latest consolidated audited financial statements of the Issuer relate, the reference to the then latest consolidated audited financial statements of the Issuer for the purposes of the calculation above shall, until the consolidated audited financial statements of the Issuer for the financial period in which the relevant corporation or other business entity becomes a Subsidiary are published, be deemed to be a reference to the then latest consolidated audited financial statements of the Issuer adjusted to consolidate the latest audited financial statements (consolidated in the case of a Subsidiary which itself has subsidiaries) of such subsidiary in such financial statements;
- (ii) if at any relevant time in relation to the Issuer or any Subsidiary which itself has subsidiaries no consolidated financial statements are prepared and audited, gross assets of the Issuer and/or any such Subsidiary shall be determined on the basis of pro forma consolidated financial statements prepared for this purpose by the Issuer, which are reviewed by the Issuer's auditors for the time being, for the purposes of preparing a certificate thereon to the Trustee;
- (iii) if at any relevant time in relation to any Subsidiary, no financial statements are audited, its gross assets (consolidated, if appropriate) shall be determined on the basis of pro forma financial statements (consolidated, if appropriate) of the relevant Subsidiary prepared for this purpose by the Issuer, which are reviewed by the Issuer's auditors for the time being, for the purposes of preparing a certificate thereon to the Trustee; and
- (iv) if the financial statements of any subsidiary (not being a Subsidiary referred to in proviso (i) above) are not consolidated with those of the Issuer, then the determination of whether or not such subsidiary is a Principal Subsidiary shall be based on a pro forma consolidation of its financial statements (consolidated, if appropriate) with the consolidated financial statements (determined on the basis of the foregoing) of the Issuer; or

- (c) any Subsidiary of the Issuer to which is transferred the whole or substantially the whole of the assets of a Subsidiary which, immediately prior to such transfer, was a Principal Subsidiary, provided that the Principal Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Principal Subsidiary and the Subsidiary to which the assets are so transferred shall become a Principal Subsidiary at the date on which the first published audited financial statements (consolidated, if appropriate), of the Issuer prepared as of a date later than such transfer are issued unless such Subsidiary would continue to be a Principal Subsidiary on the basis of such financial statements by virtue of the provisions of paragraphs (a) and (b) above.

11.2 Events of Default relating to Subordinated Notes

If default is made in the payment of any amount of principal in respect of the Subordinated Notes on the due date for payment thereof or of any amount of interest in respect of the Subordinated Notes within seven days after the date for payment thereof (which, in the case of the Undated Subordinated Notes, shall be the date upon which the payment of interest is compulsory pursuant to Condition 6.6) (each, an **Event of Default**) then in order to enforce the obligations of the Issuer, the Trustee at its sole discretion may and, if so requested in writing by holders of at least 25 per cent. in principal amount of the outstanding Subordinated Notes or if so directed by an Extraordinary Resolution (as defined in the Trust Deed), shall (subject to the Trustee having been indemnified and/or provided with security and/or put in funds to its satisfaction) institute a Winding-Up Proceeding against the Issuer.

If an order is made or an effective resolution is passed for the Winding-Up of the Issuer (whether or not an Event of Default has occurred and is continuing) then the Trustee at its sole discretion may and, if so requested in writing by holders of at least 25 per cent. in principal amount of the outstanding Subordinated Notes or if so directed by an Extraordinary Resolution, shall (subject to the Trustee having been indemnified and/or provided with security and/or put in funds to its satisfaction) give written notice to the Issuer declaring the Subordinated Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their Early Redemption Amount together with accrued interest and all Arrears of Interest without further action or formality.

In these Conditions:

Winding-Up shall mean, with respect to the Issuer, a final and effective order or resolution for the bankruptcy, winding-up, liquidation, receivership or similar proceeding in respect of the Issuer; and

Winding-Up Proceedings shall mean, with respect to the Issuer, proceedings in Hong Kong in respect of the Issuer for the bankruptcy, liquidation, winding-up, receivership, or other similar proceeding of the Issuer.

11.3 Enforcement

- (a) Without prejudice to Condition 11.1 or 11.2, the Trustee may at any time and if the Issuer fails to perform, observe or comply with any obligation, condition or provision relating to the Notes binding on it under these Conditions or the Trust Deed (other than any obligation of the Issuer for the payment of any principal or interest in respect of the Notes), subject as provided below, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce such obligation, condition or provision provided that the Issuer shall not as a consequence of such proceedings be obliged to pay any sum or sums representing or measured by reference to principal or interest in respect of the Notes sooner than the same would otherwise have been payable by it.
- (b) The Trustee shall not be bound to take action as referred to in Conditions 11.1, 11.2 and 11.3(a) or any other action under these Conditions or the Trust Deed unless (i) it shall have been so requested in writing by Noteholders holding at least 25 per cent. in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders and (ii) it shall have been indemnified and/or secured and/or put in funds to its satisfaction. No Noteholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable period and such failure is continuing.

- (c) In the case of Subordinated Notes and subject to applicable laws, no remedy (including the exercise of any right of set-off or analogous event) other than those provided for in Condition 11.2 and Conditions 11.3(a) and (b) above or submitting a claim in the Winding-Up of the Issuer will be available to the Trustee or the Noteholders, Receiptholders or Couponholders.
- (d) In the case of Subordinated Notes, no Noteholder, Receiptholder or Couponholder shall be entitled either to institute proceedings for the winding-up of the Issuer or to submit a claim in such Winding-Up, except that if the Trustee, having become bound to institute such proceedings as aforesaid, fails to do so, or, being able and bound to submit a claim in such Winding-Up, fails to do so, in each case within a reasonable period and such failure is continuing, then any such Noteholder or Couponholder may, on giving an indemnity satisfactory to the Trustee, in the name of the Trustee (but not otherwise), himself institute Winding-Up Proceedings and/or submit a claim in the Winding-Up of the Issuer to the same extent (but not further or otherwise) that the Trustee would have been entitled to do.

12. REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent or the Paying Agent (in the case of Bearer Notes, Receipts or Coupons) or the Registrar or the Transfer Agent (in the case of Registered Notes) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

13. PRINCIPAL PAYING AGENT, REGISTRAR, PAYING AND TRANSFER AGENTS

The names of the initial Principal Paying Agent, the other initial Paying Agents, the initial Registrar and the other initial Transfer Agents are their initial specified offices are set out below.

The Issuer is entitled, with the prior written approval of the Trustee, to vary or terminate the appointment of any Paying Agent, Registrar or Transfer Agent and/or appoint additional or other Paying Agents, Registrars or Transfer Agents and/or approve any change in the specified office through any of the same acts, provided that:

- (a) there will at all times be a Principal Paying Agent and a Registrar;
- (b) so long as the Notes are listed on any stock exchange or admitted to trading by any other relevant authority, there will at all times be a Paying Agent (in the case of Notes in bearer form) and a Registrar and Transfer Agent (in the case of Notes in registered form) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority; and
- (c) there will at all times be a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to any law implementing the European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; and
- (d) so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, if the Notes are issued in definitive form, there will at all times be a Paying Agent in Singapore.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 7.2. Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 15.

In acting under the Agency Agreement, the Principal Paying Agent, the Paying Agents, the Registrar or the Transfer Agent act solely as agents of the Issuer and, in certain circumstances specified therein, of the Trustee and do not assume any obligation to, or relationship of agency with, any Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

14. EXCHANGE OF TALONS

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 10.

15. NOTICES

All notices regarding Notes in bearer forms will be deemed to be validly given if published in a leading daily newspaper of general circulation in Hong Kong by the Issuer in consultation with the Trustee. It is expected that such publication will be made in the *South China Morning Post* in Hong Kong. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange (or any other relevant authority) on which the Bearer Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve.

All notices regarding Notes in registered form will be deemed to be validly given if (a) sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the third day after mailing and (b) if and for so long as the Registered Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of (i) Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes or (ii) the CMU Service, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to the persons shown in a CMU Instrument Position Report issued by the CMU Service on the second business day preceding the date of despatch of such notice as holding interests in the relevant Global Note and, in addition, in the case of both (i) and (ii) above, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on the first day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg and/or the persons shown in the relevant CMU Instrument Position Report.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Principal Paying Agent (in the case of Notes in bearer form) or the Registrar (in the case of Notes in registered form). Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Principal Paying Agent or the Registrar through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Principal Paying Agent, the Registrar and Euroclear and/or Clearstream, Luxembourg, and/or, in the case of Notes lodged with the CMU Service, by delivery by such holder of such notice to the CMU Lodging Agent in Hong Kong, as the case may be, in such manner as the Principal Paying Agent, the Registrar, the CMU Lodging Agent and Euroclear and/or Clearstream, Luxembourg and/or the CMU Service, as the case may be, may approve for this purpose.

Receiptholders and Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this condition.

16. MEETINGS OF NOTEHOLDERS, MODIFICATIONS AND CONSOLIDATIONS

16.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer or Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing more than 50 per cent. in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Receipts or the Coupons or the Trust Deed (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, the Receipts or the Coupons) the quorum shall be one or more persons holding or representing not less than two-thirds in principal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

16.2 Modifications and Waivers

The Trustee may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or the Trust Deed, or determine, without any such consent as aforesaid, that any Event of Default or Notification Event (as defined in the Trust Deed) shall not be treated as such, where, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders so to do or may agree, without any such consent as aforesaid, to any modification which is of a formal, minor or technical nature or to correct a manifest error or an error which is, in the opinion of the Trustee, proven or to comply with mandatory provisions of law. Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 15 as soon as practicable thereafter.

16.3 Consolidation, Merger and Sale of Assets

Except as provided in Condition 17, the Issuer shall not consolidate with or merge into any other company or entity, and the Issuer may not, directly or indirectly, sell, convey, transfer or lease all or substantially all of its properties and assets to any company or other entity unless:

- (a) the company or other entity formed by or surviving such consolidation or merger or the person, company or other entity which acquires by conveyance or transfer, or which leases, all or substantially all of the properties and assets of the Issuer shall expressly assume by way of supplemental trust deed the due and punctual payment of the principal of, and interest on, the Notes and the performance of the Notes, the Trust Deed and the Agency Agreement on the part of the Issuer to be performed or observed;
- (b) immediately after giving effect to such transaction, no Event of Default with respect to the Notes, and no event, which after notice or lapse of time, or both, would become an Event of Default with respect to the Notes, shall have happened and be continuing;

- (c) the Issuer has delivered to the Trustee (in form and substance satisfactory to the Trustee) (i) a certificate signed by two directors of the Issuer and (ii) an opinion of independent legal advisers of recognised standing (acceptable to the Trustee) stating that such consolidation, merger, conveyance, transfer or lease and any such supplemental trust deed comply with this Condition 16.3 and that all conditions precedent relating to such transaction have been complied with; and
- (d) immediately after giving effect to such consolidation, amalgamation or merger of the Issuer, no internationally recognised rating agency has in respect of the Notes, issued any notice downgrading its credit rating for such Notes or indicating that it intends to downgrade its credit rating for such Notes.

16.4 Exercise of Trustee's Powers etc.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Noteholders, Receiptholders or Couponholders whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders, Receiptholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder, Receiptholder or Couponholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders, Receiptholders or Couponholders except to the extent already provided for in Condition 9 and/or any undertaking or covenant given in addition to, or in substitution for, Condition 9 pursuant to the Trust Deed.

17. SUBSTITUTION

The Trustee may, at any time, subject to the prior written approval of the HKMA (if and to the extent then required) but without the consent of the Noteholders or Couponholders, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Notes, the Receipts, the Coupons and the Trust Deed (and in the case of Subordinated Notes, on a subordinated basis equivalent to that set out in Condition 3.2) of any other company being a subsidiary of the Issuer, subject to:

- (a) the Notes being unconditionally and irrevocably guaranteed by the Issuer (provided that in the case of Subordinated Notes, the obligations of the Issuer under such guarantee shall be subordinated on the basis considered by the Trustee to be equivalent to that described in Condition 3.2);
- (b) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution; and
- (c) certain other conditions set out in the Trust Deed being complied with.

18. INDEMNIFICATION OF THE TRUSTEE AND ITS CONTRACTING WITH THE ISSUER

18.1 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or put in funds to its satisfaction.

18.2 Trustee Contracting with the Issuer

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the Issuer and/or any of the Issuer's Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of the Issuer's Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders, Receiptholders or Couponholders, and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

19. FURTHER ISSUES

The Issuer is at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes (whether in bearer or registered form) either (a) ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the outstanding notes of any series (including the Notes) constituted by the Trust Deed or any supplemental deed or (b) upon such terms as to ranking, interest, conversion, redemption and otherwise as the Issuer may determine at the time of the issue. Any further notes which are to form a single series with the outstanding notes of any series (including the Notes) constituted by the Trust Deed or any supplemental deed shall, and any other further notes or bonds may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders, the Receiptholders, the Couponholders and the holders of notes of other series in certain circumstances where the Trustee so decides.

20. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

21. GOVERNING LAW

- (a) Governing law: The Trust Deed, the Notes, the Receipts, the Coupons, the Talons and any non-contractual obligations arising out of or in connection with the Trust Deed, the Notes, the Receipts, the Coupons and the Talons are governed by, and shall be construed in accordance with, English law, except that the subordination provisions set out in Condition 3.2 (Status of the Subordinated Notes) and Clause 7 of the Trust Deed shall be governed by and construed in accordance with the laws of Hong Kong.
- (b) Jurisdiction: The courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Notes (including any dispute relating to any non-contractual obligations arising out of or in connection with the Notes) and accordingly any legal action or proceedings arising out of or in connection with the Notes (including any legal action or proceedings relating to any non-contractual obligations arising out of or in connection with the Notes) ("Proceedings") may be brought in such courts. The Issuer irrevocably submits to the exclusive jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient or inappropriate forum. This submission is made for the benefit of each of the Noteholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

- (c) Agent for service of process: The Issuer irrevocably appoints Hackwood Secretaries Limited of One Silk Street, London EC2Y 8HQ as its agent in England to receive service of process in any Proceedings in England. If for any reason the Issuer does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Noteholders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Issuer for its funding and general corporate purposes.

INVESTMENT CONSIDERATIONS

*Prospective investors should carefully take into account the considerations described below, in addition to the other information contained herein, before investing in the Notes issued under the Programme. Additional considerations and uncertainties not presently known to the Bank, or which the Bank currently deems immaterial, may also have an adverse effect on an investment in the Notes issued under the Programme. The occurrence of one or more events described below could have an adverse effect on the business, financial condition or results of operations of the Bank and its subsidiaries (the **Group**).*

Considerations relating to the Group

The Group is subject to significant competition

The Group is subject to significant competition from many other banks and financial institutions, including competitors which have significantly more financial and other capital resources, higher market share, and stronger brand recognition than the Group. In particular, the banking and financial services industry in Hong Kong is a mature market and, as at 31 December 2011, supported 23 Hong Kong incorporated licensed banks and 131 banks incorporated outside Hong Kong competing for a customer population of approximately 7 million people. Therefore, many of the international and local banks and niche players operating in Hong Kong compete for substantially the same customers as the Group. There is a limited market, especially for retail banking products such as investment and insurance products, home mortgage loans, credit cards, personal loans and transport lending businesses. The strength of competition in the past few years has had an adverse impact on the pricing of certain products.

In recent years, competition among banks in Hong Kong for investment and insurance products, home mortgage loans, credit cards, personal loans and transport lending business has become very aggressive. There can be no assurance that increased competition will not have a material adverse effect on the Group's business, financial condition or results of operations.

Since 2000, many banks in Hong Kong, including the Bank, have lowered interest rates charged on new-home mortgage loans not guaranteed by the Hong Kong government. Despite a slight increase in such interest rates in 2008, competition in the mortgage loans market remains intense. In 2011, with interest rates at an extremely low level, a significant portion of new-home mortgage loans charged by banks in Hong Kong was HIBOR based. As at 31 December 2011, the standard rate the Bank charged on its new-home mortgage loans was 2.60 per cent. below the prime lending rate or 245 basis points above HIBOR. Competition among banks in Hong Kong for home mortgage loans could result in further reductions in mortgage interest rates. Such reductions could have an adverse effect on the Group's business, financial condition or results of operations.

As a result of the intensified competition among banks, the Bank has experienced downward pressure on its profit margins in recent years. To counter the effects of increased competition, the Bank has actively pursued a strategy of diversifying its income sources by focusing on increasing its fee-based income, introducing innovative products and, at the same time, improving the cost efficiency of its operations. However, there can be no assurance that the Bank will be able to compete successfully in the mature Hong Kong banking market and sustain its profitability in future.

Following the PRC's accession to the World Trade Organisation (**WTO**), a number of foreign banks have received authorisation from the PRC government to provide RMB-denominated banking and financial services (**RMB services**) to PRC domestic enterprises and to individuals from five years after its accession. The Closer Economic Partnership Agreement with the PRC (**CEPA**), which allows Hong Kong banks to operate in the PRC, has also increased competition in the Mainland China market. Since April 2007, the PRC government has begun granting approvals for locally incorporated banking licences for a number of foreign banks which allow them to compete with PRC domestic banks on equal footing, thereby effectively removing regulatory restrictions on the geographical presence, customer base and operating licences of foreign banks. Accordingly, the Group is likely to face competition in the Mainland China

market from both existing local Chinese banks and foreign banks entering the Mainland China market. There can be no assurance that the Group will maintain its current position or continue to develop its business successfully in Mainland China if, as expected, competition in the banking sector in Mainland China intensifies as a result of these latest changes in the regulatory environment in the PRC.

The introduction of CEPA has also enabled Mainland China banks to relocate certain operations, for example, the handling of international securities and bonds, as well as foreign exchange trading centres, to Hong Kong. Under CEPA, Mainland China banks are encouraged to expand their business through mergers and acquisitions (M&A). The entry of Mainland China banks into the Hong Kong market via M&A is likely to result in increased competition in the banking sector and there can be no assurance that the Group's business will not be affected by the increased competition.

The Group's business is vulnerable to volatility in interest rates

Changes in market interest rates affect the interest received on the Group's interest-earning assets and the interest paid on the Group's interest-bearing liabilities. The differences in timing and level of changes in interest rates can result in an increase in interest expense relative to its interest income, which may lead to a reduction in its net interest income. Interest rates in Hong Kong are sensitive to factors over which the Group has no control, including, among others:

- interest rates in the US;
- liquidity of the domestic inter-bank market and the international capital markets;
- domestic and international economic and political conditions; and
- competition for loan demand.

In the event that interest rates move against the Bank's position, it may adversely affect the Group's business, financial condition or results of operations. The interest rate environment has remained low in recent years and, as a result, the Bank's net interest margin also remained at a low level. In 2011, the Bank's net interest margin was 1.2 per cent. There can be no assurance that interest rates will rise or not fall or become volatile or that changes in interest rates will not be frequent.

In addition, the Group is subject to interest rate risk as a result of mismatches in the pricing and duration of its assets and liabilities. A significant part of the Group's funding requirements is met through short-term or floating rate funding sources, primarily in the form of deposits, including customer deposits, inter-bank deposits and certificates of deposit, which tend to be at floating rates and are regularly repriced. In contrast, some of the Group's assets either receive a fixed rate of interest or if they receive a floating rate of interest, they may not be repriced as frequently as the Group's deposits. The Group closely monitors the risks associated with changes in interest rates that may arise from maturity gaps, basis risks among different interest rate benchmarks, yield curve movements, interest rate repricing risks and risks from embedded options (if any), and mitigates such risks through the use of interest rate derivatives, mainly interest rate swaps, to hedge both assets and liabilities as available-for-sale securities and non-trading liabilities. Sensitivity analyses on the Bank's interest rate exposures are also conducted on a quarterly basis. However, in a volatile interest rate environment there can be no assurance that the Group's net interest margin will not be impacted and the Group's net interest income reduced.

The activities of Treasury and Markets Group (TMG) also involve taking interest rate and credit spread risk. As the funding of treasury investments is generally of shorter duration than the assets that are held, which primarily consist of both fixed rate and floating rate investments, TMG may employ hedging strategies as appropriate to protect its portfolio. However, there can be no assurance that the investment income of TMG would not suffer from a rising interest rate environment or widening credit spread situation. Furthermore, there can be no assurance that the Bank will be able to generate positive net interest income in the future, and it is likely that in a continuing rising interest rate environment, the Bank's gains from disposals of securities may be lower, or that TMG may even incur losses.

The Group has significant exposure to the Hong Kong property market

The Group has significant exposure to the Hong Kong property market. As at 31 December 2011, home mortgage loans in Hong Kong (excluding loans under the Home Ownership Scheme and the Private Sector Participation Scheme and loans under a mortgage refinancing scheme launched by the Bank in 2002) accounted for 10.8 per cent. of the Group's total loans to customers while loans for property investment accounted for 13.8 per cent. of the Group's total loans to customers. The Hong Kong property market is highly cyclical and property prices in general have been volatile. During the period from 1997 to the first half of 2003, property prices and transaction volumes in the Hong Kong property market have experienced significant declines although both have risen significantly since the end of 2003. In addition, while the Hong Kong property market showed improvement during the period from 2004 to the first half of 2008, property prices in Hong Kong declined in the second half of 2008 and early 2009, before increasing significantly since the second half of 2009. The property market staged a strong rebound in 2009 and the momentum continued in the second quarter of 2010. The sustained inflow of capital from the Mainland and the low interest rate environment put upward pressure on the property prices during the remainder of 2010 and 2011. As of 13 August 2010, property prices in Hong Kong exceeded the levels reached in 1997. Despite the Hong Kong Monetary Authority (HKMA) announcing prudential measures for mortgage lending in the second half of 2010 in view of the increasing risk of an asset price bubble, property prices in Hong Kong continued to increase in 2010 and 2011 and stabilised in the first half of 2012. Property prices are further affected by a number of factors, including, among other things, the supply of, and demand for, comparable properties, the rate of economic growth in Hong Kong, political and economic developments in the PRC, and the relationship between the PRC, Hong Kong and other countries. Any future decreases in property values and/or liquidity of the Hong Kong property market could adversely affect the Group's business, financial condition or results of operations.

The Group has significant PRC exposure

A significant proportion of the Group's loans are advanced to PRC entities, which are identified by those borrowers that are domiciled in the PRC, or guaranteed by entities domiciled in the PRC and thus have their risks transferred to PRC country risk. Such PRC-related loans accounted for 25.5 per cent. of the Group's total loans to customers as at 31 December 2011. For the year ended 31 December 2011, 9.6 per cent. of the ten largest non-performing loans were PRC-related loans. See "*Selected Statistical and Other Information Relating to the Group — Asset quality — Top ten non-performing loans*". There can be no assurance that the Group's continued exposure to the PRC or its continual development in the PRC will not have a negative impact on the Group's earnings or an adverse effect on the Group's business, financial condition or results of operations. See "*Business — Strategy*".

The Group has significant committed exposure to a relatively few number of borrowers

As at 31 December 2011, the Group's 20 largest borrowers (including groups of individuals and companies) accounted for approximately HK\$24.6 billion (US\$3.2 billion) or 15.9 per cent. of the Group's committed exposure. As at 31 December 2011, the Group's five largest borrowers (including groups of individuals and companies) accounted for approximately HK\$9.4 billion (US\$1.2 billion) or 6.1 per cent. of the Group's committed exposure, with the largest borrower accounting for HK\$3.2 billion (US\$0.4 billion) or 2.1 per cent. of the Group's committed exposure. The non-performance of loans held by one or more of these customers could have a material adverse effect on the Group's business, financial condition or results of operations.

The Group's funding is primarily short-term, and if depositors do not roll over their deposits upon maturity, the Group's liquidity could be adversely affected

The Group's funding requirements are primarily met through short-term funding sources, primarily in the form of customer deposits, inter-bank deposits, certificates of deposit and shareholders' funds. As at 31 December 2011, 87.9 per cent. of the Group's customer deposits had a remaining maturity of three months or less. Historically, a substantial portion of such customer deposits have been rolled over upon maturity. However, no assurance can be given that this pattern will continue. If a substantial number of depositors fail to roll over deposited funds upon maturity, the Group's liquidity position would be adversely affected and it may need to seek alternative sources of short-term or long-term funding to finance its operations, which may be more expensive than the current level of deposits.

In October 2008, to minimise the impact of the financial crisis on the banks in Hong Kong and to restore depositor confidence, the Hong Kong government announced the use of the Hong Kong government's Exchange Fund to guarantee repayment of all customer deposits held with authorised institutions in Hong Kong subject to the rules laid down in the Deposit Protection Scheme (the **Deposit Protection Scheme**) established under the Deposit Protection Scheme Ordinance (Cap. 581) of Hong Kong (the **Deposit Protection Scheme Ordinance**). The guarantee expired on 31 December 2010. On 1 January 2011, the Deposit Protection Scheme (Amendment) Ordinance 2010 (the **Amendment Ordinance**) came into effect upon expiration of the guarantee. Among other things, the Amendment Ordinance increases the Deposit Protection Scheme limit established under the Deposit Protection Scheme Ordinance from HK\$100,000 to HK\$500,000. However, there can be no assurance that the level of customer deposits of the Group will not be adversely affected by the expiration of the guarantee, the future withdrawal of or any other changes to the Deposit Protection Scheme.

The HKMA acts as the lender of last resort to all authorised institutions in Hong Kong to provide support for liquidity needs in the banking system generally as well as to specific institutions. In this regard, certain portions of the Bank's interest-earning assets are acceptable to the HKMA for such emergency funding support. However, there can be no assurance that the HKMA will take measures to assist banks in Hong Kong in the future or that it would elect to provide liquidity support assistance in the future to the Bank in the event of a liquidity crisis.

If the Bank is unable to control the level of impaired loans in its loan portfolio, its financial condition and results of operations will be materially and adversely affected

The Bank's results of operations may be negatively impacted by its impaired loans if asset deterioration in general does not stabilise. Under the Hong Kong Financial Reporting Standards, the accounting principles that are applicable to the Bank, loans are impaired if there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of the loans. As at 31 December 2010 and 2011, the Bank's individually identified loans with impairment were HK\$1,230.8 million (US\$157.8 million) and HK\$700.6 million (US\$89.8 million), respectively. The Bank's allowances for impairment losses on loans and advances were HK\$657.5 million (US\$84.3 million) and HK\$542.5 million (US\$69.6 million) as at 31 December 2010 and 31 December 2011, respectively, representing 53.5 per cent. and 77.5 per cent. respectively, of its total individually identified loans with impairment as at the same dates.

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of businesses of the Bank and there can be no assurance that the Bank will be able to control effectively the level of impaired loans in its loan portfolio and the credit quality of its borrowers and counterparties. In particular, the amount of the Bank's reported impaired loans, the ratio of its impaired loans to its loans and advances to customers may increase and the recoverability and value of the assets of the Bank may reduce in the future as a result of deterioration in the quality of its loan portfolio. Such deterioration may occur for a variety of reasons, including factors which are beyond the Bank's control, such as a slowdown in economic growth and other adverse macroeconomic conditions in Hong Kong and Greater China, which may cause operational, financial and liquidity

problems for its borrowers and hence materially and adversely affect their ability to service their outstanding debts. Furthermore, a portion of the Bank's allowances for impairment losses are estimated based on historical patterns of losses of its loan portfolio. As historical patterns may differ from the Bank's future experience, its current allowances for impairment losses on loans and advances may not be adequate to cover any further increase in the amount of impaired loans or any future deterioration in the overall credit quality of the Bank's loan portfolio. As a result, the Bank may be required to increase its provision for impaired loans, which may in turn reduce its profit and adversely affect its financial condition and results of operations. Moreover, there is no precise method for predicting loan losses, and there can be no assurance that the Bank's allowance for impairment losses on loans and advances is or will be sufficient to cover actual losses. If the Bank is unable to manage the above risks and control the level of its impaired loans, its financial condition and results of operations will be materially and adversely affected.

The Group's classification of loans and its policy in relation to the adequacy of allowance for loan losses may be different from the standards of other countries

In accordance with guidelines set by the HKMA, the Bank classifies its problem loans into one of three categories corresponding to levels of risk: "sub-standard", "doubtful" and "loss". The classification of loans into one of these categories depends on various quantitative and qualitative factors, including the number of months payment is in arrears, the type of loan, the tenor of the loan, the likelihood of collection, the type and amount of collateral, whether the net realisation value of the security is sufficient to cover the principal and accrued interest, whether the principal or interest amount has been overdue for more than 90 days, and the expectations for recovery or performance. The laws, regulations and guidelines governing banking in Hong Kong differ from those applicable in certain other countries in certain respects and may result in particular loans being classified at a different time or being classified in a category reflecting a different degree of risk than would be required in certain other countries. In addition, the typical procedures for writing off loans in Hong Kong may result in loans being written off later than would be the case for banks in certain other countries. Banks in Hong Kong may have different sets of criteria for recognition of accrued interest on loans which may be treated differently in certain other countries. While the Bank believes that its loan policies are generally in line with those which are required under Hong Kong laws and regulations, the Bank is not required to maintain such policies at levels above those generally applicable to banks in Hong Kong. For a description of the banking regulations that apply to banks in Hong Kong, see "*Regulation and Supervision*".

The Bank may be adversely affected by allegations made against it by its customers and/or its regulators

The Bank offers a range of wealth management and investment products to its customers. The Bank's management of the selling process associated with the distribution of these products is important to the success of its business. The Bank is required, among other things, to assess the suitability of customers for particular investment products and ensure that risks associated with those products are adequately disclosed to its customers before the Bank sells such products to them. The Bank may become liable to customers for damages and may be subject to regulatory enforcement actions if the sale of these products by the Bank are found to have been in breach of relevant regulatory requirements or duties owed to customers.

As one of the distributors of notes issued by Pacific International Finance Limited and arranged by Lehman Brothers group companies (the **Minibonds**) as well as other structured investment products such as Octave Notes issued by Victoria Peak International Finance Limited and arranged by an international investment bank (the **Structured Investment Products**), the Bank has received numerous complaints from its customers who had purchased such structured investment products since 2008 and was made defendant in various legal proceedings most of which have been discontinued as of 30 April 2012. To date, the amounts involved in such proceedings have not been material to the Bank. Nonetheless, eligible customers of the relevant series of the Minibonds had received repurchase offers from the Bank in accordance with

the agreement entered into between the Bank, the Securities and Futures Commission (SFC), the HKMA and other 15 distributing banks on 22 July 2009 as well as a final resolution plan in 2011.

As at 18 June 2012, the number of outstanding claims and complaints has been reduced as compared to that as at 31 October 2008. However, there can be no assurance that the Bank will not be subject to further claims by the customers who have not accepted the terms under the repurchase offer or the final resolution plan or who are not eligible for those offers. The Bank is still facing potential litigation and claims from disgruntled investors who have suffered losses with respect to their investments in the Minibonds or the Structured Investment Products and potentially other investment products subscribed through the Bank during the financial crisis. The Bank does not expect such potential litigation and claims to have a material adverse impact on the Group's financial position.

The HKMA and the SFC have been investigating complaints about alleged misselling of the Minibonds and Structured Investment Products by distributors which include both banks and securities brokers. The Hong Kong regulators can impose fines and/or suspend/withdraw a distributor's licence to engage in regulated activities in the event that a distributor has been found to have missold securities. In response to issues arising from the distribution of structured products, the regulators in Hong Kong have introduced new guidelines that impose stricter obligations on banks in Hong Kong in connection with the sale of investment products to their customers.

There can be no assurance that any of the proceedings with regards to the Minibonds or Structured Investment Products will not be successful, nor that any precedent set by such proceedings will not lead to further claims against the Bank which in the aggregate may become material to the Bank. There can be no assurance that the relevant government authorities will not seek to impose fines and/or a suspension of the Bank's regulated activities as a result of regulatory proceedings. Regulatory pressure to settle claims could result in material payments to the holders of such products, notwithstanding the relevant merits of the cases of such holders. Any legal or regulatory proceedings, whether substantiated or not, may result in negative publicity and a loss of customer confidence and/or goodwill, resulting in a loss of business. Legal and regulatory proceedings (substantiated or not), adverse publicity and/or restrictions on the conduct of business could have a material adverse effect on the Bank's reputation with existing and potential customers and on the Bank's business, financial condition or results of operations. In addition, there can be no assurance that the ability of banks going forward to sell structured investment products will not be severely curtailed by legislative or regulatory proscription which would have a material adverse effect on the Bank's business.

Fluctuations in foreign exchange rates could have an adverse effect on the Group's business, financial condition or results of operations

The Group undertakes various foreign exchange transactions as part of its treasury business and in providing hedging solutions to its corporate and retail customers. Foreign exchange positions of the Bank are subject to exposure limits approved by the Asset & Liability Committee (ALCO) and the Credit and Risk Management Committee (CRMC). The Bank's Market Risk & Liquidity Modeling function conducts regular and independent assessment, stress testing, scenario analysis and monitors and controls the Bank's foreign currency risk exposure against corresponding limits including individual currency positions and overall foreign exchange positions and sensitivities. However, there can be no assurance that a significant change in the exchange rate between the relevant foreign currency and the Hong Kong dollar will not result in the Group incurring foreign exchange related losses, which in turn could have an adverse effect on the Group's business, financial condition or results of operations.

Security breaches to, and eliminating security problems of, the Group's internet banking services could have an adverse effect on its operations and reputation

To the extent that the Group's internet banking activities involve storage and transmission of confidential information, security breaches could expose the Group to possible liability and damage its reputation. The Group's network may be vulnerable to unauthorised access, computer viruses and other disruptive problems. Costs incurred in rectifying any of such disruptive problems may be high and may adversely affect the Group's business, financial condition or results of operations. Concerns regarding security risks may deter the Group's existing and potential customers from using its internet banking products and

services. Eliminating computer viruses and alleviating other security problems may result in interruptions, delays or termination of user access to the Group's internet banking services. Undetected defects in software products that the Group uses in providing its internet banking services, and the Group's inability to sustain a high volume of traffic, may materially and adversely affect the Group's internet banking business.

CITIC is the ultimate controlling shareholder of the Bank

The Bank is a wholly-owned subsidiary of CITIC International Financial Holdings Limited (**CIFH**) which is 70.32 per cent. owned by China CITIC Bank Corporation Limited (**CNCB**) and 29.68 per cent. owned by Banco Bilbao Vizcaya Argentaria, S.A. (**BBVA**). In turn, CNCB is 61.85 per cent. owned by CITIC Group Corporation (**CITIC**). Previously listed on The Stock Exchange of Hong Kong Limited (the **Hong Kong Stock Exchange**), CIFH was privatised in November 2008 as the first step of CITIC's overall strategy to restructure and align its commercial banking businesses in Hong Kong and Mainland China and to facilitate and maximise synergies from the tripartite cooperation between the Bank, CNCB and BBVA (**Restructuring Strategy**). See "*Principal Shareholders — CITIC International Financial Holdings Limited*".

The intention of the privatisation was for the Bank to become CITIC's exclusive vehicle to develop commercial banking business in Hong Kong and serve as an international commercial banking platform for new business expansion for CITIC in Asia.

On 8 May 2009, CNCB announced that it has entered into a Share Purchase Agreement with CITIC and Gloryshare Investments Limited (**GIL**), pursuant to which it has agreed to acquire a 70.32 per cent. interest in CIFH for a cash consideration of approximately HK\$13.6 billion (US\$1.7 billion) (**CIFH Acquisition**). The CIFH Acquisition is part of CITIC's Restructuring Strategy and was completed on 23 October 2009. See "*Principal Shareholders — CITIC Group*".

With its controlling shareholding, CITIC and CNCB, ultimately determines the strategy, management and operations of the Bank. CITIC and CNCB are able to determine the Bank's corporate policies, appoint its Directors and officers, and vote to pursue corporate actions requiring shareholders' approval. As at the date of this Offering Circular, seven Directors of the Bank, including the Chairman and the Chief Executive Officer of the Bank are directors of CITIC and/or CNCB. See "*Management*". Although to date the Bank has been managed independently from CITIC, there can be no assurance that the Bank will maintain its independence in the event of a conflict of interests with CITIC and CNCB.

The Bank's future strategy is to focus on the development of cross-border capabilities and services to offer "one-stop-shop" solutions in conjunction with CNCB to serve the China-related in-bound and/or out-bound business needs of its customers, both in the PRC and in Asia. The Bank intends to maintain its current operations in the PRC through its wholly-owned subsidiary, CITIC Bank International (China) Limited (**CBI China**), and hence, the business of the Bank may, in future, overlap with the businesses of CITIC and/or CNCB. See "*Description of the Issuer — Wholesale Banking Group*". There can be no assurance that conflicts of interests will not arise between the Bank and CNCB and/or other CITIC companies. Under these conditions, there can be no assurance that the Bank can continue to develop its business in the PRC successfully.

BBVA's strategic shareholding in CIFH may influence the Bank's corporate policies and the outcome of corporate actions of the Bank that require shareholders' approval

On 9 February 2007, CIFH's shareholders gave approval for BBVA to become a 14.58 per cent. strategic investor in CIFH, and the transaction was duly completed on 1 March 2007. On 16 October 2008, CIFH's independent shareholders gave approval for CITIC to take CIFH private. On 5 November 2008, CIFH was delisted from the Hong Kong Stock Exchange, and on the same day, BBVA's stake in CIFH was increased to 29.68 per cent. See "*Principal Shareholders — CITIC International Financial Holdings Limited — Strategic Alliance between the Bank, CNCB and BBVA*".

As at the date of this Offering Circular, BBVA has nominated three non-executive directors to the board of directors of CIFIH and the Bank. BBVA may, within the terms and conditions of the shareholders agreement in respect of CIFIH, influence the strategy, management and operations of the Bank, as well as the outcome of corporate actions of the Bank that require shareholders' approval. There can be no assurance that BBVA's interests will coincide with the interests of the Noteholders or that it will be aligned with the Bank's strategy.

The Bank's future strategy is dependent on its success to maximise synergies with CNCB and to execute its tripartite strategies with CNCB and BBVA

CIFIH's privatisation in November 2008 and the CIFIH Acquisition by CNCB are integral steps to CITIC's Restructuring Strategy to develop into an international PRC banking franchise. The Bank's future strategy is developed based on its role as the international commercial banking platform for CITIC and CNCB. Its success will depend on the Bank's ability to maximise synergies with CNCB and to execute its tripartite strategies with CNCB and BBVA to become the new business development platform for the tripartite partners in Asia.

There can be no assurance that the strategic initiatives of the Bank, CNCB and BBVA will be successful, or that the anticipated synergies expected to be generated from the strategic initiatives will be realised, as these may be affected by numerous factors including difficulties in integrating the existing operations of CNCB and the Bank, unforeseen contingent risks or latent liabilities that may only become apparent following completion of such integration, potential adverse tax consequences to the Bank and loss of key personnel.

Expansion of the Group's operations may disrupt its business and reduce its profitability if not managed effectively

The Bank has established a branch in Singapore (the **Singapore Branch**) in 2011, and may, in the future, expand its business into other overseas markets such as Australia.

Expansion into Australia and other overseas markets may present the Group with new risks and challenges, such as new regulatory environments, different market practices and competition in these markets. Expansion into overseas markets may also require significant operational, administrative and management resources. The success of any such expansion will depend in part on the ability of the Group's management to integrate the operations of its new overseas businesses with its existing operations and, where applicable, to integrate various departments, systems and processes. Consequently, the Group's ability to implement its business strategy may be constrained and the timing of such implementation may be affected due to the demand placed on existing resources by the expansion process. There can be no assurance that any overseas expansion will achieve the level of performance that the Group anticipates or that the projected demand for, and margins of, the Group's products and services will be realised. The failure to manage expansion effectively could have an adverse effect on the Group's business, financial condition and results of operations.

There could be material changes in, or a breach of, the regulations that govern the Group and its business activities

Banks in Hong Kong are subject to the supervision of the HKMA, whose supervisory framework is in line with international standards. The Group's banking business in Hong Kong conducted through the Bank could be directly affected by any changes in the HKMA's policies, including in the areas of specific lending activities, loan provisioning, capital adequacy and liquidity requirements. In addition, any changes in regulatory or governmental policies, tax laws or rules and accounting principles, as well as international conventions and standards relating to commercial banking operations, including changes proposed under the new Basel Capital Accord of the Bank for International Settlements (known as **Basel III**), could affect the Group's operations and financial performance. There can be no assurance that any future changes in the regulatory environment for banks in Hong Kong will not adversely affect the Group's business, financial condition or results of operations in the future.

Apart from the above, certain products and services provided by the Group are regulated by other regulators, including the SFC and the Office of the Commissioner of Insurance in Hong Kong. The Group carefully manages legal and compliance risks, including in relation to the sale of financial and insurance products and anti-money laundering regulations. However, there can be no assurance that breaches of legislation or regulations by the Group will not occur and, to the extent that such a breach does occur, that significant liability or penalties will not be incurred.

The Bank may issue further securities

To ensure that it remains in compliance with applicable capital requirements under Hong Kong law, rules and regulations (including guidelines issued by the HKMA), the Bank may from time to time raise additional capital through such means and in such manner as it may consider appropriate including, without limitation, the issue of further notes (whether on terms similar to the Notes issued under the Programme or otherwise) or other hybrid capital instruments, subject to any regulatory approval that may be required. There can be no assurance that such future capital raising activities will not adversely affect the market price of the Notes issued under the Programme in the secondary market.

The Group may be affected by a discontinuation of or amendment to the link of the Hong Kong dollar to the US dollar or revaluation of the Hong Kong dollar

Under the Linked Exchange Rate System established in 1983, HK dollar banknotes are fully backed by US dollars at a rate of HK\$7.80 to US\$1 (the **Linked Rate**) and depending on the flow of funds into and out of the HK dollar market, the HKMA also operates convertibility undertakings on both the strong side and the weak side of the Linked Rate within the convertibility zone between HK\$7.75 and HK\$7.85 to US\$1. In the event that this policy were to be changed or there were to be a revaluation of the Hong Kong dollar, it could adversely affect the Hong Kong economy and, as a result, the Group's business, financial condition or results of operations. There can be no assurance that the Hong Kong dollar will continue to be linked to the US dollar. As at 31 December 2011, the Group had US dollar denominated assets of approximately HK\$56,453.6 million (US\$7,237.6 million) and US dollar denominated liabilities of approximately HK\$39,857.2 million (US\$5,109.9 million), representing approximately 32.9 per cent. and approximately 25.2 per cent. of the Group's total assets and liabilities, respectively, at the same date. A significant change in the exchange rate between the US dollar and the Hong Kong dollar may have an adverse effect on the Group's business, liquidity, financial position and capital.

Considerations relating to Hong Kong and the PRC

The Group may be affected by an economic downturn in Hong Kong

The Group conducts most of its operations and generates most of its revenue in Hong Kong. The Group's performance and the quality and growth of its assets are necessarily dependent on the overall economy in Hong Kong. As a result, any downturn in the Hong Kong economy may adversely affect the Group's business, financial condition or results of operations.

In 2003, the Hong Kong economy was severely affected by the Severe Acute Respiratory System (**SARS**) epidemic, which resulted in, among other things, increased provisions which negatively affected the Group's profitability. Although the Hong Kong economy had, to a great extent, recovered from the impact of SARS in the subsequent years, the global credit markets have experienced, and may continue to experience, significant dislocation and turbulence which originated from the liquidity disruptions in the US credit and sub-prime residential mortgage markets since the second half of 2007. Sub-prime mortgage loans in the United States have experienced increased rates of delinquencies, foreclosures and losses. These and other related events, such as the collapse of a number of financial institutions, have resulted in an economic slowdown in the US and most economies around the world, substantial volatility in equity securities markets globally, fluctuations in foreign currency exchange rates and volatility and tightening of liquidity in global credit markets. Although there has been evidence of economic recovery mounting since the second half of 2009, recent economic downturns and sovereign debt concerns in the United States

and certain European countries have led to renewed doubts regarding the sustainability of the global economic recovery. If there is any renewed economic downturn or slowdown in global economic recovery, there can be no assurance that the Hong Kong economy or the Group's business, financial condition and results of operations will not be adversely affected.

The Group expects the recovery of, and the continued growth in, the Hong Kong economy to depend in part upon the economic performance of the US and the PRC, as well as certain other developed countries. There can be no assurance that future global events will not have an adverse effect on the Hong Kong economy and the Group.

The Group may be affected by an economic downturn in the PRC

The Bank plans to continue to develop its cross-border business and operations in the PRC in the future. Accordingly, the Group's performance and the quality and growth of its assets are necessarily dependent on the overall economy in the PRC. Many of the Group's commercial customers are dependent to varying degrees on trade with the PRC. The value of the Group's loans in the PRC, as well as its loans to companies that have business interests in the PRC, may be influenced by the general state of the PRC economy and may be affected by significant political, social or legal uncertainties or changes in the PRC (including changes in political leadership, the rate of inflation, RMB interest rate and relaxation of the RMB exchange rate). There can be no assurance that the economic and political environment in the PRC will remain favourable to the Group's business in the PRC in the future. See "*— Considerations relating to the Group — The Group has significant PRC exposure*" and "*Business — Strategy*".

In November 2008, in response to the deepening of the global economic crisis, the PRC government announced a massive RMB4 trillion (US\$583 billion) stimulus plan in a bid to reduce the adverse impact of the global economic crisis on the PRC and to increase spending and employment in the next two years. Such liquidity injections in the last quarter of 2008 contributed to a significant increase in bank lending in 2009. However, due to the PRC government's growing concerns that rapidly rising bank lending could fuel asset bubbles and increase the risk of inflation, in January, February, May, November and December 2010 and February and March 2011, the People's Bank of China repeatedly raised the Renminbi deposit reserve requirement ratio for banks. If the PRC's economy experiences a slowdown in growth or a downturn in the future, or the PRC government continues to tighten its monetary policies, the Group's PRC business and its ability to implement its growth strategies in the PRC could be materially and adversely affected.

With the increased integration of the PRC and Hong Kong economies, PRC policies will have an impact on Hong Kong and Hong Kong companies conducting business in the PRC. The Bank and its customers may also be affected accordingly.

The occurrence of a contagious disease in Hong Kong, Macau or the PRC could affect the Group's business, financial condition or results of operations.

During the first half of 2003, the outbreak of SARS caused an adverse effect on the economies of the affected regions in Asia, including Hong Kong and the PRC, which affected the Group's operations in these affected regions. In the last few years, there have also been outbreaks of avian influenza in parts of Asia, including Hong Kong. In 2009, there have also been outbreaks among humans of the Human Swine Influenza A (H1N1) virus globally. On 11 June 2009, the World Health Organization (WHO) raised its pandemic alert level to Phase 6, its highest level, after considering data confirming the H1N1 outbreak. To date, there has been a significant number of confirmed cases of H1N1 in the Asia Pacific region and a number of deaths worldwide.

No assurance can be given that there will not be a recurrence of the outbreak of SARS or other epidemics, or that incidents of avian influenza or H1N1 will not increase. As such, there can be no assurance that the Group's business, financial condition and results of operations would not be adversely affected if another outbreak of SARS, H1N1 virus or another highly contagious disease occurs.

The Bank is subject to different regulatory requirements in the Hong Kong banking industry.

Under the Banking Ordinance, the HKMA regulates the business activities and operations of commercial banks and has the ability to influence banking and financial markets generally. Potential investors should be aware that regulatory requirements in Hong Kong may differ from those that prevail in other countries. Since the Group operates in the highly regulated banking and securities industries in Hong Kong, potential investors should also be aware that the regulatory authorities have been consistently imposing higher standards and developing new guidelines and regulatory requirements. For example, the Basel II capital adequacy standards have been adopted by the HKMA in Hong Kong since the beginning of 2007.

These standards require banks to disclose key pieces of information on capital, risk exposures, risk assessment processes and hence capital adequacy. The aim of the new standards is to encourage banks to demonstrate to the market participants that their risk management systems are robust and that all relevant risks have been identified and controlled. In addition, since 2007, the regulators in Hong Kong have introduced recommendations which are intended to provide tighter control and more transparency in the Hong Kong banking sector, in particular, in relation to the selling of investment products to retail customers.

On 26 May 2011, the HKMA requested that banks in Hong Kong conduct a stress test to demonstrate how deposit outflows could affect their funding positions. The Bank has finished conducting the stress test and reported the results to the HKMA on 22 June 2011.

The Group has taken steps to implement the recommendations by relevant regulators and to comply with any new or modified regulations. Increased regulation and the requirement for more stringent investor protections have increased its operational and compliance expenses. Any changes in regulation, governmental policies, income tax laws or rules and accounting principles, as well as international conventions and standards relating to commercial banking operations in Hong Kong, could affect the Group's operations. There can be no assurance that the relevant regulatory authorities will not implement further regulations and that such change will not materially increase the Group's operational and compliance cost or adversely affect its business or operations.

In July 2009, the Basel Committee on Banking Supervision (the **Basel Committee**) published a package of enhancements to Basel II (the **Basel II Enhancements**). The HKMA issued on 4 June 2010 the revised framework and guidelines for the implementation of the Basel II Enhancements relating to supervisory review process. To implement the Basel II Enhancements relating to capital requirements and disclosures, the Hong Kong Special Administrative Region Government (the **Government**) has proposed to amend the Banking (Capital) Rules and the Banking (Disclosure) Rules and such amendments are intended to be effective from 1 January 2012.

In December 2010 and January 2011, the Basel Committee issued further capital requirements designed to raise the quality, consistency and transparency of banks' capital base and new global liquidity standards. These requirements are collectively known as "Basel III". Among other things, Basel III will increase the minimum capital adequacy ratio requirements in relation to risk-weighted assets, with the common equity requirement rising from 2% to 4.5% and the Tier 1 capital requirements rising from 4% to 6%. The total minimum capital requirement remains unchanged at 8%.

The Basel Committee's press release dated 13 January 2011 entitled "Minimum requirements to ensure loss absorbency at the point of non-viability" included the following statements:

"The terms and conditions of all non-common Tier 1 and Tier 2 instruments issued by an internationally active bank must have a provision that requires such instruments, at the option of the relevant authority, to either be written off or converted into common equity upon the occurrence of the trigger event unless:

- (a) the governing jurisdiction of the bank has in place laws that (i) require such Tier 1 and Tier 2 instruments to be written off upon such event, or (ii) otherwise require such instruments to fully absorb losses before tax payers are exposed to loss;

- (b) a peer group review confirms that the jurisdiction conforms with clause (a); and
- (c) it is disclosed by the relevant regulator and by the issuing bank, in issuance documents going forward, that such instruments are subject to loss under clause (a) in this paragraph.”

The release also states as follows: “The trigger event is the earlier of: (1) a decision that a write-off, without which the firm would become non-viable, is necessary, as determined by the relevant authority; and (2) the decision to make a public sector injection of capital, or equivalent support, without which the firm would have become non-viable, as determined by the relevant authority” (for the purposes of this Offering Circular, each a **Non-Viability Event**).

There can be no assurance that the Banking Ordinance, Banking (Capital) Rules and Banking (Disclosure) Rules will be amended to reflect the Basel Committee’s press release or that any amendment or supplementary legislation or any new legislation will be confirmed in due course by a peer group review (as referred to in clause (b) above) to conform with clause (a) above such that Subordinated Notes would be subject to being written down or fully loss absorbing as set out in clause (a) in the above paragraph. In such circumstances, however, the terms and conditions of the Subordinated Notes would need to provide for such non-viability loss absorption provisions in order to qualify as regulatory capital under Basel III.

If the HKMA or other authorities having oversight of the Issuer at the relevant time (the **Relevant Authority**) (i) discloses that a peer group review has confirmed that the capital rules, howsoever described, applicable to the Issuer conforms with clause (a) above and (ii) discloses that they do not require a change to the terms and conditions of any non-common Tier 1 and Tier 2 instruments to include a provision that requires either that they be written off or converted into equity upon the occurrence of a trigger event, to the extent not already envisaged within the terms of any series of Subordinated Notes (which they may require even if Hong Kong legislation is deemed by a peer group review to conform with clause (a) in the above paragraph), then the Issuer will notify holders of any affected Subordinated Notes in accordance with applicable disclosure rules that, going forward, such instruments are confirmed as subject to write-off or loss as set out in clause (a) in the above paragraph. This may have an adverse effect on the position of holders of Subordinated Notes.

Furthermore, there can be no assurance that, prior to its implementation in 2013, the Basel Committee will not amend the package of reforms described above. Further, the authorities in Hong Kong may implement the package of reforms, including the terms which capital securities are required to have, in a manner that is different from that which is currently envisaged, or may impose more onerous requirements on Hong Kong authorised institutions.

The Basel Committee expects its member jurisdictions to begin the implementation of Basel III from 1 January 2013, with full implementation by 1 January 2019. It is the Government’s current intention to implement Basel III in Hong Kong in accordance with the timetable of the Basel Committee. The Government proposed to amend the Banking Ordinance, the Banking (Capital) Rules and the Banking (Disclosure) Rules to facilitate the implementation of Basel III in Hong Kong. The Government has indicated that it intends to ensure that the legislative amendments be implemented by and take effect from 1 January 2013.

The Banking Ordinance was amended earlier this year to facilitate the implementation of the Basel III capital, liquidity and disclosure requirements in Hong Kong. More specifically, the amendments made to the Banking Ordinance empowered the HKMA to:

- (a) prescribe capital requirements for authorised institutions incorporated in Hong Kong and liquidity requirements for authorised institutions incorporated in Hong Kong or elsewhere; and
- (b) issue and approve codes of practice for the purpose of providing guidance in respect of the requirements.

The HKMA is currently conducting further statutory consultation on the draft amendments to the Banking (Capital) Rules, with the intention to submit the draft amendments to the Legislative Council in October 2012 for negative vetting.

On 29 June 2012, the HKMA issued a consultation paper in respect of its proposals for the implementation of the disclosure requirements relating to the Basel III capital standards under the Banking (Disclosure) Rules. The HKMA intends to adopt fully the standards set out in the Basel Committee's final standards on Composition of Capital Disclosure Requirements published in June 2012. The HKMA also intends to adopt the Basel Committee's proposed timeline to implement the disclosure requirements in relation to balance sheet dates on or after 30 June 2013 (the Basel III capital standards themselves will apply as from 1 January 2013). Draft amendments to the Banking (Disclosure) Rules have also been published with the consultation paper but a revised draft of these rules (taking into account comments from this round of consultation) will be published for statutory consultation in the third quarter of 2012. The HKMA has indicated that the amended Banking (Disclosure) Rules will come into effect on 30 June 2013 in line with the Basel Committee's implementation timetable for the disclosure requirements. There is no certainty as to the final framework for capital adequacy standards which will be developed and implemented, which may require increased capital requirements and impact existing business models, or the timing of the implementation. If such final recommended measures are adopted by the HKMA, the Bank may incur substantial costs in monitoring and complying with the new requirements. There can also be no assurance that breaches of legislation or regulations by the Group will not occur and, to the extent that such a breach does occur, that significant liability or penalties will not be incurred.

Minimum regulatory capital and liquidity requirements

The Group is subject to the risk, inherent in all regulated financial businesses, of having insufficient capital resources to meet the minimum regulatory capital requirements. Currently, under Basel II, capital requirements are inherently more sensitive to market movements than under previous regimes and capital requirements will increase if economic conditions or negative trends in the financial markets worsen. Any failure of the Group to maintain its minimum regulatory capital ratios could result in administrative actions or sanctions, which in turn may have a material adverse impact on the Group's results of operations. A shortage of available capital might restrict the Group's opportunities for expansion.

In the future, under Basel III, capital and liquidity requirements are expected to increase. On 17 December 2009, the Basel Committee proposed a number of fundamental reforms to the regulatory capital framework in its consultative document entitled 'Strengthening the resilience of the banking sector'. On 16 December 2010 and on 13 January 2011, the Basel Committee issued its final guidance on Basel III. The Basel Committee's package of reforms includes increasing the minimum common equity (or equivalent) requirement and the total Tier 1 capital requirement. In addition, banks will be required to maintain, in the form of common equity (or equivalent), a capital conservation buffer to withstand future periods of stress. If there is excess credit growth in any given country resulting in a system-wide build up of risk, a countercyclical buffer of common equity is to be applied as an extension of the conservation buffer. The role of any other fully loss absorbing capital in the context of any countercyclical buffer remains under discussion according to the guidance issued by the Basel Committee on 16 December 2010 (as revised in June 2011). Furthermore, systemically important banks should have loss absorbing capacity beyond these standards. The Basel III reforms also require Tier 1 and Tier 2 capital instruments to be more loss-absorbing. The reforms therefore increase the minimum quantity and quality of capital which banks are obliged to maintain. There can be no assurance as to the availability or cost of such capital. The capital requirements are to be supplemented by a leverage ratio, and a liquidity coverage ratio and a net stable funding ratio will also be introduced. The proposed reforms are expected to be implemented by the beginning of 2013, however the requirements are subject to a series of transitional arrangements and will be phased in over a period of time, to be fully effective by 2019.

There can be no assurance that, prior to its implementation in 2013, the Basel Committee will not amend the package of reforms described above. Further, the HKMA may implement the package of reforms in a manner that is different from that which is currently envisaged, or may impose additional capital requirements on authorised institutions. If the regulatory capital requirements, liquidity restrictions or ratios applied to the Group are increased in the future, any failure of the Group to maintain such increased regulatory capital ratios could result in administrative actions or sanctions, which may have an adverse effect on the Group's results of operations.

Considerations relating to the Notes issued under the Programme

Notes may not be a suitable investment for all investors

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes may be complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Modification and waivers

The Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Conditions of the Notes also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or (ii) determine without the consent of the Noteholders that any Event of Default or Notification Event shall not be treated as such.

Payments under the Notes may become subject to U.S. Foreign Account Tax Compliance Withholding

The Bank and other non-U.S. financial institutions through which payments on the Notes are made may be required to withhold U.S. tax at a rate of 30 per cent. on all, or a portion of, payments made after 31 December 2016 in respect of (i) any Notes treated as debt for U.S. federal tax purposes issued or materially modified on or after 1 January 2013 and (ii) any Notes which are treated as equity for U.S. federal tax purposes, whenever issued pursuant to sections 1471 through 1474 of the U.S. Internal Revenue Code (**FATCA**) or similar law implementing an inter-governmental approach to FATCA. This withholding tax may be triggered if (i) the Bank is a foreign financial institution (**FFI**) (as defined in FATCA) which enters into and complies with an agreement with the U.S. Internal Revenue Service (**IRS**) to provide certain information on its account holders (making the Bank a **Participating FFI**), (ii) the Bank has a positive "passthru percentage" (as defined in FATCA), and (iii)(a) an investor does not provide information sufficient for the relevant Participating FFI to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States Account" of such Participating FFI, or (b) any FFI that

is an investor, or through which payment on such Notes is made, is not a Participating FFI or otherwise exempt from FATCA withholding. The application of FATCA to interest, principal or other amounts paid with respect to the Notes is not clear. If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest, principal or other payments on the Notes as a result of FATCA, none of the Bank, any paying agent or any other person would, pursuant to the Terms and Conditions of the Notes be required to pay additional amounts as a result of the deduction or withholding of such tax. As a result, investors may, if FATCA is implemented as currently proposed by the IRS, receive less interest or principal than expected. Holders of the Notes should consult their own tax advisers on how these rules may apply to payments they receive under the Notes.

The application of FATCA to Notes issued or materially modified on or after 1 January 2013 (or whenever issued, in the case of Notes treated as equity for U.S. federal tax purposes) may be addressed in the relevant pricing supplement or a supplement to this Offering Circular, as applicable.

FATCA is particularly complex and its application to the Bank, the Notes and the Noteholders is uncertain at this time. Each Noteholder should consult its own tax adviser to obtain a more detailed explanation of FATCA and to learn how this legislation might affect each Noteholder in its particular circumstance.

Change of law

The Conditions of the Notes are based on English law and the law of Hong Kong (in respect of any subordination provisions) in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to English law, Hong Kong law or administrative practice after the date of this Offering Circular.

Risks related to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

Notes subject to optional redemption by the Issuer

An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Notes subject to redemption by the Issuer upon the occurrence of a Regulatory Redemption Event

Subject to the prior consent of the HKMA, the Undated Subordinated Notes and/or the Dated Subordinated Notes, as the case may be, may be redeemed at the option of the Issuer in whole, but not in part, at any time or on any Interest Payment Date following the occurrence of a Regulatory Redemption Event (as defined in the “Terms and Conditions of the Notes”).

The Basel Committee on Banking Supervision (the **BCBS**) is in the process of consultation on a package of proposals to strengthen global capital and liquidity regulations with the goal of promoting a more resilient banking sector. The BCBS’ programme may lead to changes in the requirements for bank capital and certain term subordinated debt may not qualify as regulatory capital beyond a certain time frame. Such changes may be correspondingly adopted by the HKMA and in particular, the HKMA may decide that the Undated Subordinated Notes and/or the Dated Subordinated Notes do not qualify as term subordinated debt for inclusion in Category II — Supplementary Capital of the Issuer. If the Undated Subordinated Notes and/or the Dated Subordinated Notes, in whole but not in part, do not qualify as Category II — Supplementary Capital of the Issuer, this could lead to the Issuer redeeming the Notes (subject to the prior

consent of the HKMA) prior to the Maturity Date pursuant to the Regulatory Redemption Event redemption right set out in Condition 8.3.

Index Linked Notes and Dual Currency Notes

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a **Relevant Factor**). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (i) the market price of such Notes may be volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected;
- (iv) the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

Partly-paid Notes

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of such Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed

rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

No limitation on issuing senior or pari passu securities in respect of Subordinated Notes

There is no restriction on the amount of securities which the Issuer may issue and which rank senior to, or pari passu with, the Subordinated Notes. The issue of any such securities may reduce the amount recoverable by holders of Subordinated Notes in case of a winding-up of the Issuer. The Subordinated Notes are subordinated obligations of the Issuer. Accordingly, in the winding-up of the Issuer, there may not be a sufficient amount to satisfy the amounts owing to the holders of Subordinated Notes.

If the Issuer does not satisfy the Issuer's obligations under the Notes, Noteholders' remedies will be limited

Payment of principal of the Notes may be accelerated only in the event of certain events involving the Issuer's bankruptcy, winding-up or dissolution or similar events or otherwise if certain conditions have been satisfied. See "*Terms and Conditions of the Notes — Events of Default and Enforcement*".

The terms of Subordinated Notes may contain non-viability loss absorption provisions

To the extent that a series of Subordinated Notes contains provisions relating to loss absorption upon the occurrence of a Non-Viability Event of the Bank as determined by the Relevant Authority, the Bank may be required, subject to the terms of the relevant series of Subordinated Notes, irrevocably (without the need for the consent of the holders of such Subordinated Notes) to effect either a full write-off of the outstanding principal and accrued and unpaid interest in respect of such Subordinated Notes, or a conversion of such Subordinated Notes into the ordinary shares of the Bank. To the extent relevant in the event that Subordinated Notes are written off, any written-off amount shall be irrevocably lost and holders of such Subordinated Notes will cease to have any claims for any principal amount and accrued but unpaid interest which has been subject to write-off. In the event that Subordinated Notes feature a conversion to the ordinary shares of the Bank upon the occurrence of a Non-Viability Event, holders would not be entitled to any reconversion of ordinary shares to Subordinated Notes.

The occurrence of a Non-Viability Event may be inherently unpredictable and may depend on a number of factors which may be outside of the Bank's control

The occurrence of a Non-Viability Event is dependent on a determination by the Relevant Authority (a) that a write-off, without which the Bank would become non-viable, is necessary; or (b) a decision has been made to make a public sector injection of capital, or equivalent support, without which the Bank would have become non-viable. As a result, the Relevant Authority may require or may cause a write-off in circumstances that are beyond the control of the Bank and the Group and with which neither the Bank nor the Group agree. Because of the inherent uncertainty regarding the determination of whether a Non-Viability Event exists, it will be difficult to predict when, if at all, a write-off will occur. Accordingly, the trading behaviour in respect of Subordinated Notes which have the non-viability loss absorption feature is not necessarily expected to follow trading behaviour associated with other types of securities. Any indication that the Bank is trending towards a Non-Viability Event could have a material adverse effect on the market price of the relevant Subordinated Notes.

Potential investors should consider the risk that a holder of Subordinated Notes which have the non-viability loss absorption feature may lose all of their investment in such Subordinated Notes, including the principal amount plus any accrued but unpaid interest, in the event that a Non-Viability Event occurs.

There is no assurance that any contractual provisions with non-viability loss absorption features, to the extent applicable, will be sufficient to satisfy the Basel III-compliant requirements that the Relevant Authorities may implement in the future. There is a risk that any Relevant Authority may deviate from the Basel III proposals by implementing reforms which differ from those envisaged by the Basel Committee.

The Issuer's obligations under Subordinated Notes are subordinated

The payment obligations of the Issuer under Dated Subordinated Notes and Undated Subordinated Notes will rank behind Senior Notes. Dated Subordinated Notes constitute unsecured and, in accordance with the paragraphs below, subordinated obligations of the Issuer and rank pari passu without any preference among themselves. Undated Subordinated Notes constitute unsecured and, in accordance with the paragraphs below, subordinated obligations of the Issuer and rank pari passu without any preference among themselves.

Payments of principal and interest in respect of the Undated Subordinated Notes are conditional upon the Issuer being solvent. No such principal or interest will be payable in respect of Undated Subordinated Notes except to the extent that the Issuer could make such payment in whole or in part and still be solvent immediately thereafter. See Conditions 3.2(a) and 3.2(b) of the Terms and Conditions of the Notes for a full description of subordination and the payment obligations of the Issuer under the Subordinated Notes.

Any suspension of payments under the Undated Subordinated Notes will likely have an adverse effect on the market price of the Undated Subordinated Notes. In addition, as a result of the conditional payment provisions of the Undated Subordinated Notes, the market price of the Undated Subordinated Notes may be more volatile than the market prices of other debt securities on which original issue discount or interest accrues that are not subject to such deferrals and may be more sensitive generally to adverse changes in the Issuer's financial condition.

Risks related to the market generally

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest (where applicable) on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of Fixed Rate Notes.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to an issue of Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Investors should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

Considerations relating to Renminbi-denominated Notes

Notes denominated in Renminbi (**Renminbi Notes**) may be issued under the Programme. Renminbi Notes contain particular risks for potential investors.

Renminbi is not freely convertible; there are significant restrictions on remittance of Renminbi into and outward from the PRC

Renminbi is not freely convertible at present. The PRC government continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar, despite the significant reduction over the years by the PRC government of control over routine foreign exchange transactions under current accounts. Participating banks in Hong Kong have been permitted to engage in the settlement of RMB trade transactions under a pilot scheme introduced in July 2009. This represents a current account activity. The pilot scheme was extended in August 2011 to cover all provinces and cities in the PRC and to make RMB trade and other current account settlement available in all countries worldwide. Subject to limited exceptions, there is currently no specific PRC regulation on the remittance of Renminbi into the PRC for settlement of capital account. Foreign investors may only remit offshore RMB into the PRC for capital account purposes such as shareholders' loan or capital contribution upon obtaining specific approvals from the relevant authorities on a case by case basis.

There is no assurance that the PRC government will continue to gradually liberalise the control over cross-border RMB remittances in the future, that the pilot scheme introduced in July 2009 will not be discontinued or that new PRC regulations will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outward from the PRC.

Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorised as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules. In the event that funds cannot be repatriated outside the PRC in Renminbi, the Bank will need to source Renminbi offshore to finance its obligations under the Notes, and its ability to do so will be subject to the overall availability of Renminbi outside the PRC.

Holders of beneficial interests in the Notes denominated in Renminbi may be required to provide certifications and other information (including Renminbi account information) in order to allow such holder to receive payments in Renminbi in accordance with the Renminbi clearing and settlement mechanism for participating banks in Hong Kong.

There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of Renminbi Notes and the Bank's ability to source Renminbi outside the PRC to service such Renminbi Notes

As a result of the restrictions by the PRC Government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. Since February 2004, in accordance with arrangements between the PRC Central Government and the Hong Kong Government, licensed banks in Hong Kong may offer limited Renminbi-denominated banking services to Hong Kong residents and designated business customers. The People's Bank of China ("PBOC") has also established a Renminbi clearing and settlement mechanism for participating banks in Hong Kong. On 19 July 2010, further amendments were made to the Settlement Agreement on the Clearing of RMB Business (the **Settlement Agreement**) between the PBOC and Bank of China (Hong Kong) Limited as the RMB clearing bank (the **RMB Clearing Bank**) to further expand the scope of RMB business for participating banks in Hong Kong. Pursuant to the revised arrangements, all corporations are allowed to open RMB accounts in Hong Kong; there is no longer any limit on the ability of corporations to convert RMB; and there is no longer any restriction on the transfer of RMB funds between different accounts in Hong Kong.

However, the current size of Renminbi-denominated financial assets outside the PRC is limited. As of 30 April 2012, the total amount of Renminbi deposits held by institutions authorised to engage in Renminbi banking business in Hong Kong amounted to approximately RMB552,372 million (source: Hong Kong Monetary Authority Monthly Statistical Bulletin). In addition, participating banks are also required by the HKMA to maintain a total amount of Renminbi (in the form of cash, its settlement account balance and/or fiduciary account balance with the RMB Clearing Bank) of no less than 25 per cent. of their Renminbi deposits, which further limits the availability of Renminbi that participating banks can utilise for conversion services for their customers. Renminbi business participating banks do not have direct Renminbi liquidity support from the PBOC. They are only allowed to square their open positions with the RMB Clearing Bank after consolidating the RMB trade position of banks outside Hong Kong that are in the same bank group of the participating banks concerned with their own trade position, and the RMB Clearing Bank only has access to onshore liquidity support from the PBOC only for the purpose of squaring open positions of participating banks for limited types of transactions, including open positions resulting from conversion services for corporations relating to cross-border trade settlement, for Hong Kong residents of up to RMB20,000 per person per day and for the designated business customers relating to the RMB received in providing their services. The RMB Clearing Bank is not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services and the participating banks will need to source Renminbi from the offshore market to square such open positions.

On 14 June 2012, the HKMA introduced a facility for providing Renminbi liquidity to authorised institutions participating in RMB business ("**Participating AIs**") in Hong Kong. The facility will make use of the currency swap arrangement between the PBOC and the HKMA. With effect from 15 June 2012, the HKMA will, in response to requests from individual Participating AIs, provide RMB term funds to the Participating AIs against eligible collateral acceptable to the HKMA. The facility is intended to address short-term RMB liquidity tightness which may arise from time to time, for example due to capital market activities or sudden need for RMB liquidity by the Participating AIs' overseas bank customers.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that no new PRC regulations will be promulgated or the Settlement Agreement will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi offshore. The limited availability of Renminbi outside the PRC may affect the liquidity of its Renminbi Notes. To the extent the Bank is required to source Renminbi in the offshore market to service its Renminbi Notes, there is no assurance that the Bank will be able to source such Renminbi on satisfactory terms, if at all.

Investment in Renminbi Notes is subject to exchange rate risks

The value of Renminbi against the US dollar and other foreign currencies fluctuates and is affected by changes in the PRC and international political and economic conditions and by many other factors. Subject to the applicable Pricing Supplement and Terms and Conditions, all payments of interest and principal with respect to Renminbi Notes will be made in Renminbi. As a result, the value of these Renminbi payments in US dollar terms may vary with the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against the US dollar or other foreign currencies, the value of investment in US dollar or other applicable foreign currency terms will decline.

Payments in respect of Renminbi Notes will only be made to investors in the manner specified in such Renminbi Notes

All payments to investors in respect of Renminbi Notes will be made solely by (i) when Renminbi Notes are represented by global certificates, transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing CMU rules and procedures, or (ii) when Renminbi Notes are in definitive form, transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing rules and regulations. The Bank cannot be required to make payment by any other means (including, but not limited to, in any other currency, by bank notes, by cheques or drafts or by transferring to a bank account in the PRC).

CAPITALISATION

The following table sets forth the consolidated capitalisation of the Group as at 31 December 2011. The information as at 31 December 2011 has been derived from the audited financial statements of the Group as at 31 December 2011. This table should be read in conjunction with the audited financial statements of the Group as at 31 December 2011, including the notes thereto, included elsewhere in this Offering Circular.

	As at 31 December 2011	
	HK\$	US\$⁽¹⁾
	(in millions)	
Short-term borrowings⁽²⁾:		
Deposits and balances of banks and financial institutions	5,121	657
Deposits of customers, short-term portion ⁽³⁾	122,255	15,674
Certificates of deposits, short-term portion ⁽⁴⁾	9,048	1,160
Debt securities issued	397	51
Loan capital ⁽⁷⁾	3,892	499
Total short-term liabilities	<u>140,713</u>	<u>18,041</u>
Capitalisation:		
Long-term borrowings ⁽⁵⁾	—	—
Deposits of customers, long-term portion ⁽³⁾	4,786	614
Certificate of deposits, long-term portion ⁽⁴⁾	3,076	394
Loan capital	4,301	551
Total long-term liabilities	<u>12,163</u>	<u>1,559</u>
Share capital ⁽⁶⁾	7,283	934
Reserves	5,822	746
Shareholders' equity	<u>13,105</u>	<u>1,680</u>
Total capitalisation⁽⁸⁾	<u><u>25,268</u></u>	<u><u>3,239</u></u>

Notes:

- (1) Translated at the rate of HK\$7.80 = US\$1.00.
- (2) Short-term borrowings represent borrowings with a remaining maturity of one year or less or borrowings that are repayable on demand.
- (3) As at 31 May 2012, deposits of customers (short-term and long-term) amounted to HK\$127,740.8 million (US\$16,377.0 million).
- (4) As at 31 May 2012, certificates of deposits (short-term and long-term) amounted to HK\$13,378.7 million (US\$1,715.2 million).
- (5) Long-term borrowings represent borrowings with a remaining maturity of more than one year.
- (6) As at the date of this Offering Circular, the total authorised share capital of the Bank is HK\$8,000,000,000 divided into 8,000,000,000 ordinary shares of par value HK\$1.00 each, and the issued share capital is HK\$7,283,341,176 divided into 7,283,341,176 ordinary shares of HK\$1.00 each. All of the Bank's issued share capital comprises fully paid shares.
- (7) Subordinated notes with a coupon of 9.125% per annum and with face value of US\$250 million (equivalent to HK\$1,950 million) were early redeemed by CKWH-UT2 Limited in May 2012. Loan capital balance after redemption of the notes as at 31 May 2012 was HK\$1,942 million (US\$249 million).
- (8) Total capitalisation represents the sum of total long-term liabilities and shareholders' equity.
- (9) Save as disclosed above, there has been no material change in the consolidated capitalisation of the Bank since 31 December 2011.

DESCRIPTION OF THE ISSUER

The Bank is incorporated and licensed in Hong Kong with business operations and presence spanning across Hong Kong, Macau, the PRC, the United States, Singapore and the Cayman Islands. It is wholly-owned by CITIC International Financial Holdings Limited (**CIFH**), which in turn is 70.32 per cent. owned by China CITIC Bank Corporation Limited (**CNCB**), and 29.68 per cent. owned by Banco Bilbao Vizcaya Argentaria, S.A. (**BBVA**) of Spain. CNCB is 61.85 per cent. owned by CITIC Group Corporation (**CITIC** or the **CITIC Group**) and 15 per cent. owned by BBVA. By providing value-creating financial solutions to define and exceed both the wealth management and international business objectives of its Greater China and overseas customers, the Bank aspires to be the “China Bank of Choice” with the best international standards and capabilities.

As at the date of this Offering Circular, the Bank had a network of 32 branches in Hong Kong, and a branch each in Macau, Shanghai, New York, Los Angeles, Singapore and the Cayman Islands. Additionally, the Bank’s wholly-owned subsidiary, HKCB Finance Limited (**HKCBF**), specialises in the provision of consumer credit and related services in Hong Kong while its PRC-incorporated wholly-owned subsidiary, CITIC Bank International (China) Limited (**CBI China**), is headquartered in Shenzhen with branch presence in Beijing and Shanghai.

The Bank is an integral part of CITIC’s international commercial banking strategy. It is CITIC’s exclusive vehicle to develop commercial banking business in Hong Kong, as well as the commercial banking platform for new business expansion for CITIC and BBVA in Asia. As part of CITIC’s strategy to restructure and align its commercial banking businesses in Hong Kong and Mainland China which is currently operated through the Bank and CNCB, respectively, CITIC privatised CIFH in November 2008 as the first step of CITIC’s overall strategy to restructure and align its commercial banking business in Hong Kong and Mainland China and to facilitate and maximise synergies from the tripartite cooperation between the Bank, CNCB and BBVA (**Restructuring Strategy**). (See “*Principal Shareholders — CITIC International Financial Holdings Limited*”.) As part of the Restructuring Strategy, CITIC transferred all its holdings in CIFH to CNCB for a cash consideration of approximately HK\$13.6 billion (US\$1.7 billion) (**CIFH Acquisition**). The CIFH Acquisition was completed on 23 October 2009.

The Bank believes it has the following competitive advantages:

- it is independently managed by a team of qualified international banking professionals committed to international standards in business excellence and corporate governance;
- it offers depth of knowledge and market connectivity in the PRC through its relationship with and support from CNCB and its ultimate parent, CITIC;
- it has a business model that has been structured and strategically positioned to offer effective and timely “one-stop-shop” financial solutions to customers with cross-border banking and financial needs between the PRC and the rest of the world, and to capture cross-border opportunities from Hong Kong’s role as an offshore RMB centre;
- it has a client-oriented culture focused on transparency, professionalism, discipline, vigour, innovation and progressiveness; and
- it is designated as the international commercial banking platform for CITIC and CNCB.

For the year ended 31 December 2011, the Group reported consolidated net profits of HK\$1,410.2 million (US\$180.8 million) which included the aggregate amount of expenses (including payments under the Repurchase Scheme) associated with Lehman Brothers related products. See “*Investment Considerations — The Bank may be adversely affected by allegations made against it by its customers and/or its regulators*”. As at 31 December 2011, the Group had consolidated total assets, total loans (including trading bills) and total customer deposits and certificates and deposit issued of HK\$171.4 billion (US\$22.0 billion), HK\$93.7 billion (US\$12.0 billion) and HK\$139.2 billion (US\$17.8 billion), respectively, and its capital adequacy ratio, loans to deposits ratio, loans to total assets ratio and average liquidity ratio were 18.3 per cent., 67.3 per cent., 54.7 per cent. and 43.6 per cent., respectively.

The Bank's operations currently comprise four main lines of business: Retail Banking Group (**RBG**), Wholesale and Cross-border Banking Group (**WBG**), International Banking Group (**IBG**) and Treasury and Markets Group (**TMG**).

The principal operations of the Bank's four main lines of business are as follows:

Retail Banking Group

The objective of RBG is to be the preferred and trusted wealth management partner for affluent customers in Greater China, optimising wealth creation and protection through value enhancing solutions and services in tune with the goals and aspirations of its customers. Its products and services primarily comprise general banking and wealth management services for individuals, mortgage lending, consumer lending and credit cards, insurance services, as well as banking solutions for small- and medium-sized enterprises (**SMEs**). These are offered through a multi-channel distribution system which comprises retail branches, automated teller machines, a 24-hour call centre, i-banking and telephone banking.

Wholesale and Cross-border Banking Group

WBG is strategically positioned to be a full-service banking partner for Greater China and international corporates seeking, or active in, cross-border businesses and investments in the PRC. Its target customers include local Hong Kong and PRC companies, multinational companies, public and privately-owned middle market companies, banks and non-bank financial institutions. It strives to offer these customers tailored and value-enhancing solutions including products and services such as syndicated loans, structured finance, project finance, trade finance, working capital finance, bridging finance, property development and investment finance, as well as global markets and insurance products. WBG's key business units include China and Cross-border Banking (**CBB**), Multinational and Cross-border Banking (**MCB**), Financial Institutions and Public Sector (**FI&PS**) and Structured Finance (**SF**).

International Banking Group

In January 2010, IBG was established to strengthen the support needed for the implementation of the Bank's international strategy. IBG assumed responsibility from WBG for the governance, operations and overall general management of all overseas branches (other than branches and subsidiaries in China) of the Bank while sharing profit and loss responsibility with respective functional business heads. IBG's responsibilities for overseas branches do not include branches and subsidiaries in China which remain the responsibility of WBG.

Treasury and Markets Group

TMG performs the dual function of managing the Bank's liquidity and risk exposures, and developing customer-driven trading and distribution capabilities for the Bank. One of TMG's principal roles lies in asset and liability management for the Bank. Under the oversight of the Asset and Liability Committee (**ALCO**), TMG's functions include liquidity management, funding and financing in the money markets and capital markets, and the management of the Bank's trading and investment portfolios. TMG is also responsible for developing the Bank's customer-related treasury business. Apart from offering traditional liabilities hedging solutions, TMG also offers wealth management solutions to customers and works closely with RBG and WBG to cross-sell packaged and tailored structured solutions to the Bank's retail and corporate customers.

History

The history of the Bank dates back to the establishment of Ka Wah Ngan Ho in Guangzhou in February 1922. Ka Wah Ngan Ho was incorporated as a limited company in Hong Kong under the Companies Ordinance in December 1924 under the name of The Ka Wah Savings Bank, Limited. In January 1949, it was renamed as The Ka Wah Bank Limited (the **bank**). In July 1980, the bank made an initial public offer of 35,000,000 ordinary shares of HK\$1.00 par value per share. In 1985, the bank experienced financial difficulties as a result of adverse economic conditions in Hong Kong and incurred substantial losses. This led to the restructuring of the bank with the investment of HK\$350 million in June 1986 by CITIC, which is now the ultimate controlling shareholder of the Bank. CITIC was approved by the PRC's State Council and established in 1979. It is a large transnational conglomerate whose core business lies in the financial services industry. CITIC currently has interests in two commercial banks, namely the Bank and CNCB, as well as interests in non-bank financial businesses which span across areas of investment banking and securities brokerage, trust services, insurance, fund management, asset management, futures and others.

In 1998, the bank underwent a management restructuring to transform it from a small-sized bank managed predominantly by bankers from the PRC into a medium-sized bank managed predominantly by professionals recruited from multinational commercial banks in Hong Kong. In July 1998, the bank changed its name to CITIC Ka Wah Bank Limited to reflect its relationship with CITIC. Under the new management, the bank substantially restructured and expanded its operations to reposition itself as a progressive, customer-oriented bank and which served as a platform for the acquisition of The Hongkong Chinese Bank, Limited (**HKCB**). Subsequently, reforms have been implemented across most areas of the bank, including the core business areas of retail banking, wholesale and cross-border banking, international banking and treasury, to improve the management and operating efficiency of its businesses. Additional investments were made in its information technology infrastructure and the development of new products and services.

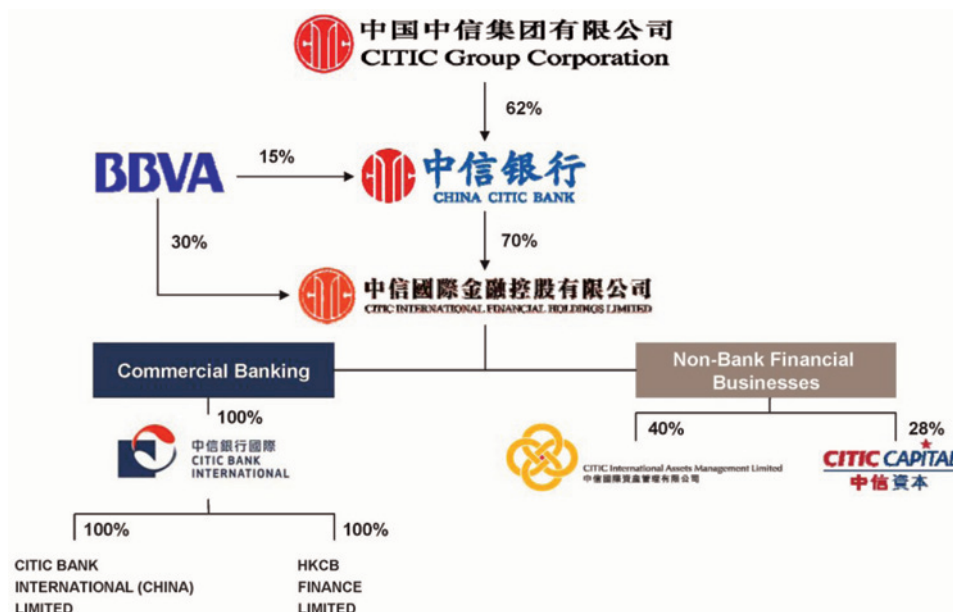
On 17 January 2002, the bank completed the acquisition of the entire issued share capital of the HKCB group for an aggregate consideration of HK\$4.2 billion. On 25 November 2002, the merger of the bank and HKCB was completed when the bank transferred most of its commercial banking assets and liabilities to HKCB and changed its name to "CITIC International Financial Holdings Limited". CIFH maintained its listing status and became the holding company of a group of reorganised banking and financial services companies. At the same time, HKCB changed its name to CITIC Ka Wah Bank Limited and continued to operate the integrated commercial banking business of the merged entities.

On 1 March 2007, CIFH and BBVA completed a strategic alliance agreement which involved BBVA taking a 15 per cent. stake in CIFH. On 3 June 2008, CITIC, through GIL, proposed to privatise CIFH by way of Scheme of Arrangement (**Proposed Privatisation**) as part of its Restructuring Strategy to align its commercial banking businesses in Hong Kong and the Mainland China (See "*Principal Shareholders — CITIC International Financial Holdings Limited*"). On 16 October 2008, CIFH's independent shareholders approved the Proposed Privatisation. On 5 November 2008, CIFH was delisted from the Hong Kong Stock Exchange and on the same day, BBVA's stake in CIFH was increased from 15 per cent. to 30 per cent. The strategic investment in CNCB held by CIFH was proportionately transferred to CITIC and BBVA in December 2008 and BBVA became the sole foreign strategic investor in CNCB. As at the date of this Offering Circular, BBVA owned approximately 15 per cent. of the issued share capital of CNCB.

As part of the Restructuring Strategy, CITIC reaffirmed the role of the Bank as its exclusive vehicle to develop commercial banking business in Hong Kong as well as the international commercial banking platform for new business expansion for CITIC and BBVA in Asia. On 8 May 2009, CNCB announced the CIFH Acquisition. The CIFH Acquisition was approved at CNCB's annual general meeting held on 29 June 2009 and was completed on 23 October 2009.

On 7 May 2010, CITIC Ka Wah Bank Limited changed its name to CITIC Bank International Limited. The Bank's new name signifies its role as the overseas platform for CNCB, to actively pursue business expansion in Hong Kong and internationally.

The following chart sets out the simplified corporate structure of the CITIC Group as at the date of this Offering Circular, showing its business lines and major subsidiaries and associated companies:



Strategy

Hong Kong has a highly sophisticated and mature banking and financial services industry which has traditionally been characterised by intense competition from a market that is crowded by local and multinational financial institutions in anticipation of the continuing opening up of the PRC banking market. With the PRC's growing economic strength and the liberalisation of the PRC banking industry since 2005, major PRC financial institutions, especially those with H-share listings in Hong Kong, have started to embrace internationalisation strategies that leverage Hong Kong as a strategic platform for overseas expansion. Since 2006, PRC banks have been active in acquiring Hong Kong commercial banks to gain immediate access to branch networks as well as operational presence in Hong Kong and overseas. As a result, smaller local and family-owned commercial banks in Hong Kong are increasingly vulnerable to becoming acquisition targets or face the risk of being marginalised.

As an integral part of CITIC's international commercial banking franchise and its exclusive Hong Kong and offshore business development platform, the Bank is well-positioned to compete effectively through its business model of working in close collaboration with CNCB to offer effective and timely "one-stop-shop" financial solutions to customers with cross-border banking and financial needs between the PRC and the rest of the world, and to capture cross-border opportunities from Hong Kong's role as an offshore RMB centre. Through the strategic tripartite alliance between the Bank, CNCB and BBVA, it also has access to the world-class banking expertise and network of BBVA, especially to Latin America with whom the PRC's trade has grown significantly since 2001, turning the PRC into the region's largest trading partner after the United States.

The Bank's objective is to become the "China Bank of Choice" in Asia with international standards and capabilities. By leveraging its role as the offshore commercial banking platform of CITIC in Hong Kong and Asia under the tripartite collaboration between the Bank, CNCB and BBVA, its vision is to support the establishment and expansion of the CITIC international banking franchise. In order to achieve this objective, the Bank pursues a three-pronged approach of: (i) strengthening its core business fundamentals; (ii) identifying and building new competencies that will enhance its ability to serve customers with cross-border business and trade flows between Greater China and the rest of the world; and (iii) strengthening the development and provision of cross-border RMB business and financial solutions.

The implementation of the three-pronged approach is summarised as follows:

Retail Banking: Upscale to target affluent segment

RBG aims to be a leading provider of wealth management services to affluent customers in Greater China. The Bank has focused in recent years on building its wealth management franchise in the Hong Kong market. In order to differentiate its services and establish its unique competitive niche, the Bank created CITICfirst in March 2006, a wealth management offering that is targeted at affluent customers in Greater China. By the end of December 2011, CITICfirst has built a client base of over 19,300 customers, with total client assets under management exceeding HK\$50.0 billion (US\$6.4 billion). See “— *Principal Business Activities — Retail Banking Group — Business Portfolio — Wealth Management Services for Affluent Individuals*”. The Bank aims to continue to focus on this market segment and will strive to offer a greater diversity of innovative wealth management products and services in order to expand its market share in this segment. Efforts will also be made to identify and serve the cross-border wealth management needs of the growing PRC affluent customer segment, as Hong Kong establishes itself as an offshore RMB centre with the support of the PRC government.

Wholesale and Cross-border Banking: Position itself as customer’s preferred cross-border-focused solutions bank

WBG aims to position itself as the preferred solutions provider for Greater China and overseas corporates seeking or active in cross-border businesses and investments in the region. WBG began focusing its efforts in 2005 to develop new markets, products and services, and repositioned its relationship management model. In order to further align with the Bank’s business strategy and harness the focus of building a successful cross-border bank with distinctive competitive advantages, the Wholesale Banking Group and China Banking Group have been combined to form the Wholesale and Cross-border Banking Group in 2012. The new setup will continue to expand its scope of financial services and solutions to mid-cap and large corporate customers and expand the Bank’s regional footprint by establishing branches and representative offices and building its regional customer base to capitalise on the trade and business flows between Greater China and the rest of the region.

The new WBG setup will place an emphasis on executing the cross-border strategy with CNCB. The two banks will systematically develop an integrated product, service and system platform for their corporate clientele, and build complementary competencies in customer resources, professional know-how, product offering, service quality as well as risk management capability.

International Banking Group: Strengthen and expand overseas branches as the offshore business platform for CNCB

In January 2010, IBG was established to strengthen the support needed for the implementation of the Bank’s international strategy. The objectives of IBG include the identification of countries and regions that present opportunities for return and growth of the Bank brand and ensuring that all existing overseas operations are well supported to achieve targets and success.

The Bank established a branch in Singapore in 2011. The Singapore branch provides wholesale banking and global markets products and services to corporate and institutional clients.

The Singapore branch may become a regional hub for Southeast Asian clients as the Bank aims to target those corporations and institutional clients in the region owned or managed by Chinese entities. This is in line with the Bank’s objective to become the “China Bank of Choice” in Asia.

Treasury and Markets: Establish global markets capabilities to drive customer-related income

TMG aims to improve on its traditional role of managing the Bank’s liquidity and risk exposures. It plans to leverage on the expertise and capabilities of BBVA to develop and establish the Bank’s global markets capabilities to expand its revenue sources and to meet the increasingly sophisticated demands of its customers. In particular, it aims to leverage on CNCB’s foreign exchange market-making leadership in Mainland China to develop an offshore capital markets platform in Hong Kong to provide timely financial

solutions to customers. It will work closely with CNCB and BBVA to expand its client base and to generate more customer flows by offering hedging tools such as non-deliverable currencies products and interest rate swaps, as well as structured products for yield enhancement. It will also focus on expanding its China-related businesses such as RMB-denominated trade settlement, RMB bond issuance and RMB initial public offering businesses in due course.

Strategic alliance between the Bank, CNCB and BBVA

On 1 March 2007, CIFIH and BBVA completed a strategic alliance agreement which involved BBVA taking a 15 per cent. stake in CIFIH. On 5 November 2008, as part of CITIC's Restructuring Strategy, CIFIH was privatised and delisted from the Hong Kong Stock Exchange, and on the same day, BBVA increased its stake in CIFIH from 15 per cent. to 30 per cent. The strategic investment in CNCB held by CIFIH was proportionately transferred to CITIC and BBVA in December 2008. As at the date of this Offering Circular, BBVA owned approximately 15 per cent. of the issued share capital of CNCB. On 8 May 2009, also as part of CITIC's Restructuring Strategy, CNCB announced the CIFIH Acquisition and such acquisition was completed on 23 October 2009. Subsequent to the CIFIH Acquisition by CNCB, the Bank supports CNCB to expand its branch network to international financial centres, to develop its commercial banking network internationally, and to provide "one-stop-shop" financial solutions and a wider variety of and more applicable service products and service channels for its customers with international banking needs. The Bank was subsequently renamed CITIC Bank International Limited in May 2010 to fully reflect its role within the CNCB Group to extend the CITIC commercial banking franchise's presence to the Southeast Asia region and beyond.

The Bank believes that the strategic partnership between the Bank, CNCB and BBVA will give the Bank and CNCB access to BBVA's international banking expertise, regional capabilities and global distribution network, and will allow BBVA to commit to using the Bank and CNCB as its platform for future expansion in Asia, especially in the areas of wholesale banking, global markets, international trade finance and private banking. This will support the Bank's goal of establishing itself as the "China Bank of Choice" in Asia that combines the best practices of the East and the West, and will further CITIC's goal to establish itself as a market-leading international PRC commercial banking franchise. See "*Principal Shareholders — CITIC International Financial Holdings Limited — Strategic Alliance between the Bank, CNCB and BBVA*".

The Bank believes the successful execution of these strategies is critical to its ability to serve as an effective vehicle to further the development of the CITIC financial services brand internationally.

Awards

The Bank has over the years received a number of awards for its business, management and operational excellence as well as for its contribution to the Hong Kong community. In 2007, it was awarded the Silver Award in the Hong Kong Management Association Quality Award in recognition of its outstanding achievement in Total Quality Management through its dedication to the implementation of the comprehensive Malcolm Baldrige Management Model. It is the Bank's intention to continue to elevate its quality management practices in its pursuit to become the foremost PRC Asian regional bank, with leading international standards and capabilities.

Other recent awards received by the Bank included the 2007 Hong Kong Retail Bank of the Year by Asian Banking & Finance Magazine and the 2007 Hong Kong Awards for Industries: Productivity and Quality Awards by the Hong Kong Productivity Council. In 2009, CITIC*first* received the Wealth Management Service Award from local finance magazine, Capital Weekly. In 2011, the Bank received the Capital Weekly Wealth Management Service Award again and another award in the RMB Banking category. The Bank's commitment on the development of its staff was recognised by receiving the Best Practice Financial Services - Effective Training Award from Benchmark and Best Practice Management in 2009, the Manpower Developer 1st Award from the Employees Retraining Board and Certificate of Merit in the Award for Excellence in Training and Development by the Hong Kong Management Association in 2010. In April 2012, the Bank retained the Manpower Developer first accreditation by the Employees Re-training Board for another two years until March 2014.

In the area of corporate social responsibility, the Bank was awarded a Gold Certificate by the Social Welfare Department's Volunteer Movement for the fourth consecutive year in 2011, and was named Caring Company for the ninth consecutive year in 2011 by the Hong Kong Council of Social Service. The Bank also won the Best Offshore RMB CD Issuance award from MTN-i in 2010.

Principal Business Activities

The Bank's operations currently comprise four main lines of business: RBG, WBG, IBG and TMG. China Banking, which was formed in early 2002 to establish and oversee the Bank's onshore network and business developments in the PRC as well as driving business and strategic collaborative efforts with CNCB, was combined with Wholesale Banking to form the Wholesale and Cross-border Banking Group in 2012.

The following table sets out the contribution to the operating income of the Group on a consolidated basis by each of the business groups of the Group for the periods indicated.

	For the year ended 31 December		
	2010	2011	
	Amount	Amount	
	(in millions)		
Retail Banking	HK\$1,229.1	HK\$1,376.3	US\$176.5
Wholesale Banking	1,258.5	1,382.5	177.2
Treasury & Markets	292.2	344.6	44.2
Unallocated ⁽¹⁾	226.4	315.4	40.4
Operating Income	HK\$3,006.2	HK\$3,418.8	US\$438.3

Notes:

(1) Including Bank premises and any items which cannot be reasonably allocated to specific business segments.

The following table sets out the profit before taxation from each of the business groups of the Group for the period indicated.

	For the year ended 31 December		
	2010	2011	
	Amount	Amount	
	(in millions)		
Retail Banking	HK\$566.4	HK\$620.4	US\$79.5
Wholesale Banking	630.7	993.5	127.4
Treasury & Markets	(497.6)	9.1	1.2
Unallocated ⁽¹⁾⁽²⁾	460.7	69.0	8.8
Total profit before taxation	HK\$1,160.2	HK\$1,692.0	US\$216.9

Notes:

(1) Including Bank premises and any items which cannot be reasonably allocated to specific business segments.

(2) Profit before taxation from "Unallocated" included net profit/(loss) on disposal of fixed assets and revaluation of investment properties of HK\$536.5 million (US\$68.8 million) and HK\$28.3 million (US\$3.6 million) for the year ended 31 December 2010 and the year ended 31 December 2011 respectively.

Retail Banking Group

Overview

The Bank's strategy is to focus on serving affluent individuals and small business customers in Hong Kong and the PRC. Its objective is to become the preferred and trusted wealth management partner for affluent customers in Greater China, optimising wealth creation and protection through value enhancing solutions and services in tune with the goals and aspirations of its customers. RBG is a full retail service provider

and its principal products and services for retail customers include home mortgage loans, consumer finance, credit cards, deposits and general banking services, private wealth management services including insurance and investment products; and for SMEs, these include hire purchase and leasing, taxi loans, small business loans and other banking solutions. The private wealth management segment is RBG's strategic growth driver, with deposits, mortgages and credit card as the typical entry relationship products.

Customer deposit gathering was a key focus for RBG in 2011. In the face of competition during the year, RBG grew its retail deposits by 13.2 per cent. as at 31 December 2010 to HK\$59.2 billion (US\$7.6 billion) as at 31 December 2011. In addition, RBG continued to make steady growth in mortgages and lending to small- and medium-sized enterprises (SME) in 2011. The outstanding retail lending balance reached HK\$33.3 billion (US\$4.3 billion) as at 31 December 2011, representing a 6.4 per cent. growth as compared to 31 December 2010. The slowdown in growth of the economies in Mainland China and Hong Kong presented a challenge to RBG in 2011. Net interest income recorded a 15.1 per cent. decline in 2011 compared to 2010 to HK\$695.6 million (US\$89.2 million) resulting mainly from the rising cost of funds during the year.

In addition to interest income generated from lending to retail customers and small businesses, the Bank has also focused on growing its non-interest income through the distribution of a wide range of wealth management products which include stock trading, unit trusts, insurance products and structured products. Non-interest income rose by 66.1 per cent. in 2011 compared to 2010 to HK\$680.7 million (US\$87.3 million) partly the result of the write-back from Lehman Brothers Minibonds and the significant revenue growth from currency-linked deposits and foreign exchange related services.

Over the past years, RBG has won various awards for its innovative and successful customer-oriented business model, including the "2002 Hong Kong Retail Management Association Customer Service Award" in recognition of its high service standard, the Hong Kong General Chamber of Commerce "Hong Kong Award for Services: Innovation Award" in 2003 for the Bank's innovative products, and the Hong Kong Retail Bank of the Year award by Asian Banking & Finance Magazine in 2007 for achieving record growth in a mature consumer banking market and successfully bringing private banking-like products to the retail segment. In addition, it was awarded the "Outstanding Retail Sales Volume — Gold Prize" by VISA International in 2004 and 2005, and the "Quality Recognition Award 2004" from JPMorgan acknowledging the Bank's quality excellence in its SWIFT payments. In 2009, CITICfirst received the "Wealth Management Service Award" from local finance magazine Capital Weekly in its "Service Awards 2009". In April 2011, RBG received a Capital Weekly Service Award in the RMB Banking category and another award in the Wealth Management category from local finance magazine Capital Weekly's Service Awards 2011, in recognition of CITICfirst's brand recognition by the market and its customers.

As the Bank continues to gear up to be the regional commercial banking platform for its tripartite alliance with CNCB and BBVA, RBG will prioritise the need to build a strengthened and integrated wealth management platform under a united CITIC brand to service the affluent segment in Greater China and Asia. In April 2011, RBG officially launched its private banking service to build a highly competitive CITIC private banking platform in Hong Kong. The Bank will leverage the private banking initiative of CNCB and BBVA by serving as the offshore banking platform for CNCB private banking customers. Efforts will be made to identify and serve the cross-border wealth management needs of the growing PRC affluent customer segment, as Hong Kong establishes itself as an offshore RMB centre with the support of the PRC government.

Business Portfolio

Wealth Management Services for Affluent Individuals

CITICfirst. To capture opportunities arising from the growing affluence of the Greater China economies, RBG upgraded its wealth management competencies to serve affluent customers by introducing CITICfirst, which targets customers who have liquid net worth of HK\$3 million or more. It is a hybrid service which combines private banking's tailor-made financial solutions that are typically only accessible to high net-worth individuals with US\$1 million or more, with the convenience and diversity of banking services that are available to priority banking customers with assets of HK\$500,000 to HK\$1 million for investment purposes.

CITIC*first* places emphasis on helping customers define and develop optimised solutions to meet their financial goals and expectations. Its service model is built on a carefully structured expert portfolio management process aimed at systematically determining individual customers' financial needs, risk-return profiles, risk tolerances and investment preferences. Utilising a sophisticated and fully-integrated on-line system, the Bank's relationship managers develop modulised risk-return adjusted asset allocation recommendations and investment products tailored to the needs of each individual customer. The system continuously tracks each portfolio's realised and unrealised gains and losses, allowing the relationship managers to deliver timely portfolio monitoring and updates for individual customers.

Following its pilot launch to existing customers in October 2005, the full marketing launch of CITIC*first* was rolled out in March 2006, and by the end of December 2011, CITIC*first* had attracted a total of over 19,300 customers with total client assets under management of exceeding HK\$50.0 billion (US\$6.4 billion). In addition, since the launch of CITIC*first*, the Bank has experienced a robust growth in service fee and commission income associated with unit trust products, securities and investment-linked products as well as bancassurance products. In 2009, CITIC*first* upgraded its wealth management process to enhance customers' understanding of their own risk appetite and wealth objectives. The upgraded process allows the Bank to derive more suitable wealth management strategies for its clients.

As at the date of this Offering Circular, the Bank operates 23 dedicated CITIC*first* banking centres located within its branches in Sheung Wan, Des Voeux Road West, Central, Admiralty, CITIC Tower, Wanchai, Causeway Bay, Leighton Road and North Point in Hong Kong; Jordan, Tsim Sha Tsui, Ho Man Tin, Mongkok, Kowloon City, Mei Foo and Kwun Tong in Kowloon; Tseung Kwan O, Tsuen Wan, Shatin, Tai Wai, Tai Po, Yuen Long and Sheung Shui in the New Territories. Dedicated teller counters are also available at all branches.

With the CITIC*first* wealth management service, the Bank has a foundation in serving high net-worth clientele. The Bank has seen an increase in demand from its high net-worth customers requesting customised wealth management solutions. To cope with this rising business need, the Bank has decided to establish a private banking service focusing on high net-worth individuals and corporations.

Initially, it will focus on upgrading eligible CITIC*first* customers, new customer acquisition with particular attention on those seeking to create wealth, protecting wealth which includes risk diversification and passing assets to their next generation. The entry level of the new private banking service will be set at US\$1 million. It aims at providing investment management solutions as well as regular banking services to the high net worth segment.

Investment products. The Bank offers a comprehensive range of investment products to meet the risk diversification and yield enhancement needs of its customers. Investment products of RBG consist primarily of stocks, bonds, unit trusts and structured products. The Bank offers its customers stock trading services through its branch network as well as its i-banking and call centre channels. Stock trading orders are passed on to the Bank's affiliate, CITIC Securities International Company Limited. The Bank currently distributes unit trusts from global fund companies (including regional equities funds and global balanced money market funds, and individual bonds and equities), and a range of structured products of TMG and other third party investment banks.

The Bank offers online US stock trading services through its i-banking platform. All US stock trading orders are executed by Automatic Data Processing (ADP), an independent computing services company in the United States that handles equities trades. ADP acts as the Bank's execution broker to order execution and clearing services.

Insurance products. The Bank has established non-exclusive strategic alliances with Manulife (International) Limited (**Manulife**) and China Life Insurance (Overseas) Co. Ltd. (**China Life**) to distribute a range of insurance products to the Bank's retail customers. These life insurance products are distributed through the Bank's branch network, CITIC*first* centres and the Bank's call centre. Key insurance products offered by the Bank include the Guaranteed Retirement Income Plan, an annuity

product for retirement planning, Manulife Investment Solutions, a unit-linked insurance and Fortune Builder, an investment-linked assurance scheme. The dual partnership arrangement with Manulife and China Life will ensure that the Bank has the ability to offer a diversified range of wealth planning solutions to suit its customers' savings and protection needs.

Lending to Individual Customers

Mortgages. Residential mortgages represent the largest segment of RBG's total loans to customers. The majority of residential mortgage loans is extended to homeowners and all residential mortgage loans are secured by a first legal charge on the property. These typically have floating interest rates and average loan maturity is approximately 20 years. The Bank offers a comprehensive range of mortgage plans that are linked to the prime lending rate or HIBOR, card repayment mortgages and composite rate mortgage loans. The strategy for residential mortgages remains defensive and prudent lending disciplines are strictly enforced. Aggressive price-cutting competition is deliberately eschewed and preferential mortgage offerings are structured mainly as an integral part of the total service solutions for RBG's core customer segments.

Consumer finance. With the industry-wide decline in consumer demand for revolving credit card balances, the Bank strategically repositioned its credit card business in 2005 to target growth in fee-generating instalment receivables and new sales. RBG avoided direct pricing competition in the consumer lending market by adopting a business acquisition strategy through its Dollar\$mart instalment loan product which emphasises innovative product features and creative pricing packages. RBG has also shifted its consumer finance strategy from a mass strategy to one that enhances traction in deepening relationships with the affluent segment. This strategy dovetailed with CITICfirst's customer inflow and resulted in the growth of its platinum credit card base. For the mass customer base, reviews were conducted regularly to ensure that the overall risk was contained within the expected level.

SME Business

RBG's Business Banking division was established in July 2004 to focus on servicing small business customers with annual sales turnover of up to HK\$50 million, or an outstanding loan value with the Bank of up to HK\$20 million, which was previously serviced by WBG. In early 2008, RBG tightened its account review process and enhanced its security position with a higher proportion of the portfolio in order to manage worsening credit conditions in the small- to medium- enterprise business segment. The Bank believes that small business customers offer an excellent opportunity for cross-selling fee-based products and are an important source of interest income for the Bank. In 2011, RBG focused on growing its portfolio of residential mortgage and secured lending to SMEs and such SMEs which are under the Government Special Loan Scheme. This has led to a growth in retail loan balance of 6.4 per cent. for the year ended 31 December 2011 with an outstanding balance of retail loan balance of HK\$33.3 billion (US\$4.3 billion) as at 31 December 2011.

Insurance Services

CITIC Insurance Brokers Limited (**CIBL**), a wholly owned subsidiary of the Bank, offers a diversified range of professional insurance services to its corporate customers. As a member of the Hong Kong Confederation of Insurance Brokers, CIBL is a full-service insurance consultancy broker providing tailor-made financial and insurance solutions. CIBL adopts a flexible, innovative and professional approach in recommending and selecting insurance products that meet its clients' needs and goals from products offered by over 100 local and international insurance companies.

Private Banking Business

RBG officially launched its private banking service in April 2011 to build a CITIC private banking platform in Hong Kong. By harnessing the strengths and market insights from the unique synergy created through the collaboration between the Bank and its parent CNCB, RBG is capable of providing a comprehensive range of premium wealth management solutions to high net worth individuals with assets under management of no less than US\$1.0 million and entrepreneurs in Mainland China and Hong Kong and has received an encouraging response.

Wholesale and Cross-border Banking Group

Overview

In 2012, the Wholesale Banking Group and China Banking Group were combined to form a new Wholesale and Cross-border Banking Group to accelerate collaboration and connectivity with CNCB/ CITIC Group and build on overseas operations to underpin CBI's "offshore banking platform" position and expand diversified revenue stream.

The four key business areas of WBG

China & Cross-border Banking (CBB). The CBB Group focuses on state-owned enterprises in Mainland China, existing core and strategic customers of CNCB with cross-border needs, privately-owned PRC enterprises who are leaders in their industries, and non-PRC companies which are predominantly doing business in Mainland China. These companies are primarily conglomerates or companies that operate in the manufacturing, trading, toll roads, power and property investment and development industries. Additionally, it also targets Mainland China-focused investment and private equity funds as customers.

CBB also covers the management of CBI China, a wholly-owned subsidiary of the Bank, which was formally established in 2008 with its headquarters in Shenzhen. CBI China currently offers a full range of RMB and foreign currency wholesale banking services, foreign currency banking services for individual customers as well as RMB banking services for non-PRC residents. CBI China serves primarily as an execution platform for the Bank's clients in Mainland China and operates as an extension to the Hong Kong-based WBG marketing teams to provide timely client coverage in the Pearl River Delta region, the Pan-Bohai region and the Yangtze River Delta region.

Multinational & Cross-border Banking (MCB). MCB focuses on major Hong Kong corporates, multinationals and regional corporates with Asian business exposure especially in Hong Kong and Mainland China, as well as large PRC privately-owned enterprises with international partners and active in overseas expansion and international trade. MCB offers banking facilities to public and privately-owned upper-tier and mid-cap companies, primarily in the manufacturing, trading, wholesale and logistic sectors with operations in Hong Kong and the Pearl River Delta region. MCB also places great emphasis on providing project and structured finance to the commercial real estate sector in Greater China and the region and real estate funds and investment trusts.

Financial Institutions and Public Sector (FI&PS). The FI&PS team is responsible for expanding the Bank's marketing reach to banks and non-bank financial institutions in the region and offering banking solutions to government and quasi-government departments or bodies and non-profit making organisations.

Structured Finance (SF). The SF team is responsible for the origination, underwriting and distribution capabilities of the Bank. The team has expertise in cross-border structured finance transactions and experience in various industries including banking, energy, property and funds management.

Strategic Collaboration with CNCB under Tripartite Alliance with CNCB and BBVA

As the Bank's main interface for collaboration with CNCB and other CITIC Group entities in the Mainland China market, the Group-operation office of WBG is responsible for driving the business and strategic collaborative efforts with CNCB under the tripartite alliance. It will continue to promote and co-ordinate business collaboration across all business lines between the Bank and CNCB as well as other CITIC subsidiaries, with the support of CBI China as its extended onshore team. A series of new business cooperation initiatives were successfully introduced, including RMB trade settlement programme, structured financing, pre-Initial Public Offering financing, offshore account opening, i-banking services and offshore bills operations and services.

Furthermore, to realise and maximise synergies under CITIC's Restructuring Strategy for its commercial banking businesses, the Bank and CNCB have commenced formal discussions and dedicated workgroups have been formed to systematically develop integrated product and services platforms for customers, and to build complementary competencies in customer resources, professional know-how, product range, service quality and risk management (See "*Principal Shareholders — CITIC Group*"). In the area of wholesale banking, the two banks plan to develop a common customer set, for which it will develop joint risk management and underwriting standards. Other specific areas for collaboration may also include syndications, joint cross-border financing solutions, international trade settlement and remittances. In the area of treasury services, the two banks plan to explore joint product development opportunities, in particular to tap growing opportunities from cross-border trade settlement, and to share skill sets and expertise as well as build economies of scale in international money market management activities. In the area of wealth management, the two banks will explore opportunities to serve the cross-border needs of the affluent customer segment in Greater China. The two banks will also focus on training and development, particularly in areas such as credit and risk management.

International Banking Group

In January 2010, IBG was established to strengthen the support needed for the implementation of the Bank's international strategy. IBG assumed responsibility from WBG for the governance, operations and overall general management of all the overseas branches of the Bank (other than branches and subsidiaries in Mainland China) while sharing profit and loss responsibility with respective functional business heads. IBG's responsibilities for overseas branches do not include branches and subsidiaries in Mainland China which remain the responsibility of WBG.

Overseas Branches

US branches. The Bank's businesses in the United States are conducted through its two branches located in Los Angeles and New York. The US branches work closely with local enterprises and US-based corporations engaged in PRC-related businesses and aim to meet the financial needs of Chinese corporations in the United States.

Macau branch. The Bank's branch in Macau, opened in 2005, strengthens the Bank's geographic reach and serves customers in the Western Pearl River Delta region. The branch's business is focused on Hong Kong businesses which have set up Macau offshore companies to take advantage of tax benefits; property funds and developers; and Macau corporates. The branch provides tailor-made services in the areas of trade finance, foreign exchange, remittances, loans and deposits, and selected mortgage finance to individual borrowers.

Singapore branch. The Bank opened its Singapore branch in 2011. The Bank's Singapore branch provides wholesale banking and global markets products and services to corporate and institutional clients. The branch will increasingly capitalise on opportunities arising from the internationalisation of the Renminbi, and growth opportunities in the economies of countries in the region. The branch's business is focused on corporations engaged in PRC-related trade.

Regional branch presence. The Bank has plans for regional growth in response to the business opportunities arising from the increasing intra-regional trade and business flows between Greater China and the rest of the region. The Bank is in the preliminary stage of setting up a representative office in Melbourne, Australia.

Treasury and Markets Group

Overview

TMG has two principal functions: one function is to undertake the role of corporate treasury under the oversight of ALCO, and the other function is to undertake the role of Global Markets in managing and developing the trading and distribution business.

Under the oversight of ALCO, TMG's corporate treasury functions include liquidity management, funding and financing in the money markets and capital markets, and the management of the Bank's trading and investment portfolios. Its objectives are to ensure the adequate supply of funds to finance the Bank's local and foreign currency business, to ensure ready access to financing through the money and capital markets, to lower the cost of funding through the use of various financial instruments and different sources of funding, and to invest the Bank's surplus liquidity in debt securities and funds according to the investment criteria set by ALCO.

The Global Markets function of TMG includes managing foreign exchange and interest rate trading risks, market-making of treasury products, and distribution of treasury solutions to the Bank's retail and wholesale customers. In order to enhance the Bank's wealth management business, TMG established its in-house product capability in structured products, and is focused on further building its distribution of wealth management products by working closely with RBG and WBG to cross-sell packaged and tailored structured solutions to the Bank's retail and corporate customers.

Liquidity, Funding and Interest Rates Risk Management

Under the supervision of ALCO, TMG is responsible for managing the funding and liquidity of the Bank. It engages in inter-bank placing and borrowing, and fulfills the Bank's long-term funding requirements by issuing debt securities in both the local and international capital markets. Derivatives are used to swap assets or liabilities to fixed rate or floating rate exposure according to strategies set by ALCO. In addition to being able to issue Notes under the Programme as described in this Offering Circular, the Bank also has a HK\$25.0 billion (US\$3.2 billion) and a HK\$2.0 billion (US\$ 0.26 billion) certificates of deposit issuance facility that it utilises to secure longer term funding so as to reduce the mismatch between the Group's loan and deposit maturities. The Bank aims to structure its liability mix and strengthen its long-term sources of funds by issuing certificates of deposit at regular intervals. Through public syndication and placement, as at 31 December 2011, the Bank's outstanding certificates of deposit amounted to HK\$12.1 billion (US\$1.6 billion).

Another major function of TMG is to invest the surplus liquidity of the Bank under the supervision of ALCO. The interest rate sensitivity of the portfolio is set by ALCO. Surplus liquidity of the Bank is traditionally invested in high grade and liquid fixed income securities and primarily through the Bank's available-for-sale securities portfolio. As at 31 December 2011, this portfolio amounted to HK\$22.2 billion (US\$2.8 billion), and was primarily invested in senior debt of, and exchange fund bills and notes issued by investment grade international financial institutions and governments. The average credit rating of the securities within the portfolio is A-rated or above. Apart from generating extra income for the Bank, this portfolio is also a source of liquidity when necessary. For the year ended 31 December 2011, TMG recorded revenue of HK\$50.1 million (US\$6.4 million) from managing the Bank's surplus funds in 2011.

Customer-driven Trading and Distribution

TMG, which serves as an offshore platform for banking businesses of CNCB, has been focusing on its Non-Deliverable Forward business for clients of CNCB who wish to hedge their onshore exposures. In July 2010, Renminbi as an off-shore currency was introduced in the Hong Kong market, and deliverable products denominated in Renminbi have gradually grown popular. TMG expects customer demand for these treasury tools and solutions to continue to increase, and is focused on strengthening its structuring capabilities and service quality. TMG is also active in delivering structured products to individual investor customers through the Bank's retail banking channel.

In November 2005, the Bank established a treasury operation in its Shanghai branch in order to capitalise on business opportunities arising from the financial development and financial reforms in the PRC which began with the introduction of the new RMB foreign exchange regime in July 2005. The Bank's Shanghai branch obtained its derivatives licence in April 2006 and TMG launched its first derivative product in the PRC in early August 2006. The Bank's Shanghai branch has since been reorganised as a branch of CBI China and the derivatives licence has accordingly been transferred to CBI China. Apart from allowing the

Bank to deliver more effective solutions to its existing clients, the derivatives licence will also enable the Bank to strengthen its collaboration with CNCB in the provision of treasury services. The derivatives licence also allows the Bank to capitalise on opportunities to develop relevant Qualified Domestic Institutional Investor (**QDII**) products and services.

In 2010, TMG started to offer RMB deliverable forward solutions to corporate clients of CNCB in the PRC to facilitate cross border RMB trade settlement flow, with transaction volumes exceeding USD\$2 billion in 2011. To support the Bank's tripartite alliance with CNCB and BBVA, TMG aims to leverage on the expertise and capabilities of BBVA to develop and establish the Bank's global markets capabilities and to further develop its customer-driven trading and distribution capabilities in order to expand its revenue sources and to meet the increasingly sophisticated demands of its customers. In particular, it aims to leverage on CNCB's foreign exchange market-making leadership in Mainland China to develop timely and relevant customer solutions to capitalise on the liberalisation of RMB trade settlement between Mainland China, Hong Kong and the rest of the world.

Other Investments

The Group also invests in fixed income securities from time to time as a means to diversify its income source. The Group mainly invests in investment grade fixed income securities, with approximately 86.0 per cent. of the fixed income securities held by the Group as at 31 December 2011 being rated A-/A3 or above by Standard & Poor's Financial Service LLC or Moody's Investors Services Inc. Other than these fixed income securities, as of the date of this Offering Circular the Group did not have any material exposure to other types of investment, such as funds, structured investment vehicles, collateralised debt obligations and credit default swaps.

Properties

As at 31 December 2011, the Group owned properties with aggregate floor areas of approximately 42,526 square feet, 11,864 square feet and 9,959 square feet on Hong Kong Island, in Kowloon and in the New Territories, respectively. In addition, as at 31 December 2011, the Group also leased properties with aggregate floor areas of approximately 175,806 square feet, 94,771 square feet and 21,990 square feet on Hong Kong Island, in Kowloon and in the New Territories, respectively. These leased properties are used as offices, branches, staff quarters, business continuity sites and warehouses.

Outside of Hong Kong, as at 31 December 2011, the Group owned and leased approximately 10,783 square feet, 4,842 square feet, 7,600 square feet, 8,900 square feet and 14,161 square feet in Shanghai, Macau, Los Angeles, New York and Singapore, respectively. As at 31 December 2011, the Group also owned several apartments in the PRC, which are vacant or used as staff quarters. As at 31 December 2011, CBI (China) leased approximately 11,259 square feet and 14,311 square feet in Beijing and Shanghai, respectively as branches and 18,292 square feet in Shenzhen as the headquarters.

Insurance

The Group procured Banker's Blanket Bond, Computer Crime and Professional Indemnity Insurance to cover potential liabilities against acts including dishonesty, fraud, forgery or alteration, computer crime, internet banking exposure, breach of fiduciary duty, breach of professional duty, breach of statutory duty and misrepresentation and libel. The Bank maintains an "all risk" insurance coverage for its cash, properties and computers, public liability insurance and motor insurance. The Bank generally requires borrowers to obtain appropriate insurance coverage for certain types of security, such as residential premises.

The Bank has also acquired employee compensation, medical and earthquake insurance cover for the Bank's Macau and New York branches.

In addition, following the implementation of the Hong Kong Deposit Protection Scheme since September 2006, the Bank is required to pay contributions to the HKMA to provide customer deposit protection for its customers. This has increased the cost of deposits and the Bank plans to pass part of such cost to customers through reduced deposit interest rates.

Systems and Controls

The Bank operates in a highly regulated environment, and continually reviews and enhances its internal controls, compliance systems, operating policies and procedures. Each business unit and support unit is responsible for ensuring that the internal controls relevant to it are in place, and reviewing the adequacy and appropriateness of such internal controls in light of the changing regulatory requirements and international best practices. The Bank's Operations Committee (OC) (formally known as the Operations and Control Committee or OCC), which is chaired by the Alternate Chief Executive Officer, and whose members include the Chief Financial Officer, Director of Risk, General Counsel & Head of Compliance, Head of Audit, Head of Operations and Technology, Head of Service Quality & People Development and Head of Corporate Support Services as well as representatives from TMG, RBG and WBG, convenes a meeting once a month. Among other duties, the OC monitors, reviews and evaluates the effectiveness of the Bank's internal control environment and makes recommendations for improvement as appropriate.

The Bank invests in technology to improve its operating efficiency and competitiveness and improve control and compliance. The Bank expects to make further investments in technology to automate further its processes in order to comply with changing regulatory requirements on anti-money laundering and anti-terrorist financing.

Litigation

The Group is currently not involved in any material litigation or similar proceedings and the Group is not aware of any circumstances under which any of the same is pending or threatened except those complaints and legal proceedings lodged by the investors against the Bank as a result of losses incurred with respect to the Minibonds and Structured Investment Products. See *"The Bank may be adversely affected by allegations made against it by its customers and/or its regulators"*.

Intellectual Property

The Group relies on domain name registrations to establish and protect its internet domain names. The Group has registered more than 400 internet domain names in various jurisdictions for its current operations.

Employees

As at 31 December 2011, the Group, on a consolidated basis, had a total of 1,721 employees as set forth in the following table.

	No. of Employees
RBG, WBG (including China Banking Department), TMG and IBG	915
Head office and operational support	558
Overseas (Mainland China, Macau, Singapore and the United States)	248
Total	<u>1,721</u>

As at 31 December 2011, approximately 21 per cent. of the Group's employees, on a consolidated basis, performed supervisory and management functions, while the remaining 79 per cent. performed business and operational support functions.

The Group places high priority on its ongoing efforts to attract and retain talent through a combination of prudent people management practices, employee care and recreation programmes, and market-aligned compensation schemes. Emphasis is also placed on performance management, with variable rewards linked to results through differentiation and levelling.

At the same time, training and development remain at the core of the Group's talent development and retention strategy. The Group's staff force received an average of 4.86 training days during the year of 2011, covering business, technical, leadership, managerial, and personal effectiveness training as well as attainment of professional qualifications.

The Board also believes that the Group maintains a good relationship with its employees. None of the Group's employees are members of a trade union. The Group provides staff housing loans and contingency loans, as well as life, personal accident and medical insurance benefits for its employees. The Group maintains a Mandatory Provident Fund Scheme as well as an ORSO Provident Fund Scheme (The Ka Wah Bank Group Provident Fund) for its employees.

Competition

The Hong Kong banking industry is well developed and the Group faces intense competition from many other Hong Kong banks as well as PRC and international banks. In particular, the banking and financial services industry in Hong Kong is a mature market, and as at 31 December 2011, supported 23 Hong Kong incorporated licensed banks and 131 banks incorporated outside Hong Kong competing for a customer population of approximately 7 million people. Therefore, many of the international and local banks and niche players operating in Hong Kong compete for substantially the same customers as the Group.

With the PRC's growing economic strength and the liberalisation of the PRC banking industry since 2005, major PRC financial institutions, especially those with H-share listings in Hong Kong, have started to embrace internationalisation strategies that leverage Hong Kong as a strategic platform for overseas expansion. Since 2006, PRC banks have been active in acquiring Hong Kong commercial banks to gain immediate access to branch networks as well as operational presence in Hong Kong and overseas. As a result, smaller local and family-owned commercial banks in Hong Kong are increasingly vulnerable to becoming acquisition targets or face the risk of being marginalised.

The intensity of competition in the past few years has had an adverse impact on the pricing of certain products.

In recent years, competition among banks in Hong Kong for investment and insurance products, home mortgage loans, credit cards, personal loans and transport lending businesses has become intense.

Since 2000, many banks in Hong Kong, including the Bank, have lowered interest rates charged on new-home mortgage loans not guaranteed by the Hong Kong government. Despite a slight increase in such interest rates in 2008, competition in the mortgage loans market remains intense. In 2009, with interest rates at an extremely low level, a significant portion of new-home mortgage loans charged by banks in Hong Kong was HIBOR based. As at 31 December 2011, the standard rate the Bank charged on its new-home mortgage loans was 2.60 per cent. below the prime lending rate or 245 basis points above HIBOR.

As a result of the intensified competition among banks, the Bank has experienced downward pressure on its profit margins in recent years. To counter the effects of increased competition, the Bank has actively pursued a strategy of diversifying its income sources by focusing on increasing its fee-based income, introducing innovative products and, at the same time, improving the cost efficiency of its operations. See *"Investment Considerations — Considerations relating to the Group — The Group is subject to significant competition"*.

Principal Subsidiaries

The Bank's subsidiaries are involved in the provision of general banking and other financial services. Details of the Bank's principal subsidiaries and its effective equity interest in each, as at 31 December 2011, are set out below.

Name of Company	Place of incorporation/ operation	% of shares held	Principal activities	Issued ordinary share capital
Subsidiary				
Carford International Limited	Hong Kong	100%	Property holding	HK\$2
CITIC Bank International (China) Limited	People's Republic of China	100%	Banking	RMB1,000,000,000
CITIC Insurance Brokers Limited	Hong Kong	100%	Insurance broker	HK\$5,000,000
CKWB-SN Limited	Cayman Islands/ Hong Kong	100%	Issue of structured notes and investments	US\$1
CKWH-UT2 Limited	Cayman Islands/ Hong Kong	100%	Issue of subordinated notes	US\$1
HKCB Finance Limited	Hong Kong	100%	Consumer financing	HK\$200,000,000
The Hongkong Chinese Bank (Nominees) Limited	Hong Kong	100%	Nominees services	HK\$5,000
The Ka Wah Bank (Trustee) Limited . .	Hong Kong	100%	Trustee services	HK\$3,000,000
Viewcon Hong Kong Limited	Hong Kong	100%	Mortgage financing	HK\$2

SELECTED STATISTICAL AND OTHER INFORMATION RELATING TO THE GROUP

Loan Portfolio

Overview

As at 31 December 2011, the Group's total loans to customers were HK\$93,718.1 million (US\$12,015.1 million) which represented 54.7 per cent. of its total assets. Home mortgage loans and loans for property investment represented 24.6 per cent. of the Group's total loans to customers as at 31 December 2011.

The table below sets forth a summary of the Group's loans by sector as at the dates indicated.

	As at 31 December			As at 31 December		
	2010	2010	Percentage of total	2011	2011	Percentage of total
	(in millions, except percentages)					
Loans for use in Hong Kong						
Industrial, commercial and financial						
Property development	HK\$313	US\$40	0.4%	HK\$4	US\$0	0.0%
Property investment	11,585	1,485	13.1	12,906	1,655	13.8
Financial concerns	4,387	562	4.9	2,951	378	3.1
Stockbrokers	182	23	0.2	35	5	0.0
Wholesale and retail trade	9,190	1,178	10.3	6,352	814	6.8
Manufacturing	9,491	1,217	10.7	6,154	789	6.6
Transport and transport equipment . . .	2,941	377	3.3	2,532	325	2.7
Recreational activities	262	34	0.3	269	35	0.3
Information technology	16	2	0.0	1	0	0.0
Others ⁽¹⁾	2,693	345	3.0	2,558	328	2.7
Individuals						
Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	26	4	0.0	23	3	0.0
Loans for the purchase of other residential properties	10,912	1,399	12.3	10,136	1,299	10.8
Credit card advances	267	34	0.3	283	36	0.3
Others ⁽²⁾	4,430	568	5.0	5,335	684	5.7
Trade finance	7,360	944	8.3	10,373	1,330	11.1
Loans for use outside Hong Kong⁽³⁾ . . .	24,763	3,175	27.9	33,806	4,334	36.1
Total	<u>HK\$88,818</u>	<u>US\$11,387</u>	<u>100.0%</u>	<u>HK\$93,718</u>	<u>US\$12,015</u>	<u>100.0%</u>

Notes:

- (1) "Others" includes loans which are used to finance the general working capital of conglomerates including conglomerates in the hotel, retail, import and export, civil engineering, gas and electricity industries.
- (2) "Others" includes personal loans, tax loans and loans for the purchase of commercial and industrial properties.
- (3) This refers to loans to customers with a principal place of business outside Hong Kong.

Geographical concentration

A significant proportion of the Group's loans to customers are advanced to PRC entities, which are identified by those borrowers that are domiciled in the PRC, or are guaranteed by entities domiciled in the PRC and thus have risk transferred to PRC country risk. As at 31 December 2011, Mainland China-related loans accounted for 25.5 per cent. of the Group's total loans to customers. See "— Asset quality".

The table below sets forth a summary of the Group's loans to customers by geographical location as at the dates indicated.

	As at 31 December			As at 31 December		
	2010	2010	Percentage of total	2011	2011	Percentage of total
	(in millions, except percentages)					
Hong Kong	HK\$59,948	US\$7,686	67.5%	HK\$56,667	US\$7,265	60.5%
Mainland China	19,626	2,516	22.1	23,875	3,061	25.5
United States	1,796	230	2.0	1,336	171	1.4
Singapore	607	78	0.7	3,565	457	3.8
Others ⁽²⁾	6,841	877	7.7	8,275	1,061	8.8
Total	HK\$88,818	US\$11,387	100.0%	HK\$93,718	US\$12,015	100.0%

Notes:

- (1) The geographical breakdown is classified by the location of the counterparties after taking into account the transfer of risk and therefore, where a claim guaranteed by a party is situated in a country different from the counterparty, risk will be transferred to the country of the guarantor.
- (2) "Others" includes Bermuda, British Virgin Islands, the United Kingdom, the Cayman Islands, Macau, Taiwan and the United Arab Emirates.

Customer loan concentration

The Banking Ordinance (Cap. 55) of the laws of Hong Kong (the **Banking Ordinance**) generally prohibits any bank incorporated in Hong Kong from maintaining a financial exposure to any single person or group of connected persons in excess of 25 per cent. of its capital base. For a discussion of financial exposure, see "*Regulation and Supervision — Principal Obligations of Licensed Banks — Financial exposure to any one customer*". As at 31 December 2011, the Group's 20 largest borrowers (including groups of individuals and companies) accounted for HK\$24,564.0 million (US\$3,149.2 million) or 15.9 per cent. of the Group's committed exposure. As at 31 December 2011, the Group's five largest borrowers (including groups of individuals and companies) accounted for HK\$9,417.0 million (US\$1,207.3 million) or 6.1 per cent. of the Group's committed exposure with the largest borrower accounting for HK\$3,185.0 million (US\$408.3 million) or 2.1 per cent. of the Group's committed exposure. As at 31 December 2011, 16.8 per cent. of the total loans to customers was represented by outstanding loans to individual borrowers of HK\$15,777.2 million (US\$2,022.7 million).

Loan analysis

A significant proportion of the Group's loans are advanced for the purchase of residential property. 22.6 per cent. and 23.4 per cent. of total loans to customers had a remaining maturity of more than five years as at 31 December 2011 and 31 December 2010, respectively. The following table sets forth a summary of the Group's total loans to customers by remaining maturity as at the dates indicated.

	As at 31 December			As at 31 December		
	2010	2010	Percentage of total	2011	2011	Percentage of total
	(in millions, except percentages)					
Repayable on demand	HK\$1,745	US\$224	2.0%	HK\$2,415	US\$310	2.6%
3 months or less but not						
repayable on demand	13,588	1,742	15.3	17,595	2,256	18.8
1 year or less but over 3 months	20,474	2,625	23.1	24,045	3,082	25.6
5 years or less but over 1 year .	31,099	3,987	35.0	27,281	3,497	29.1
After 5 years	20,828	2,670	23.4	21,205	2,719	22.6
Undated ⁽¹⁾	1,084	139	1.2	1,177	151	1.3
Total	HK88,818	US\$11,387	100.0%	HK\$93,718	US\$12,015	100.0%

Note:

- (1) This refers to loans whose repayments are overdue for more than one month and impaired loans.

As at 31 December 2011, 90.1 per cent. of loans to customers made by the Group were at floating rates and prime lending rates of interest. The Group's interest rate for home mortgage loans and commercial mortgage loans in Hong Kong typically ranges from 2.85 per cent. below the prime lending rate to 1.25 per cent. above the prime lending rate. The Group's interest rate for Hong Kong dollar consumer finance or personal loan products (other than overdrafts) is generally calculated on the initial principal amounts of such loans and typically ranges from 0.053 per cent. to 1.12 per cent. per month and for overdrafts may be as high as 3.0 per cent. above the prime lending rate. The Group's interest rates for Hong Kong dollar hire purchase and equipment leasing loans are with floating rates or at prime lending rates. Trade finance loans made by the Group are typically with floating rates. The interest rate for project finance loans and syndicated loans made by the Group is typically a margin over the HIBOR or, in the case of US dollar facilities, a margin over the London inter-bank offering rate. The Group may, in appropriate circumstances, offer rates which are lower than the above rates. As at 31 December 2011, 58.4 per cent. of total loans to customers made by the Group was denominated in Hong Kong dollars while the remainder was denominated primarily in US dollars.

An important component of the Group's asset and liability policy is its management of interest rate risk, which is the relationship between market interest rates and the Group's interest rates on its interest-earning assets and interest-bearing liabilities. See "*— Asset and Liability Management*".

Home mortgage loans are generally secured by a first legal charge over the underlying property. Working capital loans for businesses are typically secured by fixed and floating charges over land, buildings, machinery, inventory and receivables. Term loans for specific projects or developments are typically secured against the underlying project's assets and its receivables, while the sponsors or shareholders typically provide additional guarantees. The Group also receives guarantees in relation to certain of its other loans to cover, in the case of trade finance, any shortfall in security or, in the case of consumer loans to younger or less financially secure customers, to provide security on what are normally unsecured loans.

All forms of security taken as collateral against credit facilities are monitored by the respective departments which extended the loans. Collateral in the form of property is typically valued by an independent valuer at the origination of the loan. With the exception of home mortgage loans, which are not subject to regular reviews, collateral is generally reviewed on an annual basis by the department which extended the loan.

Credit Policies and Approval Procedures

Internal policies and procedures

The Bank's lending policies have been formulated in line with international standards and industry best practice as well as with close reference to the Banking Ordinance, HKMA guidelines and policies of the Hong Kong Association of Banks and other statutory requirements (and in the case of overseas branches and subsidiaries, the relevant local laws and regulations).

The Group has established loan-to-value ratio requirements for its secured lending based on the appraised market value of the relevant collateral. Loan-to-value ratios on home mortgage loans (excluding loans under the Home Ownership Scheme and Private Sector Participation Scheme and loans under the new mortgage refinancing scheme), which directly follow HKMA guidelines, are currently limited to a maximum of 70 per cent. depending on the property type and the property price. Underlying property values are based on the lower of the purchase price or the independently appraised value of the property. The Group's lending policies also limit the maximum monthly repayment amount to 50 per cent. of the gross household income of a borrower.

The Group has set limits on the Group's banking operations, reinforced the management of operational risks, including risk analysis for new products, and adopted a system for measuring foreign currency derivatives. The Bank has also enhanced its credit review process with the implementation of a total exposure limit system that enforces maximum exposure limits by business groups. With an independent credit management unit in each of the Group's main lines of business, credit origination and approval

functions are separated, enabling independent credit evaluation. Loan application and credit reports are standardised. The Bank has control procedures in credit approval and exposure monitoring for new business areas, such as setting up of approval criteria, authorisation procedures, provisioning policy and portfolio quality tracking were also put in place. The Group has also developed a risk based pricing tool based on facility rating and capital consumption. The tool is being used at the point of credit application to assess the profitability and risks of deals and to manage the Bank's exposure to corporates.

Within the Group, the credit risk management function is centralised and is governed by the Credit and Risk Management Committee (**CRMC**) at Board level of the Bank, see "*Credit and Risk Management Committee*". The CRMC defines and delegates the approval authority to two credit related functional committees: the Credit Committee and the Non-Performing Loans Committee (**NPL Committee**), which focus on different aspects of the credit risk management function of the Group. These two committees comprise the Chief Executive Officer of the Bank, the Director of Risks of the Bank and other members of senior management. The Credit Committee has overall responsibility for the Group's credit policies and oversees the credit quality of the Group's loan portfolio. The NPL Committee controls and manages all critical credits and approves loan impairments.

Under the oversight of the Credit Committee, officers of the Bank are authorised to approve credit based on the size of the loan, the collateral provided and the credit standing of the applicant. In order to improve efficiency and allow the Credit Committee to be more focused on appraising and approving larger and more complicated credits, the lending authority matrix empowers experienced and skilled managers with the responsibility for appraising and approving transactions that are of a lower risk profile and with a lower expected loss.

For its corporate commercial loans and trade finance loans, the Bank has instituted an internal credit scoring system which grades the creditworthiness of a potential borrower based upon a set of expert judgement risk factors together with comprehensive financial analysis and scoring criteria. The credit scoring system comprise a 14-grade internal risk rating system. The credit score given to a potential borrower and related obligors will help determine whether the Bank will extend credit to such borrower, the size of the loan facility, the pricing on the loan and whether collateral will be required. See "*— Asset Quality — Loan Classification*".

For the Group's retail banking loans, such as credit cards and personal loans, a TransUnion Information Services Limited check (**TU Check**) is carried out for credit information of the particular borrower. The Bank plans to expand its retail lending business selectively and prudently. All credit cards and personal loans are subject to a TU Check, although the Bank does not implement any credit scoring system for hire purchase and equipment financing loans. In the case of taxi and public light bus financing, the Bank approves the size of financing on the basis of the value of collateral (including the vehicle, operating licence and any dealer's guarantee) and the future cash flow of the borrower comprising rental or operating income that can be derived from the vehicle. In approving any equipment financing, the Bank primarily focuses on the repayment ability of the borrower as indicated by the debt-service ratio of the borrower calculated by the Bank in accordance with a prescribed formula rather than the value of the equipment.

Risk Management Group

The Risk Management Group is responsible for: (i) credit policy formulation; (ii) credit evaluation; (iii) authorisation and approval; (iv) compliance with credit policies and approval conditions; (v) credit administration; and (vi) exposure control. The Risk Management Group's key objectives are to evaluate new credit applications and review existing accounts to ensure sound credit and robust asset quality monitoring. When loans are graded sub-standard or below by the Group, such loans will generally be transferred to the Risk Assets Management Department (**RAMD**) which will institute the appropriate debt recovery actions.

Asset Quality

Overview

Through its stringent credit control processes, the Group reduced classified loans from HK\$757.2 million (US\$97.1 million) in 2007 to HK\$700.6 million (US\$89.8 million) in 2011.

The Group has managed its asset quality in a prudent manner in the face of the global financial crisis as triggered by the collapse of the US financial market since the second half of 2008. As a result of such efforts, the Group's impaired loan decreased to HK\$1,230.8 million (US\$157.8 million) in 2010 and HK\$700.6 million (US\$89.8 million) in 2011.

The Bank's residential mortgage delinquency ratio, which was nil in 2010, rose to 0.06 per cent. at the end of 2011, which was slightly above the industry average of 0.03 per cent. as announced by the HKMA. As at the date of this Offering Circular, the Bank has a credit rating of "BBB" from Fitch Ratings and a credit rating "Baa3" from Moody's.

The Group's PRC exposure accounted for 25.5 per cent. of the Group's total loans to customers as at 31 December 2011. Since 1998, the Bank has sought to improve the quality of its PRC-related loans. As a result, PRC-related non-performing loans as a percentage of the Group's total non-performing loans have been reduced from 37.4 per cent. as at 31 December 2008 to 9.0 per cent. as at 31 December 2011. See "*Asset Quality — Overview*". The Group plans to expand its PRC lending business selectively and prudently by pursuing opportunities resulting from the accession of the PRC to the WTO and leveraging off the established network and relationships in the PRC of the CITIC Group. See "*— Credit Policies and Approval Procedures — Internal policies and procedures*".

The performance of the Hong Kong economy is heavily dependent on the property sector. The Group's property lending accounted for 24.6 per cent. of the Group's total loans to customers as at 31 December 2011. As a result, the Group's asset quality is closely correlated to the industry performance of the property markets. As at 31 December 2011, home mortgage loans accounted for HK\$10,135.7 million (US\$1,299.4 million) or 10.8 per cent. of the Group's total loans to customers. Home mortgage loans accounted for the largest segment of the Group's total loans to customers. See "*Risk Factors — Considerations relating to the Group — The Group has significant exposure to the Hong Kong property market*".

RAMD is responsible for resolving the Group's exposure to non-performing loans and improving the Group's recovery on such non-performing loans. In general, loans are transferred to RAMD once they have been classified as sub-standard or below.

Loan classification

In 2005, the Group developed a judgement based risk rating system which is used to rank borrowers of the Bank's wholesale banking portfolio based on their default risk. In 2011, these ratings have been deployed into a new credit rating platform and a risk analyst facility rating is assessed separately. This borrower risk rating system has 14 grades (including three classified grades) and each grade is mapped to the probability of default of the borrowers. This model was developed to assess the creditworthiness of borrowers and output from the model will then be mapped to HKMA rating scales.

The rating system can provide information on the borrower's credit quality and allow credit grade migration, monitoring and analysis. It provides significant value-added benefits to the Bank's strategic and business decision-making process in terms of asset allocation and portfolio management of credit grades distribution.

The Group's credit grading classifies loans into the following 14 categories:

Grades 1 to 10 — Pass;

Grade 11 — Special Mention; and

Grades 12 to 14 — Classified Loans.

A borrower risk rating estimates the borrower's default risk. It is used to classify borrowers into different risk categories according to their level of default risk mapped against default experience. Borrower risk ratings should provide a meaningful risk differentiation and should be calibrated to the borrower's Probability of Default (**PD**). All corporate borrowers are mapped to the master rating scale based on their PD. The structure of the master rating scale is specified with a PD range for each grade. Each internal grade reflects the likelihood that a borrower will default.

Recognition of classified loans

The Group's classified loans are sub-divided into three categories: sub-standard (Grade 12), doubtful (Grade 13) and loss (Grade 14). A key driver for determining a loan classification is the number of overdue days. For the WBG portfolio, sub-standard loans are unsecured loans overdue for 91 to 180 days and secured loans overdue for 91 to 360 days, doubtful loans are unsecured loans overdue for over 180 days and secured loans overdue for 360 days and loss loans are secured and unsecured loans with remote collectability. For the RBG portfolio, a more stringent classification is adopted, sub-standard loans are secured and unsecured loans overdue for 91 to 120 days, doubtful loans are secured and unsecured loans overdue for 121 to 180 days and loss loans are secured and unsecured loans overdue for over 180 days or with remote collectability. The Group would only consider not downgrading a loan in accordance with the overdue days when there is good justification that is in line with the guidance of the HKMA. On the contrary, even when there is no overdue day, the Group may still consider downgrading a loan as sub-standard, doubtful or loss loans if there are severe trigger events such as liquidation, bankruptcy, winding-up, receivership and proven management fraud. The terms "classified loans", "impaired loans" and "non-performing loans" are used synonymously in this Offering Circular and refer to loans that are classified as sub-standard, doubtful and loss.

Impairment of loans and receivables

The Group has adopted both the collective assessment approach and the individual assessment approach in accordance with the HKAS 39 to ascertain the impairment amounts of its non-impaired and impaired credit exposures. The accounting policy for the impairment of loans and receivables is set out in the F-pages of this Offering Circular.

All non-impaired corporate credit exposures shall be subject to regular impairment assessment by major industry sectors. In the conduct of collective impairment assessments, the assessment framework takes into consideration the Group's loss experience, emerging period factors and macroeconomic factors.

With respect to impaired loans, provision is made according to the prospects for recovery. Whenever the likelihood of recovery appears remote, bad and doubtful corporate debts are written off. With respect to bad and doubtful personal loans, it is the Group's policy to make full provisions for all unsecured amounts outstanding.

Top ten non-performing loans

As at 31 December 2011, the Group's ten largest non-performing loans accounted for 0.7 per cent. of its total loans to customers and 94.1 per cent. of its gross non-performing loans to customers. As at 31 December 2011, the Group's exposure from its ten largest non-performing loans ranged from HK\$8.9 million (US\$1.1 million) to HK\$186.0 million (US\$23.8 million), and amounted to approximately HK\$659.5 million (US\$84.6 million) in the aggregate out of HK\$700.6 million (US\$89.8 million) of non-performing loans in total, of which the Hong Kong exposure accounted for approximately 46.6 per cent., the PRC exposure accounted for approximately 9.6 per cent., and exposure to the others accounted for approximately 43.8 per cent.

Recovery of non-performing and classified loans

RAMD is responsible for managing problematic loans that are transferred from WBG and other business units in the Bank. Accounts that are transferred to RAMD are reviewed and monitored on an ongoing basis and depending on the performance of the account, the RAMD may recommend the restoring of the loan to normal status, the restructuring of the loan or the commencement of debt collection or asset recovery procedures.

RAMD adopts a systematic and flexible approach towards the recovery of non-performing and classified loans through means such as enforcement of security, debt restructuring, asset swaps and settlement. In certain circumstances, particularly in relation to PRC-related loans, the department may conduct asset-for-debt swaps and accept assets such as equity interests in PRC businesses and land for residential or commercial development in the PRC. Where appropriate, risks and problems associated with transfer of legal title are managed with the advice of PRC legal advisers.

Even after a non-performing loan has been written off, RAMD will continue its recovery efforts until it is satisfied that all recovery efforts have been exhausted, in which case it will recommend the closing of the account.

The Group's classified loans are resolved on a case-by-case basis, subject to the approval of the NPL Committee on the restructured limits and recovery measures. Loans are generally considered for restructuring where there has been a deterioration in the financial position or repayment capability of a customer, or where a customer has been granted concessions with respect to the tenor of the loan or repayment terms. For the year ended 31 December 2011, the Group resolved a total of HK\$807.0 million (US\$103.5 million) of classified loans, as a result the net total impaired loan was only HK\$ 700.6 million (US\$ 89.8 million) at that financial year, equating to 0.7 per cent. of all loans.

Asset and Liability Management

ALCO comprises senior management of the Bank, including the Chief Executive Officer, Director of Risks, Head of Wholesale and Cross-border Banking Group, Head of Retail Banking Group, Chief Financial Officer, Head of Market Risk and Liquidity Modeling, Head of International Banking Group and the Treasurer.

ALCO regularly makes assessments and recommendations on issues that are likely to impact the Group's financial condition, including the management of market risk, interest rate risk, foreign exchange risk, liquidity risk, capital, asset and liability mix and key strategic investments. ALCO meets on a bi-weekly basis to formulate the Bank's asset and liability strategies. TMG is responsible for the daily management of the discretionary portion of the Bank's assets and liabilities within the approved internal limits, including repricing gap limits.

The Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of gap analysis. This analysis provides the Bank with a static view of re-pricing characteristics of its balance sheet positions. An interest rate gap report is prepared by classifying all assets and liabilities into various time period categories according to repricing dates. This would then give the Bank an indication of the extent to which it is exposed to the risk of potential changes in net interest income with the anticipated change in interest rate.

The Bank's liquidity structure, derived from its assets, liabilities and contingent commitments, is managed so as to ensure that all of the Bank's operations can meet their funding requirements and comply with the statutory liquidity ratio and regulatory requirements. The liquidity risk is well managed by holding sufficient liquid assets, such as cash, short-term funds and liquid securities of investment grade. Access to inter-bank borrowing is maintained through sufficient counterparty money market as well as repurchase facilities. Moreover, the Bank also solicit longer term funding through regular issuance of medium-term certificates of deposit.

The Chief Financial Officer of the Bank reports the Bank's liquidity position on a daily basis while TMG proactively manages the Bank's liquidity position by carrying out daily forecasts. The average liquidity ratio of the Bank was approximately 43.6 per cent. for the year ended 31 December 2011, which was well above the statutory minimum ratio of 25 per cent.

The majority of the Bank's loans is made at floating rates that are benchmarked against the inter-bank rates and prime lending rate. These assets are primarily funded by floating rate liabilities, including customer deposits and certificates of deposit. The interest rate risk, basis risk and liquidity risk of the Bank's assets and liabilities are continuously monitored by ALCO and if necessary, ALCO may take necessary action to mitigate these risks, such as using interest rate swaps to hedge against rises in interest rates.

The Group has limited foreign exchange exposure as foreign exchange positions and foreign currency balances arising from customer transactions are normally offset against other customer transactions or transactions with the market. The Group's assets and liabilities are primarily denominated in Hong Kong dollars, US dollars and Renminbi. The net exposure positions, both by individual currency and in aggregate, are managed by TMG on a daily basis within established foreign exchange limits.

Long-term foreign currency funding, to the extent that this is used to fund Hong Kong dollar assets, is normally hedged using currency swaps and forward exchange agreements to reduce the foreign exchange risk.

Credit and Risk Management Committee

The CRMC was established in 2002 at the Board level of the Bank to oversee the Bank's risk management strategy, policies and mechanisms, with a view to optimising the Bank's risk management system. The risks concerned primarily include credit, market, interest rate, liquidity, operational, reputation, legal and strategic risks. The CRMC carries out its oversight function on the Bank's risk management through various committees at Bank management level, including: Credit Committee, NPL Committee, ALCO and Operations Committee. The CRMC comprises five Directors of the Bank.

Internal Auditing

The Audit Department of the Bank has responsibility for the internal audit of its operations. Through regular audits of the Bank and its subsidiaries, the Audit Department seeks to review and evaluate the adequacy and effectiveness of internal controls, safeguard its assets, improve efficiency of operations and assess compliance with established policies, procedures and relevant statutory requirements. The Audit Department reports its findings to the Audit Committee of the Board and the Chief Executive Officer of the Bank as well as the relevant subsidiaries and departments of the Bank on a regular basis. Such findings are also shared with the Bank's external auditors and the HKMA regularly.

Legal and Compliance

The Legal and Compliance Department of the Bank was reorganised into two departments in February 2010, a Legal department and a Compliance department. The Legal Department and Compliance Department are respectively responsible for administering the legal issues and regulatory compliance issues concerning the Bank's business. Both of the Legal Department and the Compliance Department also respectively review new products and business proposals from the legal perspective and compliance perspective. Another key function of the Bank's Compliance Department is to conduct periodic reviews of certain of the Bank's activities, advise senior management in accordance with applicable laws, rules and regulations and raise compliance awareness among staff members. The Compliance Manual, which is updated regularly, was first issued to all staff members of the Bank in November 2001 and regular training sessions are conducted to update them on any significant legal and regulatory changes relevant to the operations of the Bank.

MANAGEMENT

The Bank is managed by the Board, which is responsible for the direction and management of the Bank. The articles of association of the Bank require that there shall be no fewer than eight directors (each a **Director**) unless and until otherwise determined by the shareholders of the Bank. Directors can be appointed at any time either by the shareholders or by the Board. Directors appointed by the Board shall hold office until the next annual general meeting and shall be eligible for re-election at that meeting. The Board also rotates its Directors. At each annual general meeting, all Directors are required to retire from office by rotation and are eligible at the same meeting for re-election.

The aggregate emoluments, consisting of fees, salaries, allowances and benefits in kind, pension contributions and bonuses, of the Directors for the year ended 31 December 2011 was HK\$26.4 million (US\$3.4 million).

Board of Directors

The current Board comprises the following individuals:

Name	Age	Title
DOU Jianzhong	57	Chairman
CHAN HUI Dor Lam Doreen	58	President and Chief Executive Officer
MAN Margaret	57	Deputy Chief Executive Officer
TSIM Tak Chee Archie	53	Alternate Chief Executive Officer
ZHAO Shengbiao Peter	61	Executive Vice President and Country Head, USA
BARREIRO Jose	54	Non-executive Director
CAO Guoqiang	47	Non-executive Director
CAO Tong	44	Non-executive Director
CHANG Zhenming	55	Non-executive Director
CHEN Xiaoxian	57	Non-executive Director
GILLOT Patrick Georges	53	Non-executive Director
JU Weimin	48	Non-executive Director
KONG Dan	65	Non-executive Director
TORANO Gonzalo	51	Non-executive Director
GIL-TIENDA Rafael	59	Independent Non-executive Director
LAM Kwong Siu	78	Independent Non-executive Director
TSANG Yiu Keung Paul	58	Independent Non-executive Director

Mr. DOU Jianzhong (*Chairman*)

Appointed as a Director of the Bank on 25 November 2002 and was elected as Chairman on 17 October 2006. Mr. Dou is an Executive Director of CITIC Group Corporation, Executive Director and Vice President of CITIC Limited, Chairman of CITIC Holdings Limited, Chairman of CITIC Prudential Life Insurance Co., Ltd., Non-executive Director of China CITIC Bank Corporation Limited, Director and Chief Executive Officer of CITIC International Financial Holdings Limited, Director of CITIC

International Assets Management Limited, Chairman of CIAM Group Limited and Director of CITIC Capital Holdings Limited. Mr. Dou graduated from the University of International Business and Economics, Beijing in 1979 and obtained a Master's Degree in Economics from Liao Ning University. He was granted the title of "Senior Economist" by CITIC Group Corporation. Mr. Dou was formerly the President of CITIC Industrial Bank (now known as China CITIC Bank Corporation Limited) and has extensive experience in the finance industry.

Mrs. CHAN HUI Dor Lam Doreen (*Chief Executive Officer*)

Appointed as a Director of the Bank on 17 January 2002 and was further appointed Chief Executive Officer on 16 April 2002. Mrs. Chan is a Non-executive Director of China CITIC Bank Corporation Limited, Director, Managing Director and Alternate Chief Executive Officer of CITIC International Financial Holdings Limited, Chairman of HKCB Finance Limited, CITIC Insurance Brokers Limited and CITIC Bank International (China) Limited. She was formerly a Director of CITIC Group (now known as CITIC Group Corporation). Prior to joining the Bank, Mrs. Chan was in charge of the retail banking business of a major international bank in Hong Kong. Mrs. Chan is active in her support for higher education and professional bodies as well as non-profit organisations. She is currently serving on the board of Haven of Hope Christian Service, Chairman of the organisation's Subvented Services Governing Committee, a member of its Development Steering Committee and the Hospital Governing Committee of the Haven of Hope Hospital. She is also Chairman of China Graduate School of Theology and an appointed member of the Council and the Finance Committee of Hong Kong Baptist University, and of the Board of Governors of Hong Kong Baptist University Foundation.

Ms. Margaret MAN (*Deputy Chief Executive Officer*)

Appointed as a Director of the Bank on 28 June 2012. Ms. Man joined the Bank in 1998 and is now the Deputy Chief Executive Officer of the Bank in charge of its Wholesale and Cross-Border Banking Group. She is also the Vice Chairman of CITIC Bank International (China) Limited. Ms. Man has over 20 years of experience in the banking industry in the PRC. She graduated from Shanxi Financial and Economics University obtaining a Bachelor's Degree in Economics and further studied in the Graduate School of The People's Bank of China obtaining a Master's Degree in Banking and Finance. Ms. Man had been a Division Chief in PBOC and worked for PBOC for 7 years. Before joining the Bank, Ms. Man was Deputy Managing Director of China Venturetechno International Co. Ltd.

Mr. TSIM Tak Chee Archie (*Alternate Chief Executive Officer, Director of Corporate Planning and Head of Structured Finance*)

Appointed as a Director of the Bank on 1 July 2010. Mr. Tsim is also an Alternate Chief Executive Officer, Director of Corporate Planning and Head of Structured Finance of the Bank, and the Group Chief Financial Officer of CITIC International Financial Holdings Limited. He has over 27 years of experience in the banking and finance industry. Mr. Tsim started his career in accounting and gained comprehensive exposure in financial management, corporate finance and advisory, and business operations, primarily from The Hong Kong and Shanghai Banking Corporation Limited and The Hong Kong Exchanges and Clearing Limited. Prior to joining the Bank, he was the Chief Financial Officer and Head of Finance & Administration of The Hong Kong Exchanges and Clearing Limited.

Mr. ZHAO Shengbiao Peter (*Executive Vice President and Country Head, U.S.A.*)

Appointed as a Director of the Bank on 25 November 2002. He is now also the Executive Vice President and Country Head, U.S.A. of the Bank and in charge of the overall business operations in the USA. Further, Mr. Zhao is also an Executive Director of CITIC International Financial Holdings Limited. He graduated from the University of International Business and Economics, Beijing and obtained a Master's Degree in Finance from the College of Insurance, New York. He has over 30 years of experience in international banking and worked in Beijing, London, Paris, Hong Kong and New York.

Mr. Jose BARREIRO (*Non-executive Director*)

Appointed as a Director of the Bank on 3 December 2009. Mr. Barreiro is the Non-executive Director of China CITIC Bank Corporation Limited and CITIC International Financial Holdings Limited. He is also a member of the board of directors of Bolsas y Mercados Espanoles and Desarrollo Urbanistico Chamartin. Mr. Barreiro holds a Bachelor's Degree in Economics from the Universidad Complutense of Madrid in Spain. He has extensive business connections and experience in wholesale banking and finance.

Mr. CAO Guoqiang (*Non-executive Director*)

Appointed as a Director of the Bank on 23 October 2009. Mr. Cao is the Vice President of China CITIC Bank Corporation Limited, a Non-executive Director of CITIC International Financial Holdings Limited and a Director of China Investment and Finance Limited. Mr. Cao has 23 years of experience in the banking industry in the PRC. Prior to joining China CITIC Bank Corporation Limited in 2005, he had held various senior positions at China Merchants Bank, including General Manager of the Planning and Treasury Department at its headquarters and at its Shenzhen Administrative Department respectively. He had also worked at the Planning and Treasury Department of the Shaanxi Branch of The People's Bank of China from July 1988 to June 1992. Mr. Cao graduated from Hunan College of Finance and Economics with a Bachelor's Degree in Money and Banking. He received his Master's Degree in Money and Banking from Shaanxi College of Finance and Economics.

Mr. CAO Tong (*Non-executive Director*)

Appointed as a Director of the Bank on 23 October 2009. Mr. Cao is presently the Executive Director and Vice President of China CITIC Bank Corporation Limited, Non-executive Director of CITIC International Financial Holdings Limited and Director of CITIC Prudential Life Insurance Co., Ltd. Mr. Cao has 22 years of banking experience in the PRC. Prior to joining China CITIC Bank Corporation Limited in 2004, he had held various senior positions at China Merchants Bank and had also worked at the Beijing Branch of The People's Bank of China from July 1990 to January 1994. Mr. Cao was granted the title of "Senior Economist" by China Merchants Bank. He graduated from Renmin University of China with a Bachelor's Degree in Economics as well as a Master's Degree in Finance. Mr. Cao also obtained a Doctor's Degree in Economics from Dongbei University of Finance and Economics.

Mr. CHANG Zhenming (*Non-executive Director*)

Appointed as a Director of the Bank on 18 November 2006. Mr. Chang is the Chairman of CITIC Group Corporation, Chairman of CITIC Limited, Vice Chairman of CITIC International Financial Holdings Limited, Chairman of CITIC International Assets Management Limited, CITIC Capital Holdings Limited and CITIC Pacific Limited. He holds a Master's Degree in Business Administration from the Insurance College of New York and has over 20 years of experience in banking, finance and securities business. Mr. Chang was formerly the Vice Chairman of China CITIC Bank Corporation Limited and the Vice Chairman and President of China Construction Bank Corporation.

Dr. CHEN Xiaoxian (*Non-executive Director*)

Appointed as a Director of the Bank on 17 January 2005. Dr. Chen is the Director & President of China CITIC Bank Corporation Limited and a Non-executive Director of CITIC International Financial Holdings Limited. He is a mentor for doctoral students and a visiting professor of Dongbei University of Finance and Economics, as well as a visiting professor of Renmin University of China. Dr. Chen was formerly the Executive Director and Vice President of CITIC Group (now known as CITIC Group Corporation). Before joining CITIC Group, Dr. Chen was a Director and Executive Vice President of China Merchants Bank. He graduated from Renmin University of China with a Bachelor's Degree in Finance. He received his Master's Degree in Finance from Xinan University of Finance and Economics and his Ph.D. in Finance from Dongbei University of Finance and Economics. He was granted the title of "Senior Economist" by PBOC and has 29 years' extensive experience in banking. In 2005 to 2011 consecutively, Dr. Chen received the "China's Top Ten Finance Figures of the Year Award" from "The Chinese Banker" magazine. He also received the "Top Ten New Leaders in Finance of the Year Award" from the China International Forum in 2006 and 2007.

Mr. Patrick Georges GILLOT *(Non-executive Director)*

Appointed as a Director of the Bank on 6 December 2011. Mr. Gillot is also a Non-executive Director of CITIC International Financial Holdings Limited and the Chief Operating Officer, Asia of Banco Bilbao Vizcaya Argentaria, S.A. He holds a Master's Degree in Political Sciences and Economy from Sciences-Po Paris (Institut D'Etudes Politiques de Paris) and a Master's Degree in Business Administration from Hautes Etudes Commerciales Paris respectively.

Mr. JU Weimin *(Non-executive Director)*

Appointed as a Director of the Bank on 25 November 2002. Mr. Ju is the Vice President, Chief Financial Officer and Secretary to the Board of CITIC Limited, Chairman of Asia Satellite Telecommunications Holdings Limited and CITIC Resources Holdings Limited, Non-executive Director of CITIC Pacific Limited, CITIC Securities Company Limited, China CITIC Bank Corporation Limited and CITIC International Financial Holdings Limited. He was formerly the Executive Director, Vice President and the Chief Financial Officer of CITIC Group (now known as CITIC Group Corporation). Mr. Ju graduated from Renmin University of China with a Master's Degree in Accounting.

Mr. KONG Dan *(Non-executive Director)*

Appointed as a Director of the Bank on 25 November 2002. Mr. Kong is the Chairman of CITIC International Financial Holdings Limited. He was formerly the Chairman of CITIC Group (now known as CITIC Group Corporation), China CITIC Bank Corporation Limited and CITIC Resources Holdings Limited, Vice Chairman and President of China Everbright Group Limited, Vice Chairman of China Everbright Limited and Chairman of China Everbright Technology Limited. Mr. Kong holds a Master's Degree in Economics from the China Academy of Social Sciences. He has extensive business connections and experience in investment and finance.

Mr. Gonzalo TORANO *(Non-executive Director)*

Appointed as a Director of the Bank on 1 August 2011. Mr. Torano is also a Non-executive Director of CITIC International Financial Holdings Limited and, the Managing Director and Head of Asia Pacific of BBVA. He has been working with the BBVA group since 2002. Mr. Torano graduated from Complutense University of Madrid.

Mr. Rafael GIL-TIENDA *(Independent Non-executive Director)*

Appointed as an Independent Non-executive Director and Chairman of the Credit & Risk Management Committee of the Bank on 20 October 2003. Mr. Gil-Tienda is an Independent Non-executive Director of CITIC International Financial Holdings Limited and a member of the Senior Advisory Board of Oliver Wyman. Mr. Gil-Tienda obtained a Bachelor's Degree in Philosophy, Politics and Economics from the Oxford University and a Master's Degree in Business Administration from the University of California, Berkeley. He was formerly with Standard Chartered Bank and Citibank and has over 25 years of banking experience.

Mr. LAM Kwong Siu *(Independent Non-executive Director)*

Appointed as an Independent Non-executive Director of the Bank on 17 January 2002. Mr. Lam is the Vice Chairman of BOC International Holdings Limited, and Independent Non-executive Director of CITIC International Financial Holdings Limited, China Overseas Land & Investment Limited, Far East Consortium International Limited, Fujian Holdings Limited, Xinyi Glass Holdings Limited and Yuzhou Properties Co., Ltd. He was formerly the Deputy Chief Executive of Bank of China Hongkong-Macau Regional Office, Chairman of Po Sang Bank Limited, Vice Chairman of Chi Yu Banking Corporation Limited, Director of Bank of China, BOC China Fund Limited and Henderson China Holdings Limited. Mr. Lam has over 50 years of continuous banking experience.

Mr. TSANG Yiu Keung Paul (*Independent Non-executive Director*)

Appointed as an Independent Non-executive Director and Chairman of the Audit Committee of the Bank on 1 September 2004. Mr. Tsang is also an Independent Non-executive Director and Chairman of the Audit Committee of CITIC International Financial Holdings Limited and two listed companies in Hong Kong, namely Guotai Junan International Holdings Limited and L. K. Technology Holdings Limited. He is a professional accountant and a Fellow Member of The Hong Kong Institute of Certified Public Accountants, The Chartered Association of Certified Accountants and The Institute of Chartered Secretaries and Administrators. Mr. Tsang was with KPMG for more than 27 years, where he was a senior banking partner until he retired from the firm on 31 March 2003.

RELATED PARTY TRANSACTIONS

The Group is wholly-owned by CIFH and is controlled by its ultimate holding company, CITIC. See “Principal Shareholders — CITIC International Financial Holdings Limited” and “Principal Shareholders — CITIC Group” respectively.

The Group entered into a number of transactions with related parties in the normal course of its banking business including, inter alia, lending, acceptance and placement of inter bank deposits, participation in loan syndicates, correspondent banking transactions and foreign exchange transactions. The transactions were priced based on relevant market rates at the time of each transaction, and were under the same terms as those available to other counterparties and customers of the Group. In the opinion of the directors of the Bank, these transactions were conducted on normal commercial terms.

Information relating to income and expense from related party transactions for the Group during the year ended and balances outstanding as at 31 December 2011 and 2010 is set out below:

	Ultimate controlling party		Immediate parent		The Group Fellow subsidiaries		Associates ⁽ⁱ⁾		Related companies ⁽ⁱ⁾⁽ⁱⁱ⁾	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income	—	—	—	—	14,392	28,948	6,639	2,085	196,858	48,068
Interest expense	(10,758)	(32,541)	(2,313)	(2,838)	(96,955)	(56,313)	(32,748)	(10,807)	(169,632)	(93,111)
Other operating income	—	—	131	394	—	—	42,190	47,369	—	6,004
Operating expenses	—	—	(27,571)	(5,083)	(4,609)	(4,606)	(10,174)	(974)	(5)	(2)
Assets										
Available-for-sale securities	—	—	—	—	—	316,667	—	—	915,564	1,107,819
Derivative financial instruments	—	342	—	—	—	7,708	—	—	277,282	37,678
Other receivables	—	—	117	253,436	2,088	4,023	2,902	1,453	76,022	28,046
Liabilities										
Derivative financial instruments	—	1,050	—	—	—	23	—	—	162,163	135,196
Other payables	2,237	10	2,055	229	66,171	43,760	4,984	2,232	40,722	33,239
Loan capital	—	—	—	—	878,069	800,734	—	—	3,160,298	2,934,659
Lending activities:										
At 31 December	—	—	—	—	576,588	367,365	200,000	321,150	7,571,854	2,710,230
Average for the year	—	—	—	—	435,577	508,704	286,139	189,689	6,823,122	1,457,530
Acceptance of deposits:										
At 31 December	2,286,294	601,915	452,171	429,995	5,171,920	11,651,779	5,477,570	3,215,155	2,353,346	303,968
Average for the year	942,968	2,981,786	438,088	430,798	5,915,378	10,067,516	3,598,012	3,100,452	761,824	171,827
Off-statement of financial position items										
Guarantees and letter of credit — contract amounts	—	—	—	889,359	(110,669)	(161)	(3,000)	(3,000)	—	—
Derivative financial instruments	—	1,904,823	—	—	499,609	446,707	—	—	19,509,444	20,909,228
Lease Commitment	—	—	—	—	23,733	19,507	—	—	—	—

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

- (i) Associates of the Group included the associates of the ultimate controlling party and immediate parent respectively.
- (ii) Related companies referred to shareholders of the immediate parent, which exercise significant influence on the immediate parent.

PRINCIPAL SHAREHOLDERS

CITIC GROUP CORPORATION (CITIC)

CITIC is the ultimate controlling shareholder of the Bank. As at the date of this Offering Circular, CIFH, the holding company of the Bank, was 70.32 per cent. owned by CNCB which, in turn, was 61.85 per cent. owned by CITIC.

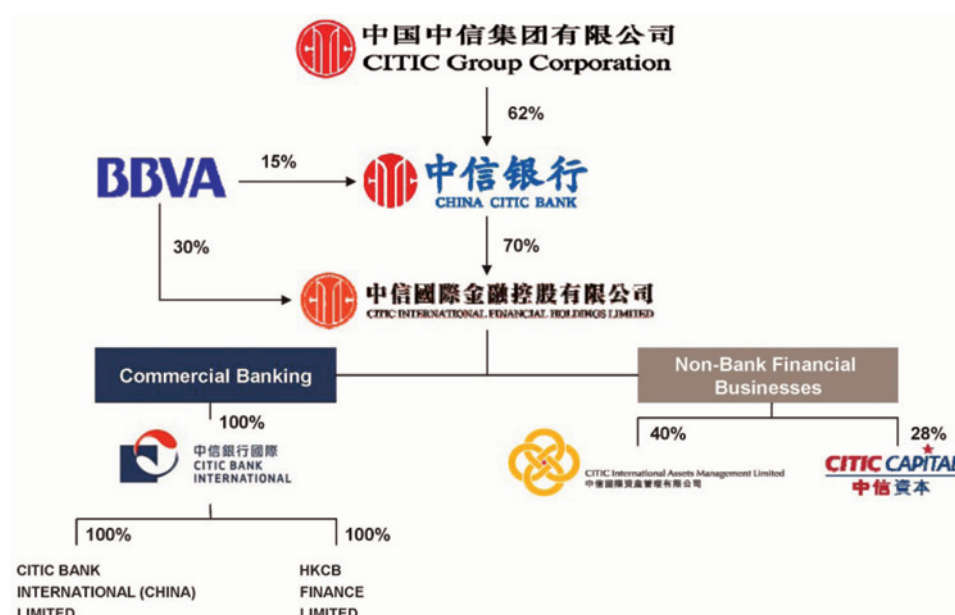
CITIC was approved by the PRC's State Council and established in 1979. Since its founding, CITIC has received the support of the PRC government. The late Mr. Rong Yiren, former Vice President of the PRC, was the first Chairman of CITIC. Since then, CITIC has grown into a large transnational conglomerate with a substantial number of subsidiaries operating in Hong Kong, the United States, Canada and Australia. CITIC has also set up representative offices in Tokyo, New York and Kazakhstan. CITIC's operations span across the financial industry, industrial investments and service industries. Its core business lies with the financial industry, which accounts for 83.06 per cent. of its total assets as at 31 December 2011. CITIC currently has interests in two commercial banks (being an indirect majority interest in the Bank, through its holdings in CNCB, and its direct majority interest in CNCB) as well as interests in non-bank financial businesses, including securities firms, an insurance company and a trust company. As at 31 December 2011, CITIC's total assets stood at RMB 3,277 billion with a net profit of RMB 36.5 billion. CITIC is currently rated BBB+ by Standard & Poor's and Baa2 by Moody's. The Chairman of CITIC is Mr. Chang Zhenming (who is also the Vice Chairman of CIFH).

CITIC as the ultimate controlling shareholder of the Bank ultimately determines the strategy, management and operations of the Bank. Subject to compliance with the regulations of the HKMA, CITIC, through CNCB, is able to determine the Bank's corporate policies, appoint the Bank's Directors and officers, and vote to pursue corporate actions requiring shareholders' approval. Seven of the Directors of the Bank, including the Chairman and the Chief Executive Officer, are currently directors of CITIC and /or CNCB.

CITIC owns or controls a number of companies, including CNCB and CITIC Securities Co., Ltd., which may compete directly or indirectly with the businesses of the Bank and CIFH and its subsidiaries and associated companies (the **CIFH Group**), and have more experience, superior resources and a larger scale of operations in the PRC.

Currently, the Bank also engages in, and expects from time to time in the future to engage in, financial and commercial transactions with members of the CITIC Group. See "*Related Party Transactions*".

The following chart sets out the simplified corporate structure of the CITIC Group as at the date of this Offering Circular, showing its business lines and major subsidiaries and associated companies:



All percentages shown are approximates only.

China CITIC Bank Corporation Limited

As at the date of this Offering Circular, CNCB, held 70.32 per cent. of the issued share capital of CIFH, the holding company of the Bank.

As part of the Restructuring Strategy, on 8 May 2009, CNCB entered into a Share Purchase Agreement with CITIC and GIL to acquire a 70.32 per cent. interest in CIFH for a cash consideration of approximately HK\$13.6 billion (US\$1.7 billion). This CIFH Acquisition is an integral part of CITIC's Restructuring Strategy, the intention of which was explicitly stated at the time of CIFH's privatisation in November 2008. The CIFH Acquisition was completed on 23 October 2009. Three senior executives of CNCB are currently Non-Executive Directors of CIFH and the Bank.

The CIFH Acquisition is expected to enable CNCB to:

- expand its branch network to international financial centres, develop its commercial banking network both domestically and internationally, and to provide "one-stop-shop" financial solutions and a wider variety of and more applicable service products and service channels for its customers with international banking needs;
- realise its strategic objective to become a "leading international bank";
- maximise synergies by promoting the effective integration of financing resources, optimise the allocation of resources, constantly increasing the business synergies between CIFH and CNCB, and enhance its overall competitiveness in the banking market; and
- use excess capital to enhance shareholder value.

The CIFH Acquisition also created opportunities for CNCB and the Bank to expand the width and depth of their collaboration. The Bank extended cooperation to more CNCB branches, spanning across most of CNCB's major geographical coverage in Mainland China. A series of new business cooperation initiatives were successfully introduced during the year, including RMB trade settlement programme, structured financing, pre-Initial Public Offering financing, offshore account opening, i-banking services and offshore bill operation and services.

CITIC International Financial Holdings Limited

The Bank is a wholly-owned subsidiary of CIFH which is the financial flagship of CITIC outside Mainland China. The CIFH Group is a financial services group whose core businesses include the provision of commercial banking, investment management and advisory, asset management and other related financial services. CIFH became the holding company of the CIFH Group following the group reorganisation on 25 November 2002, the appointed day designated by the board of directors of CIFH for the legal merger of the relevant undertakings of CIFH and HKCB pursuant to the CITIC Ka Wah Bank Limited (Merger) Ordinance (Cap. 1171) of the laws of Hong Kong. As part of the group reorganisation, CIFH (which prior to the reorganisation was named CITIC Ka Wah Bank Limited) transferred most of its commercial banking assets and liabilities to HKCB, a wholly-owned subsidiary of CIFH. At the same time, HKCB changed its name to CITIC Ka Wah Bank Limited and continued to operate the integrated commercial banking business of the CIFH Group. See “*Business — History*”.

CIFH is supported by CITIC in its vision to drive the offshore expansion and establishment of the CITIC brand in international banking and financial services. One of its strategic priorities is to develop effective partnership models with companies in the CITIC Group in the Mainland China to maximise strategic opportunities to promote the CITIC brand in international banking and financial services. On 29 December 2006, CIFH completed the acquisition of a 15.17 per cent. strategic stake in CNCB to enhance its ability to capture opportunities from the increasing cross-border business flows into and out of the PRC market. Upon the listing of CNCB on The Stock Exchange of Hong Kong Limited on 27 April 2007, CIFH topped up its investment in CNCB to maintain a 15 per cent. equity interest in CNCB’s enlarged share capital.

On 9 February 2007, CIFH’s shareholders gave approval for BBVA to become a 14.58 per cent., strategic investor in CIFH, and the transaction was duly completed on 1 March 2007.

On 16 October 2008, CIFH’s independent shareholders gave approval for CITIC, through GIL, to take CIFH private by way of Scheme of Arrangement. On 5 November 2008, CIFH was delisted from the Hong Kong Stock Exchange, and on the same day, BBVA’s stake in CIFH was increased to 29.68 per cent. The strategic investment in CNCB held by CIFH was proportionately transferred to CITIC and BBVA in December 2008.

The privatisation of CIFH was part of CITIC’s Restructuring Strategy to create a single banking business platform within the CITIC Group. The intention of the privatisation was for the Bank to become CITIC’s exclusive vehicle to develop commercial banking business in Hong Kong and a commercial banking platform for new business expansion for CITIC in Asia.

As at 31 December 2011, the CIFH Group’s total assets, shareholders’ funds, total loans and total deposits were HK\$175 billion (US\$22.5 billion), HK\$17.4 billion (US\$2.2 billion), HK\$93.7 billion (US\$12 billion) and HK\$139.2 billion (US\$17.8 billion), respectively.

As at the date of this Offering Circular, the authorised share capital of CIFH was 8,000,000,000 ordinary shares of HK\$1.00 each, of which 7,459,172,916 ordinary shares have been issued and are fully paid.

Principal Activities of the CIFH Group

The CIFH Group currently engages in a wide range of banking and financial businesses through the following entities:

The Bank and its subsidiaries	retail banking (including home mortgage loans, consumer finance, credit cards, deposits, personal wealth management, distribution of insurance and investment products, hire purchase and leasing and small business loans), wholesale banking (including commercial mortgages, trade finance, corporate loans, syndicated loans, term loans and overdrafts, and structured finance) and treasury activities
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CITIC International Assets Management Limited and its subsidiaries	non-performing loans management, fund management and Mainland China-related asset management through venture capital and direct investments.
CITIC Capital Holdings Limited and its subsidiaries	Mainland China-focused investment management and advisory (including private equity, real estate, mezzanine and debt finance, asset management and special situations)

Strategic alliance between the Bank, CNCB and BBVA

As at the date of this Offering Circular, BBVA owned approximately 15 per cent. of the issued share capital of CNCB and 30 per cent. of the issued share capital of CIFH.

The Bank believes that the strategic partnership between the Bank, CNCB and BBVA will give the Bank and CNCB access to BBVA's international banking expertise, regional capabilities and global distribution network, and will allow BBVA to commit to using the Bank and CNCB as its platform for future expansion in Asia. This will further the Bank's goal of establishing itself as an offshore PRC bank that combines the best practices of the East and the West.

The Bank believes the successful execution of these strategies is critical to its ability to serve as an effective vehicle to further the development of the CITIC financial services brand internationally.

BBVA, headquartered in Spain, is a bank with business operations spanning across retail, wholesale and investment banking in 31 countries. As at 31 December 2011, BBVA had total assets of approximately EUR 597.7 billion (US\$772.0 billion) and BBVA's net profit for the year ended 31 December 2011 was approximately EUR 3.5 billion (US\$4.5 billion).

REGULATION AND SUPERVISION

The banking sector in Hong Kong is regulated by and subject to the provisions of the Banking Ordinance and the powers and functions ascribed by the Banking Ordinance to the HKMA. The Banking Ordinance provides that only banks (that is, a bank which has been granted a banking licence (**licence**) by the HKMA) may carry on banking business (as defined in the Banking Ordinance) in Hong Kong and contains controls and restrictions on such banks (**licensed banks**).

Supervision of Licensed Banks in Hong Kong

The provisions of the Banking Ordinance are implemented by the HKMA, the principal function of which is to promote the general stability and effectiveness of the banking system, especially in the area of supervising compliance with the provisions of the Banking Ordinance. The HKMA supervises licensed banks through, *inter alia*, a regular information gathering process, the main features of which are as follows:

- (1) each licensed bank must submit a monthly return to the HKMA setting out the assets and liabilities of its operations in Hong Kong and a further comprehensive quarterly return relating to its principal place of business in Hong Kong and all local branches, although the HKMA has the right to allow returns to be made at less frequent intervals;
- (2) the HKMA may order a licensed bank, any of its subsidiaries, its holding company or any subsidiaries of its holding company to provide such further information (either specifically or periodically) as it may reasonably require for the exercise of its functions under the Banking Ordinance or as it may consider necessary to be submitted in the interests of the depositors or potential depositors of the licensed bank concerned. Such information shall be submitted within such period and in such manner as the HKMA may require. The HKMA may in certain circumstances also require such information or any return submitted to it to be accompanied by a certificate of the licensed bank's auditors (approved by the HKMA for the purpose of preparing the report) confirming compliance with certain matters;
- (3) licensed banks may be required to provide information to the HKMA regarding companies in which they have an aggregate 20 per cent. or more direct or indirect shareholding or with which they have common directors or managers (as defined in the Banking Ordinance), the same controller, a common name or a concert party arrangement to promote the licensed bank's business;
- (4) in addition, licensed banks are obliged to report to the HKMA immediately of their likelihood of becoming unable to meet their obligations or of the commencement of material civil proceedings applicable only to licensed banks incorporated in Hong Kong;
- (5) the HKMA may direct a licensed bank to appoint an auditor to report to the HKMA on the state of affairs and/or profit and loss of the licensed bank or the adequacy of the systems of control of the licensed bank or other matters as the HKMA may reasonably require;
- (6) the HKMA may, at any time, with or without prior notice, examine the books, accounts and transactions of any licensed bank, and in the case of a licensed bank incorporated in Hong Kong, any local branch, overseas branch, overseas representative office or subsidiary, whether local or overseas, of such institution. Such inspections are carried out by the HKMA on a regular basis; and
- (7) licensed banks are required to give written notice to the HKMA immediately of any proposal to remove an auditor before the expiration of his term of office or replace an auditor at the expiration of his term of office.

Exercise of Powers over Licensed Banks

The HKMA may, after consultation with the Financial Secretary, exercise certain powers over the conduct of licensed banks in any of the following circumstances:

- (1) when a licensed bank informs the HKMA that it is likely to become unable to meet its obligations, that it is insolvent, or that it is about to suspend payment;
- (2) when a licensed bank becomes unable to meet its obligations or suspends payment;
- (3) if, after an examination or investigation, the HKMA is of the opinion that a licensed bank:
 - (a) is carrying on its business in a manner detrimental to the interests of its depositors or potential depositors or of its creditors or of holders or potential holders of multi-purpose cards issued by it or the issue of which is facilitated by it;
 - (b) is insolvent or is likely to become unable to meet its obligations or is about to suspend payment;
 - (c) has contravened or failed to comply with any of the provisions of the Banking Ordinance; or
 - (d) has contravened or failed to comply with any condition attached to its licence or certain conditions in the Banking Ordinance; and
- (4) where the Financial Secretary advises the HKMA that he considers it in the public interest to do so.

In any of the circumstances described above, the HKMA, after consultation with the Financial Secretary, may exercise any of the following powers:

- (1) to require the licensed bank, by notice in writing served on it, forthwith to take any action or to do any act or thing whatsoever in relation to its business and property as the HKMA may consider necessary;
- (2) to direct the licensed bank to seek advice on the management of its affairs, business and property from an adviser approved by the HKMA;
- (3) to assume control of and carry on the business of the licensed bank, or direct some other person to assume control of and carry on the business of the licensed bank; or
- (4) to report to the Chief Executive in Council in certain circumstances (in which case the Chief Executive in Council may exercise a number of powers including directing the Financial Secretary to present a petition to the Court of First Instance for the winding-up of the licensed bank).

Revocation and Suspension of Banking Licence

The HKMA also has powers to recommend the revocation or suspension of a licence. Both powers are exercisable after consultation with the Financial Secretary and with a right of appeal of the licensed bank concerned except in the event of temporary suspension in urgent cases. The grounds for suspension or revocation include the following:

- (1) the licensed bank no longer fulfills the criteria for authorisation and the requirements for registration;
- (2) the licensed bank is likely to be unable to meet its obligations or proposes to make, or has made, any arrangement with its creditors or is insolvent;
- (3) the licensed bank has failed to provide material information required under the Banking Ordinance or has provided false information;
- (4) the licensed bank has breached a condition attached to its licence;
- (5) a person has become or continues to be a controller or chief executive or director of the licensed bank after the HKMA has made an objection;

- (6) the interests of the depositors require that the licence be revoked; or
- (7) the licensed bank is engaging in practices likely to prejudice Hong Kong as an international financial centre or in practices (specified in the HKMA guidelines) that it should not be engaged in.

Revocation or suspension of a licence means that the licensed bank can no longer conduct banking business (for the specified period in the case of a suspension).

Principal Obligations of Licensed Banks

The obligations of a licensed bank under the Banking Ordinance, which are enforced by the HKMA through the system described above, include, but are not limited to, the following:

Capital Adequacy

A licensed bank incorporated in Hong Kong must at all times maintain a capital adequacy ratio of at least 8 per cent., calculated as the ratio (expressed as a percentage) of its capital base to its risk-weighted exposure as more fully described below. In relation to a licensed bank with subsidiaries, the HKMA may require the ratio to be calculated on a consolidated basis, or on both a consolidated and an unconsolidated basis, or on a consolidated basis only in respect of such subsidiaries of the licensed bank as may be specified by the HKMA. The HKMA may, after consultation with the licensed bank concerned, increase the ratio for any particular licensed bank. A licensed bank is under a duty to inform the HKMA immediately of a failure to maintain the required capital adequacy ratio and to provide the HKMA with such particulars as it may require. It is an indictable offence not to do so, and the HKMA is entitled to prescribe remedial action.

The capital base of a licensed bank is, broadly speaking but not limited to, all its paid-up capital and reserves, its profit and loss account including its current year's profit or loss, together with perpetual and term subordinated debt meeting prescribed conditions, general provisions against doubtful debts subject to certain limitations and a portion of its latent reserves arising from the revaluation of long-term holdings of specified equity securities or its reserves on the revaluation of real property. Investments in, advances to and guarantees of liabilities of certain connected companies, shareholdings in subsidiaries or holding companies and in other companies in which more than 20 per cent. of voting power is held and investments in other banks (except for those which are not subject to a cross-holding arrangement or not otherwise a strategic investment) must be deducted.

The risk-weighted exposure is determined by:

- (1) multiplying risk-weight factors to the book value of various categories of assets (including but not limited to notes and coins, Hong Kong government certificates of indebtedness and cash items in the course of collection);
- (2) multiplying the credit conversion factors to various off balance sheet items (including but not limited to direct credit substitutes, transaction-related contingencies, repurchase contracts, note issuance facilities and exchange rate contracts) to determine their credit equivalent amount;
- (3) aggregating the amounts determined pursuant to (1) and (2); and
- (4) subtracting from the amount determined pursuant to (3) the value of general provisions not included in the capital base of the licensed bank and the amount by which the book value of reserves on revaluation of real property exceeds the book value of such reserves as at the period-end.

Risk-weight factors are specified in the Banking Ordinance in Hong Kong as being a percentage varying between 0 per cent., and 100 per cent. to reflect the extent to which an asset might be regarded as being at risk or the extent to which a liability might arise. Credit conversion factors are also specified in the Banking Ordinance as being percentages varying between 0 per cent. to 100 per cent. as being the percentage of the relevant item to which the risk-weight factor should be applied.

The capital adequacy standards described above (commonly known as Basel I) were promulgated by the Basel Committee and have been applied in Hong Kong since 1989. The Banking (Amendment) Ordinance 2005, enacted on 6 July 2005, has put in place a legislative framework for the implementation in Hong Kong of Basel II. In line with the timetable set by the Basel Committee for its members, implementation of Basel II commenced in Hong Kong in January 2007.

There are four approaches under Basel II to calculate credit risks, namely the basic approach, the standardised approach, foundation internal rating based approach and the advanced internal ratings based approach. Licensed banks in Hong Kong under Basel II are to adopt the standardised approach initially, under which expanded risk weights (0 per cent., 20 per cent., 35 per cent., 75 per cent., 100 per cent. and 150 per cent.) are used for assessing capital required.

A licensed bank, if approved by the HKMA, may adopt the basic approach in reporting its capital adequacy as a transitional measure before eventually adopting the internal ratings based approach. Under the internal ratings based approach, the capital required of a licensed bank relies on a bank's internal ratings system (subject to supervisory validation and approval) and is based on three risk components — probability of default, loss given default and exposure at default.

Furthermore, in addition to credit risk and market risk, operation risk is also required to be included in the determination of the capital adequacy ratio. Even with the inclusion of operation risk in the calculation, the minimum capital adequacy ratio remains unchanged at 8 per cent.. For the calculation of operation risk, there are three approaches, namely, basic indicator approach, standardised approach and the alternative standardised approach.

In July 2009, the Basel Committee published the Basel II Enhancements. The HKMA issued on 4 June 2010 the revised framework and guidelines for the implementation of the Basel II Enhancements relating to supervisory review process. To implement the Basel II Enhancements relating to capital requirements and disclosures, the Government proposes to amend the Banking (Capital) Rules and the Banking (Disclosure) Rules and such amendments are intended to be effective from 1 January 2012.

In December 2010 and January 2011, the Basel Committee issued further capital requirements designed to raise the quality, consistency and transparency of banks' capital base and new global liquidity standards. These requirements are collectively known as Basel III. Among other things, Basel III will increase the minimum capital adequacy ratio requirements in relation to risk-weighted assets, with the common equity requirement rising from 2% to 4.5% and the Tier 1 capital requirements rising from 4% to 6%. The total minimum capital requirement remains unchanged at 8%. The Basel Committee expects its member jurisdictions to begin the implementation of Basel III from 1 January 2013, with full implementation by 1 January 2019. It is the Government's current intention to implement Basel III in Hong Kong in accordance with the timetable of the Basel Committee and to introduce the legislative amendments into the Legislative Council in the 2011-12 legislative session to prepare for the first phase of Basel III implementation in January 2013.

The Banking Ordinance (Chapter 155 of the laws of Hong Kong) was amended earlier this year to facilitate the implementation of the Basel III capital, liquidity and disclosure requirements in Hong Kong. More specifically, the amendments made to the Banking Ordinance empowered the HKMA to:

- (a) prescribe capital requirements for authorised institutions incorporated in Hong Kong and liquidity requirements for authorised institutions incorporated in Hong Kong or elsewhere; and
- (b) issue and approve codes of practice for the purpose of providing guidance in respect of the requirements.

The HKMA is currently conducting further statutory consultation on the draft amendments to the Banking (Capital) Rules to implement the Basel III liquidity and capital requirements, with the intention to submit the draft amendments to the Legislative Council in October 2012 for negative vetting.

In a consultation paper issued by the HKMA in January 2012, the HKMA proposed to adopt the Basel III requirements by amending the Banking (Capital) Rules (“**BCR**”), and the HKMA proposed to replace the existing categories of regulatory capital with the new Basel III classification and to follow closely the Basel III definitions for individual components within each of the tiers of capital. In the consultation paper, the HKMA also proposed that:

- the Liquidity Coverage Ratio and the Net Stable Funding Ratio would apply to certain authorised institutions (regardless of their place of incorporation) to be categorised as “Category 1 AIs” which meet certain criteria specified by the HKMA; and
- the modified liquidity ratio, which is a modified version of the existing 25% minimum liquidity ratio under the Banking Ordinance, would apply to certain authorised institutions to be categorised as “Category 2 AIs”.

On 18 June 2012, the HKMA published two further consultation papers on the implementation of Basel III capital and liquidity standards in Hong Kong, following its previous consultation in January 2012. One of such two further consultation papers sets out the HKMA’s proposed changes to the BCR. Annex 1 of the consultation paper sets out the proposed draft amendments to the BCR and Annex 2 of such consultation paper contains the proposed modifications to Basel III standards to facilitate the implementation of the standards in Hong Kong. The final BCRs are expected to come into force on 1 January 2013. In the other consultation paper, the HKMA proposes to determine whether an AI should fall within Category 1 by having regard to its significance to the Hong Kong banking system based on a combination of qualitative and quantitative assessment criteria. The HKMA envisages that most licensed banks in Hong Kong will fall within this category.

A Category 2 AI will be any AI that is not a Category 1 AI and it is expected to generally include restricted licensed banks, deposit-taking companies and licensed banks that do not fall within Category I. Following this consultation, the HKMA will draw up a list of potential Category 1 and Category 2 AIs, and will notify individual AIs of their preliminary classification status.

Liquidity

Authorised institutions must maintain at all times a liquidity ratio of not less than 25 per cent. in each calendar month, calculated as the ratio (expressed as a percentage) of the sum of the net weighted amount of its liquefiable assets to the sum of its qualifying liabilities for each working day of the calendar month concerned as calculated in accordance with the Fourth Schedule to the Banking Ordinance. In relation to a licensed bank with subsidiaries, the HKMA may require that ratio to be calculated on a consolidated basis, or both on a consolidated basis and an unconsolidated basis, or on a consolidated basis only in respect of such subsidiaries of the licensed bank as may be specified by the HKMA. The ratio may be varied by the HKMA. A licensed bank has a duty to inform the HKMA if the ratio requirement is not fulfilled and provide it with such particulars of that contravention as it may require, and it is an indictable offence not to do so; the HKMA is entitled to prescribe remedial action. For the purpose of the liquidity ratio, in the case of a licensed bank which has places of business in Hong Kong and elsewhere, its places of business in Hong Kong are collectively treated as a separate licensed bank to which the liquidity ratio provisions would apply.

Liquefiable assets are, broadly speaking, assets held in the form of currency notes and coins, gold, loans due within one month from other banks (after deducting amounts payable to other banks within one month), certain export bills payable within one month, certain kinds of marketable debt securities or prescribed instruments (in some cases subject to a discount) and certain types of loan repayments due on fixed dates within one month on performing loans (subject to a discount).

Qualifying liabilities are, broadly speaking, liabilities which will or could or, in the case of contingent liabilities, in the opinion of the HKMA, may, fall due within one month, except that liabilities to other banks are treated on a net basis.

Financial Exposure to Any One Customer

The financial exposure of a licensed bank incorporated in Hong Kong to any one person or group of connected persons must not (subject to certain exceptions) exceed 25 per cent. of the capital base of the licensed bank. Subject to certain exclusions, the licensed bank's financial exposure to any one person or group of connected persons is taken to be the aggregate of:

- (1) all advances, loans and credit facilities granted to that person or group;
- (2) the value of the licensed bank's holdings of shares, debentures and other debt securities issued by that person or group; and
- (3) the principal amount, multiplied by a factor to be specified by the HKMA, for off-balance sheet items resulting from transactions between the licensed bank and that person or group.

For these purposes, persons shall be treated as connected if one company is the subsidiary of another, they have a common holding company, they have a common controller (not being a company) or if one (not being a company) is a controller of another (being a company).

The calculation of financial exposure does not include financial exposure to the Hong Kong government or authorised institutions or financial exposure generally to the extent it is secured by a cash deposit, a guarantee, an undertaking, certain specified securities or a letter of comfort accepted by the HKMA.

If a person or a company to whom an authorised institution is financially exposed is a trustee of more than one trust, the HKMA may by notice in writing extend the limit of the institution's financial exposure to that person or company.

Other Restrictions on Lending

The Banking Ordinance also provides that:

- (1) licensed banks may not grant any loan, advance or credit facility (including letters of credit) or give any guarantee, or incur any other liability, against the security of their own shares (or, except with the approval of the HKMA, that of their respective holding companies, subsidiaries or fellow subsidiaries of such holding companies);
- (2) the amount of the facilities which a Hong Kong incorporated licensed bank may make available on an unsecured basis to its controllers, its directors, their relatives or certain of its employees and persons associated with any of them shall be subject to the restrictions set out therein; and
- (3) licensed banks may not, except with the written consent of the HKMA, provide to any one of their employees any unsecured facility of an amount in excess of that employee's salary for one year.

Restrictions on Investments in Land

A licensed bank incorporated in Hong Kong cannot purchase or hold any interest in land, whether situated in or outside Hong Kong, of a value or to an aggregate value in excess of 25 per cent. of its capital base. There are exceptions for land held that in the opinion of the HKMA is necessary for the operation of the business or for providing housing or amenities for staff.

Shareholding in Other Companies

A licensed bank incorporated in Hong Kong may not acquire or hold any part of the share capital of any other company or companies to an aggregate value which exceeds 25 per cent. of the licensed bank's capital base except for shares held by way of security for facilities and by virtue of acquisitions in satisfaction of debts due to it (which must, however, be disposed of at the earliest suitable opportunity and not later than 18 months after their acquisition unless the HKMA agrees to a longer period). Shares held by virtue of underwriting and sub-underwriting commitments are, nevertheless, permitted provided the relevant shares are disposed of within 7 working days or such longer period as the HKMA may agree.

There are other exemptions for any holding of share capital approved by the HKMA in other banks and companies carrying on nominee, executor, trustee or other functions related to banking business, the business of deposit taking, insurance, investments or other financial services.

Other Restrictions on Investment

The aggregate of the outstanding amounts of all facilities granted to or on behalf of a licensed bank's controllers, directors, their relatives, certain of its employees and their associates; the value of all holdings of share capital in other companies; and the value of all holdings of interests in land (including land purchased or held which is necessary for the conduct of business or the provision of housing or amenities for the staff of the institution) must not exceed 80 per cent. of its capital base.

Charges

A licensed bank incorporated in Hong Kong is not permitted to create any charges over its assets if either the aggregate value of all charges existing over its total assets is five per cent. or more of the value of those total assets or creating that charge would cause the aggregate value of all charges over its total assets to be more than five per cent. of the value of those total assets.

Restrictions on Overseas Activities

A licensed bank which is incorporated in Hong Kong is subject to a condition that it shall not establish or maintain any overseas branch or overseas representative office without the approval of the HKMA. The HKMA is empowered by the Banking Ordinance to require financial and other information regarding any such overseas branch to be supplied to it.

Further, a licensed bank incorporated in Hong Kong or its Hong Kong incorporated holding company may not without the consent of the HKMA own a company incorporated outside Hong Kong which may (whether or not in or outside Hong Kong) lawfully take deposits from the public. The HKMA may at any time attach in respect of any such approved overseas companies any conditions as the HKMA may think proper.

Shareholders, Chief Executives and Directors

Limitations on Shareholders

The HKMA has the power to object, on certain specified grounds, to persons becoming or being "controllers" of licensed banks incorporated in Hong Kong. "Controller" in this context means:

- (1) a person who, either alone or with any associate(s), is entitled to exercise, or control the exercise of, 10 per cent. or more, but not more than 50 per cent., of the voting power at any general meeting of the licensed bank or of another company of which it is a subsidiary; or
- (2) a person who, either alone or with any associate(s), is entitled to exercise, or control the exercise of, more than 50 per cent. of the voting power at any general meeting of the licensed bank or of another company of which it is a subsidiary; or
- (3) a person in accordance with whose directions or instructions the directors of the licensed bank or of another company of which it is a subsidiary are accustomed to act (but does not include any professional advisers or managers appointed by the HKMA to manage the licensed bank).

A person may not become a controller of a licensed bank incorporated in Hong Kong unless he has served a written notice on the HKMA of his proposal to that effect and the HKMA consents to his becoming such a controller or does not object within three months.

Within the three-month period, the HKMA may object to the applicant's proposal, unless it is satisfied that the applicant is a fit and proper person to become a controller; that depositors' or potential depositors' interests will not be threatened by that person being such a controller; and having regard to the applicant's likely influence on that institution as a controller, the licensed bank is likely to continue to conduct its business prudently or that the applicant is likely to undertake adequate remedial action to ensure that the licensed bank will conduct its business prudently.

The HKMA may also object to the continuation of a person as a controller on similar grounds as in respect of new controllers.

Where a person becomes a controller (by virtue of being able to exercise or control the exercise of certain voting power in a licensed bank) after a notice of objection has been served on him or otherwise in the contravention of the procedure prescribed by the Banking Ordinance, the HKMA may notify the controller that until further notice any specified shares are subject to one or more of the following restrictions:

- (1) any transfer of the shares or, in the case of unissued shares, any transfer of the right to be issued with them, and any issue of such shares, shall be void;
- (2) voting rights in respect of those shares shall not be exercisable;
- (3) no further shares in right or pursuant to any offer made to the shareholder shall be issued; or
- (4) except in a liquidation, no payments of any sums due from the licensed bank on the shares shall be paid.

In addition, the HKMA may apply to court for an order that the shares be sold. Once the shares are sold, the proceeds (less the costs of sale) shall be paid into court and held for the benefit of the persons beneficially interested in them.

In the case of an indirect controller who does not have the approval of the HKMA, the person concerned is prohibited from giving directions or instructions to the directors of the licensed bank or of another company of which it is a subsidiary.

Limitations on Persons Becoming Chief Executives or Directors

All licensed banks must have a chief executive ordinarily resident in Hong Kong. A person requires the consent of the HKMA before becoming a chief executive and alternate chief executive.

The consent of the HKMA is also required for a person to become a director of a Hong Kong incorporated licensed bank.

Supervision of Securities Business

The SFO, which came into operation in April 2003, introduced a substantial change to the conduct of securities business by banks. Banks are no longer exempted from the relevant regulations when they engage in securities business. Instead they are required to apply for registration with the SFC, which means they will have to meet the "Fit and Proper Criteria" set by the SFC. Likewise, staff engaged by banks in securities business will have to meet the "Fit and Proper Criteria" applicable to staff of brokerage firms. It is a statutory condition of registration for banks that each member of staff engaged by them in securities business is a fit and proper person. Banks will also have to comply with the various regulatory requirements set by the SFC in relation to their securities business, including the subsidiary legislation and the business conduct codes. Under the SFO, banks and their securities staff will be subject to the same range of disciplinary actions that are applicable to brokers and their staff in case they are guilty of misconduct or otherwise not fit and proper.

With the introduction of a new licensing regime under the SFO, corresponding changes have been made to the Banking Ordinance by way of the introduction of the Banking (Amendment) Ordinance 2002. Such ordinance came into operation simultaneously with the SFO and has enabled the HKMA to enhance their regulatory functions in relation to securities businesses of banks and other Authorised Institutions that are registered under the SFO.

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear, Clearstream, Luxembourg or CMU (together, the Clearing Systems) currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believe to be reliable, but neither the Issuer nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. Neither the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to, or payments made on account of, such beneficial ownership interests.

Book-entry Systems

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

CMU

The CMU Service is a central depositary service provided by the Central Moneymarkets Unit of the HKMA for the safe custody and electronic trading between the members of this service (**CMU Members**) of capital markets instruments (**CMU Instruments**) which are specified in the CMU Reference Manual as capable of being held within the CMU Service. The CMU Service is only available to CMU Instruments issued by a CMU Member or by a person for whom a CMU Member acts as agent for the purposes of lodging instruments issued by such persons. Membership of the services is open to all members of the Hong Kong Capital Markets Association, “authorised institutions” under the Banking Ordinance and other domestic and overseas financial institutions at the discretion of the HKMA. Compared to clearing services provided by Euroclear and Clearstream, Luxembourg, the standard custody and clearing service provided by the CMU Service is limited. In particular (and unlike the European clearing systems), the HKMA does not as part of this service provide any facilities for the dissemination to the relevant CMU Members of payments (of interest or principal) under, or notices pursuant to the notice provisions of, the CMU Instruments. Instead, the HKMA advises the lodging CMU Member (or a designated paying agent) of the identities of the CMU Members to whose accounts payments in respect of the relevant CMU Instruments are credited, whereupon the lodging CMU Member (or the designated paying agent) will make the necessary payments of interest or principal or send notices directly to the relevant CMU Members. Similarly, the HKMA will not obtain certificates of non-U.S. beneficial ownership from CMU Members or provide any such certificates on behalf of CMU Members. The CMU Lodging Agent will collect such certificates from the relevant CMU Members identified from an instrument position report obtained by request from the HKMA for this purpose.

An investor holding an interest in the Notes through an account with either Euroclear or Clearstream, Luxembourg will hold that interest through the respective accounts which Euroclear and Clearstream, Luxembourg each have with the CMU Service.

Transfers of Notes Represented by Registered Global Notes

Transfers of any interests in Notes represented by a Registered Global Note within Euroclear, Clearstream, Luxembourg and the CMU Service will be effected in accordance with the customary rules and operating procedures of the relevant Clearing System. Euroclear, Clearstream, Luxembourg and the CMU Service have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among accountholders of Euroclear, Clearstream, Luxembourg and the CMU Service. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Paying Agents, the Registrar and the Dealers will be responsible for any performance by Euroclear, Clearstream, Luxembourg or the CMU Service or their respective accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

TAXATION

The statements herein regarding taxation are based on the laws in force as at the date of this document and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers or certain professional investors) may be subject to special rules. Investors should consult their own tax advisers regarding the tax consequences of an investment in the Notes.

Hong Kong

Withholding Tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Notes or in respect of any capital gains arising from the sale of the Notes.

Profits Tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Under the Inland Revenue Ordinance (Cap.112) of Hong Kong (the **Inland Revenue Ordinance**), as it is currently applied in the Inland Revenue Department, interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

- (i) interest on the Notes is derived from Hong Kong and is received by or accrues to a company, other than a financial institution, carrying on a trade, profession or business in Hong Kong; or
- (ii) interest on the Notes is derived from Hong Kong and is received by or accrues to a person, other than a company, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business; or
- (iii) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong.

Pursuant to the Exemption from Profits Tax (Interest Income) Order, interest income accruing to a person other than a financial institution on deposits (denominated in any currency and whether or not the deposit is evidenced by a certificate of deposit) placed with, inter alia, a financial institution in Hong Kong (within the meaning of section 2 of the Banking Ordinance (Cap. 155) of Hong Kong) are exempt from the payment of Hong Kong profits tax. Provided no prospectus with respect to the issue of Notes is registered under the Companies Ordinance, the issue of Notes by the Bank is expected to constitute a deposit to which the above exemption from payment will apply.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of Notes will be subject to profits tax.

Sums derived from the sale, disposal or redemption of Bearer Notes will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed.

Stamp Duty

Stamp duty will not be payable on the issue of Bearer Notes by the Bank, provided either:

- (i) such Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or
- (ii) such Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong).

If stamp duty is payable it is payable by the Issuer on the issue of Bearer Notes at a rate of 3 per cent. of the market value of the Notes at the time of issue.

No stamp duty will be payable on any subsequent transfer of Bearer Notes.

No stamp duty is payable on the issue of Registered Notes.

Stamp duty may be payable on any transfer of Registered Notes issued by the Bank. Stamp duty will, however, not be payable on any transfers of Registered Notes, provided that either:

- (i) the Registered Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or
- (ii) the Registered Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong).

If stamp duty is payable in respect of the transfer of Registered Notes it will be payable at the rate of 0.2 per cent. (of which 0.1 per cent. is payable by the seller and 0.1 per cent. is payable by the purchaser) normally by reference to the consideration or its value. If, in the case of either the sale or purchase of such Registered Notes, stamp duty is not paid, both the seller and the purchaser may be liable jointly and severally to pay any unpaid stamp duty and also any penalties for late payment. If stamp duty is not paid on or before the due date (two days after the sale or purchase if effected in Hong Kong or 30 days if effected elsewhere) a penalty of up to 10 times the duty payable may be imposed. In addition, stamp duty is payable at the fixed rate of HK\$5.00 on each instrument of transfer executed in relation to any transfer of the Registered Notes if the relevant transfer is required to be registered in Hong Kong.

EU Directive on the Taxation of Savings Income

The European Union has adopted the EC Council Directive 2005/48/EC (the **Directive**) regarding the taxation of savings income. The Directive requires Member States to provide to the tax authorities of other Member States details of payments of interest or other similar income paid by a person to an individual or to certain other persons resident in another Member State, except that Austria and Luxembourg may instead impose a withholding system for a transitional period (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries) unless during such period they elect otherwise. A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

PRC CURRENCY CONTROLS

Renminbi is not a freely convertible currency. The remittance of Renminbi into and outside the PRC is subject to control imposed under PRC law.

Current Account Items

Under the PRC foreign exchange control regulations, current account item payments include payments for imports and exports of goods and services, payments of income and current transfers into and outside the PRC.

Prior to July 2009, all current account items were required to be settled in foreign currencies. Since July 2009, the PRC has commenced a pilot scheme pursuant to which Renminbi may be used for settlement of imports and exports of goods between approved pilot enterprises in five designated cities in the PRC including Shanghai, Guangzhou, Dongguan, Shenzhen and Zhuhai and enterprises in designated offshore jurisdictions including Hong Kong and Macau. In June 2010, August 2011 and February 2012 respectively, the PRC Government promulgated the Circular on Issues concerning the Expansion of the Scope of the Pilot Programme of Renminbi Settlement of Cross-Border Trades and the Circular on Expanding the Regions of Cross-border Trade Renminbi Settlement, Notice on Matters Relevant to the Administration of Enterprises Engaged in Renminbi Settlement of Export Trade in Goods, Circulars with regard to the expansion of designated cities and offshore jurisdictions implementing the pilot Renminbi settlement scheme for cross-border trades. Pursuant to these Circulars, (i) Renminbi settlement of imports and exports of goods and of services and other current account items became permissible, (ii) the list of designated pilot districts were expanded to cover all provinces and cities in the PRC, (iii) the restriction on designated offshore districts has been lifted, and (iv) any enterprise qualified for the export and import business is permitted to effect Renminbi remittance for exports of goods, provided that the relevant provincial government has submitted to PBOC and five other PRC authorities (the “**Six Authorities**”) a list of key enterprises subject to supervision and the Six Authorities have verified and signed off such list (the “**Supervision List**”).

Accordingly, any enterprises in the designated pilot districts and offshore enterprises are entitled to use Renminbi to settle imports of goods and services and other current account items between them. Renminbi remittance for exports of goods from the PRC may only be effected by (a) enterprises with the foreign trading right and incorporated in a province which has already submitted the Supervision List (for the avoidance of doubt, that PRC enterprise does not necessarily need to be included in the Supervision List) or (b) enterprises that have been approved as a pilot enterprise for using Renminbi for exports if the relevant province has not submitted the Supervision List.

As new regulations, the circulars will be subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying these circulars and impose conditions for settlement of current account items.

Capital Account Items

Under the applicable PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of the relevant PRC authorities.

On 7 April 2011, SAFE issued the Notice on Relevant Issues regarding Streamlining the Business Operation of Cross-border RMB Capital Account Items, which clarifies that the borrowing by an onshore entity (including a financial institution) of Renminbi loans from an offshore creditor shall in principle follow the current regulations on borrowing foreign debts and the provision by an onshore entity (including a financial institution) of external guarantees in Renminbi shall in principle follow the current regulations on the provision of external guarantees in foreign currencies.

On 12 October 2011, MOFCOM promulgated the MOFCOM RMB FDI Circular, and pursuant to which, prior written consent from the appropriate office of MOFCOM and/or its local counterparts (depending on the size and the relevant industry of the investment) is required for RMB FDI. The MOFCOM RMB FDI Circular also requires that the proceeds of RMB FDI may not be used towards investment in securities, financial derivatives or entrustment loans in the PRC, except for investments in the PRC domestic listed companies through private placements or share transfers by agreement.

On 13 October 2011, the PBOC issued the PBOC RMB FDI Measures which set out operating procedures for PRC banks to handle RMB settlement relating to RMB FDI and borrowing by foreign invested enterprises of offshore RMB loans. Prior to the PBOC RMB FDI Measures, cross-border RMB settlement for RMB FDI has required approvals on a case-by-case basis from the PBOC. The new rules replace the PBOC approval requirement with less onerous post-event registration and filing requirements. Foreign invested enterprises, whether established or acquired by foreign investors, shall complete the corporate information registration after the completion of relevant RMB FDI transactions, and shall make post-event registration or filing with the PBOC of increases or decreases in registered capital, equity transfers or swaps, merger or acquisition or other changes to registered information.

As new regulations, such notices will be subject to interpretation and application by the relevant PRC authorities. There is no assurance that approval of such remittances, borrowing or provision of external guarantee in Renminbi will continue to be granted or will not be revoked in the future.

Further, since the remittance of Renminbi by way of investment or loans are now categorised as capital account items, such remittances will need to be made subject to the specific requirements or restrictions set out in the relevant SAFE rules.

SUBSCRIPTION AND SALE

The Dealers have, in a programme agreement (such Programme Agreement as modified and/or supplemented and/or restated from time to time, the **Programme Agreement**) dated 30 November 2007, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “*Form of the Notes*” and “*Terms and Conditions of the Notes*”. In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

United States

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that:

- (a) The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States (or, in certain circumstances, to, or for the account or benefit of, U.S. persons) except in certain transactions exempt from the registration requirements of the Securities Act.
- (b) Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. treasury regulations. Bearer Notes will be issued in accordance with the provisions of U.S. Treasury Regulation or section 1.163 — 5(c)(2)(i)(D), unless the relevant Pricing Supplement specifies that Notes will be issued in accordance with the provision of U.S. Treasury Regulation or section 1.163 — 5(c)(2)(i)(C).
- (c) In connection with any Notes which are offered or sold outside the United States in reliance on exemption from the registration requirements of the Securities Act provided under Category 1 of Regulation S (Category 1 of Regulation S Notes), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver such Category 1 of Regulation S Notes within the United States. Each Dealer has agreed that it will not offer, sell or deliver any Notes within the United States, except as permitted by the Programme Agreement. In addition, until 40 days after the commencement of the offering of any identifiable tranche of such Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.
- (d) In connection with any Notes which are offered or sold outside the United States in reliance on an exemption from the registration requirements of the Securities Act provided under Category 2 of Regulation S (**Category 2 of Regulation S Notes**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver such Category 2 of Regulation S Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Category 2 of Regulation S Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Category 2 of Regulation S Notes during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Category 2 of Regulation S Notes within the United States or to, or for the account or benefit of, U.S. persons.

- (e) Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that, except as permitted by the Subscription Agreement:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Acts 2000 (the **FSMA**) by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) if the final terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a **Non-exempt Offer**), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (c) at any time to fewer than 100 or, if the relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an **offer of Notes to the public** in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression **Prospectus Directive** means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression **2010 PD Amending Directive** means Directive 2010/73/EU.

The Netherlands

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree, that any Notes will only be offered in The Netherlands to Qualified Investors (as defined in the Prospectus Directive), unless such offer is made in accordance with the Dutch Financial Supervision Act (*Wet op het financieel toezicht*).

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore and the Notes will not be offered pursuant to exemptions under the Securities and Futures Act, Chapter 289 of Singapore (the **SFA**). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor pursuant to Section 274 of the SFA, (ii) to a relevant person under Section 275(1) of the SFA, or to any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable for six months after that corporation or that trust has acquired the Notes pursuant to an offer under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law; or
- (4) pursuant to Section 276(7) of the SFA.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the **FIEA**) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold and will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) it has not offered or sold, and will not offer or sell, in Hong Kong Special Administrative Region of the People's Republic of China (**Hong Kong**) by means of any document, any Notes (except for Notes which are a “structured product” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the **Securities and Futures Ordinance**)) other than (i) to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance, or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) it has not issued or had in its possession for the purposes of issue and will not issue or have in its possession for the purposes of issue any advertisement, invitation or document relating to the Notes, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws in Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance and any rules made under that Ordinance.

The People's Republic of China

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold and will not offer or sell any of the Notes in the People's Republic of China (for such purposes, not including Hong Kong, Macau SAR or Taiwan) or to residents of the People's Republic of China unless such offer or sale is made in compliance with all applicable laws and regulations of the People's Republic of China.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer, the Trustee and any of the other Dealers shall have any responsibility therefor.

None of the Issuer, the Trustee and any of the Dealers has represented that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction that would permit a public offering of any of the Notes or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Pricing Supplement.

GENERAL INFORMATION

Authorisation

1. The establishment of the Programme and any updates under the Programme have been duly authorised by a resolution of the Board of Directors of the Issuer dated 26 November 2007. Each issue of Notes will be separately approved by the Board of Directors of the Issuer.

Listing

2. Approval in-principle has been received from the SGX-ST for the listing and quotation of Notes that may be issued under the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List of the SGX-ST. As long as a series of Notes is listed on the SGX-ST and the rules of the SGX-ST so require, such Notes will be traded on the SGX-ST in a minimum board lot size of S\$200,000 (or its equivalent in other currencies).

Clearing systems

3. The Notes to be issued under the Programme have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Pricing Supplement. The Issuer may also apply to have Bearer Notes accepted for clearance through the CMU Service. The relevant CMU instrument number will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Pricing Supplement.

No significant change

4. Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Bank since 31 December 2011 and there has been no material adverse change in the financial position or prospects of the Bank since 31 December 2011.

Litigation

5. Save as disclosed in this Offering Circular, the Issuer is not involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer is aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the financial position of the Issuer.

Auditors

6. The auditors of the Issuer are KPMG (Certified Public Accountants).
7. The Trust Deed provides that the Trustee may rely on certificates or reports from the Auditors (as defined in the Trust Deed) or any other person in accordance with the provisions of the Trust Deed as sufficient evidence of the facts stated therein whether or not called for by or addressed to the Trustee and whether or not any such certificate or report or engagement letter or other document entered into by the Trustee and the Auditors or such other person in connection therewith contains a monetary or other limit on the liability of the Auditors or such other person. However, the Trustee will have no recourse to the Auditors or such other person in respect of such certificates or reports unless the Auditors or such other person have agreed to address such certificates or reports to the Trustee.

Documents

8. So long as Notes are capable of being issued under the Programme, copies of the following documents will, when published, be available from the registered office of the Issuer and from the specified office of the Principal Paying Agent for the time being in 14th Floor, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom:
- (a) the constitutional documents of the Issuer;
 - (b) the audited consolidated financial statements of the Issuer in respect of the financial years ended 31 December 2010 and 2011;
 - (c) the most recent annual audited consolidated financial statements of the Issuer and the most recently published unaudited interim consolidated financial statements of the Issuer (if any);
 - (d) the Programme Agreement, the Trust Deed, the Agency Agreement and the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;
 - (e) a copy of this Offering Circular; and
 - (f) any future offering circulars, prospectuses, information memoranda and supplements including Pricing Supplements (save that a Pricing Supplement relating to an unlisted Note will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Notes and identity) to this Offering Circular and any other documents incorporated herein or therein by reference.

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獨立核數師報告



獨立核數師報告

致中信銀行國際有限公司股東

(於香港註冊成立的有限公司)

本核數師(以下簡稱「我們」)已審計列載於第58頁至217頁中信銀行國際有限公司(以下簡稱「貴行」)及其附屬公司(以下統稱「集團」)的綜合財務報表,此綜合財務報表包括於2011年12月31日的綜合財務狀況表及貴行的財務狀況表,截至該日止年度的綜合收益表、綜合全面收益表、綜合權益變動表和綜合現金流量表以及主要會計政策概要及其他附註解釋資料。

董事就綜合財務報表須承擔的責任

貴行的董事須負責根據香港會計師公會頒佈的《香港財務報告準則》及香港《公司條例》編製綜合財務報表,以令綜合財務報表作出真實而公平的反映及落實其認為編製綜合財務報表所必要的內部控制,以使綜合財務報表不存在由於欺詐或錯誤而導致的重大錯誤陳述。

核數師的責任

我們的責任是根據我們的審計對該等綜合財務報表作出意見。我們是按照香港《公司條例》第141條的規定,僅向整體股東報告。除此以外,我們的報告不可用作其他用途。我們概不就本報告的內容,對任何其他人士負責或承擔法律責任。

我們已根據香港會計師公會頒佈的《香港審計準則》進行審計。該等準則要求我們遵守道德規範,並規劃及執行審計,以合理確定綜合財務報表是否不存有任何重大錯誤陳述。

Independent Auditor's Report

Independent Auditor's Report to the Shareholders of CITIC Bank International Limited

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of CITIC Bank International Limited ("the Bank") and its subsidiaries (together "the Group") set out on pages 58 to 217, which comprise the consolidated and the Bank statements of financial position as at 31 December 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Bank are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

審計涉及執程序以獲取有關綜合財務報表所載金額及披露資料的審計憑證。所選定的程序取決於核數師的判斷，包括評估由於欺詐或錯誤而導致綜合財務報表存有重大錯誤陳述的風險。在評估該等風險時，核數師考慮與該公司編製綜合財務報表以作出真實而公平的反映相關的內部控制，以設計適當的審計程序，但目的並非對公司內部控制的有效性發表意見。審計亦包括評價董事所採用會計政策的合適性及所作出會計估計的合理性，以及評價綜合財務報表的整體列報方式。

我們相信，我們所獲得的審計憑證能充足和適當地為我們的審計意見提供基礎。

意見

我們認為，該等綜合財務報表已根據《香港財務報告準則》真實而公平地反映貴行和貴集團於2011年12月31日的事務狀況及截至該日止年度集團的溢利及現金流量，並已按照香港《公司條例》妥為編製。

畢馬威會計師事務所
執業會計師

香港中環
遮打道十號
太子大廈八樓

2012年3月29日

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Bank and of the Group as at 31 December 2011 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

29 March 2012

綜合收益表

截至2011年12月31日止年度(以港幣為單位)

Consolidated Income Statement

for the year ended 31 December 2011 (Expressed in Hong Kong dollars)

		附註 Note	2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
利息收入	Interest income	4(a)	3,573,280	2,830,882
利息支出	Interest expense	4(b)	(1,711,533)	(1,018,087)
淨利息收入	Net interest income		1,861,747	1,812,795
費用及佣金收入	Fee and commission income		627,826	721,607
費用及佣金支出	Fee and commission expense		(38,035)	(30,877)
淨費用及佣金收入	Net fee and commission income	5	589,791	690,730
淨交易收入	Net trading income	6	803,962	421,184
指定為通過損益以反映公允價值的金融工具淨收益	Net gain from financial instruments designated at fair value through profit or loss	7	9,382	23,152
淨對沖虧損	Net hedging loss	8	(1,124)	(1,022)
出售可供出售證券淨(虧損)/收益	Net (loss)/gain on disposal of available-for-sale securities	9	(136,846)	16,799
其他經營收入	Other operating income	10	291,918	42,551
經營收入	Operating income		3,418,830	3,006,189
經營支出	Operating expenses	11	(1,652,445)	(1,452,197)
扣除減值準備前之經營溢利	Operating profit before impairment		1,766,385	1,553,992
貸款及墊款及其他賬項減值虧損回撥/(準備)	Impairment losses written back/(charged) on loans and advances and other accounts	13	75,091	(261,936)
可供出售證券減值虧損(準備)/回撥	Impairment losses (charged)/written back on available-for-sale securities		(177,788)	7
減值虧損	Impairment losses		(102,697)	(261,929)
經營溢利	Operating profit		1,663,688	1,292,063
資本票據投資減值及撇值	Impairment and write-down on capital notes investments		–	(668,385)
出售物業及設備淨(虧損)/收益	Net (loss)/gain on disposal of property and equipment		(11)	521,672
投資物業重估收益	Revaluation gain on investment properties	26(a)	28,352	14,858
稅前溢利	Profit before taxation		1,692,029	1,160,208
所得稅	Income tax	14	(281,816)	(103,551)
本年度溢利	Profit for the year	15	1,410,213	1,056,657
歸屬於本行股東的權益	Attributable to equity shareholders of the Bank		1,410,213	1,056,657

第65頁到第217頁的附註屬本財務報表一部份。

The notes on pages 65 to 217 form part of these financial statements.

綜合全面收益表

截至2011年12月31日止年度(以港幣為單位)

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2011 (Expressed in Hong Kong dollars)

		附註 Note	2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
本年度溢利	Profit for the year		1,410,213	1,056,657
本年度其他全面收益 (除稅及重新分類調整後)	Other comprehensive income for the year (after tax and reclassification adjustments)	16		
換算海外附屬公司的財務報表的 匯兌差額	Exchange differences on translation of financial statements of overseas subsidiaries		49,798	22,430
其他物業重估儲備 — 因出售由其他物業轉至的投資 物業而實現的遞延稅項負債	Other property revaluation reserve — release of deferred tax liabilities upon disposal of investment properties transferred from other premises		—	3,204
可供出售證券	Available-for-sale securities			
— 公允價值的變動	— change in fair value		(413,105)	(121,018)
— 出售時轉至收益表	— transfer to income statement on disposal		136,303	(18,919)
— 減值時轉至收益表	— transfer to income statement on impairment		178,000	186,402
— 轉自／(來自)遞延稅項	— transfer to/(from) deferred tax		16,794	(7,660)
			(32,210)	64,439
本年度全面收益總額	Total comprehensive income for the year		1,378,003	1,121,096
歸屬於本行股東的權益	Attributable to equity shareholders of the Bank		1,378,003	1,121,096

第65頁到第217頁的附註屬本財務報表一部份。

The notes on pages 65 to 217 form part of these financial statements.

綜合財務狀況表

於2011年12月31日(以港幣為單位)

Consolidated Statement of Financial Position

at 31 December 2011 (Expressed in Hong Kong dollars)

	附註 Note	2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
資產			
現金及在銀行、中央銀行及 其他金融機構的結存	18	12,944,105	21,225,122
在銀行、中央銀行及其他 金融機構的存款及墊款	19	35,838,843	12,229,126
交易用途資產	20	2,079,683	1,633,657
指定為通過損益以反映 公允價值的證券	21	355,677	646,508
客戶貸款及墊款及其他賬項	22	96,365,280	90,714,680
可供出售證券	23	22,904,954	20,857,745
物業及設備	26(a)		
— 投資物業		187,602	159,250
— 其他物業及設備		644,520	582,496
可收回稅項	31(a)	3,038	59,744
遞延稅項資產	31(b)	102,423	100,573
資產總額		171,426,125	148,208,901
權益及負債			
銀行及其他金融機構的 存款及結存	27	5,121,298	1,850,372
客戶存款	28	127,040,396	113,466,113
交易用途負債	29	1,331,198	1,477,528
已發行存款證	30	12,123,896	6,985,054
已發行債務證券	32	397,436	231,900
本期稅項	31(a)	122,264	18,972
遞延稅項負債	31(b)	1,496	2,197
其他負債	33	3,990,018	3,061,233
債務資本	35	8,192,926	7,763,729
負債總額		158,320,928	134,857,098
權益			
股本	36(a)	7,283,341	7,283,341
儲備		5,821,856	6,068,462
歸屬於本行股東的 權益總額		13,105,197	13,351,803
權益及負債總額		171,426,125	148,208,901

董事會於2012年3月29日核准並授權發佈。

Approved and authorised for issue by the Board of Directors on 29 March 2012.

陳許多琳
Chan Hui Dor Lam Doreen
董事兼行政總裁
Director and Chief Executive Officer

黃毅
Huang Yi Nick
董事兼替任行政總裁
Director and Alternate Chief
Executive Officer

詹德慈
Tsim Tak Chee Archie
董事兼替任行政總裁
Director and Alternate Chief
Executive Officer

王浩成
Wong Ho Sing Steve
財務總監
Chief Financial Officer

第65頁到第217頁的附註屬本財務報表一部份。

The notes on pages 65 to 217 form part of these financial statements.

財務狀況表

截至2011年12月31日止年度(以港幣為單位)

Statement of Financial Position

at 31 December 2011 (Expressed in Hong Kong dollars)

	附註 Note	2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
資產			
現金及在銀行、中央銀行及 其他金融機構的結存	18	11,725,857	20,686,359
在銀行、中央銀行及其他 金融機構的存款及墊款	19	28,400,867	9,000,325
交易用途資產	20	2,075,004	1,620,822
指定為通過損益以反映公允 價值的證券	21	355,677	646,508
客戶貸款及墊款及其他賬項	22	86,666,715	81,362,775
可供出售證券	23	22,205,469	20,798,979
應收附屬公司款項	24	8,201,586	7,261,783
附屬公司投資	25	1,274,990	1,274,990
物業及設備	26(b)		
— 投資物業		158,202	133,897
— 其他物業及設備		629,786	566,062
可收回稅項	31(a)	—	57,771
遞延稅項資產	31(b)	93,220	89,169
資產總額		161,787,373	143,499,440
權益及負債			
銀行及其他金融機構的 存款及結存	27	4,360,231	727,892
客戶存款	28	119,175,347	110,601,692
交易用途負債	29	1,321,019	1,464,497
已發行存款證	30	12,123,896	6,985,054
已發行債務證券	32	388,383	—
本期稅項	31(a)	112,299	3,268
遞延稅項負債	31(b)	18	487
其他負債	33	3,634,159	2,707,508
應付附屬公司款項	34	2,273,113	2,511,132
債務資本	35	6,242,919	5,791,576
負債總額		149,631,384	130,793,106
權益			
股本	36(a)	7,283,341	7,283,341
儲備	36(b)	4,872,648	5,422,993
歸屬於本行股東的 權益總額		12,155,989	12,706,334
權益及負債總額		161,787,373	143,499,440

董事會於2012年3月29日核准並授權發佈。

Approved and authorised for issue by the Board of Directors on 29 March 2012.

陳許多琳
Chan Hui Dor Lam Doreen
董事兼行政總裁
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Wong Ho Sing Steve
財務總監
Chief Financial Officer

第65頁到第217頁的附註屬本財務報表一部份。

The notes on pages 65 to 217 form part of these financial statements.

綜合權益變動表

Consolidated Statement of Changes in Equity

截至2011年12月31日止年度(以港幣為單位)

for the year ended 31 December 2011 (Expressed in Hong Kong dollars)

本集團

The Group

		股本	股份溢價	資本儲備	一般儲備	匯兌差額 儲備	物業重估 儲備	投資重估 儲備	法定盈餘 公積	法定一般 儲備	保留溢利	儲備總額 (附註36(d))	權益總額
		Share capital	Share premium	Capital reserve	General reserve	Exchange reserve	Property revaluation reserve	Investment revaluation reserve	Statutory reserve	Regulatory general reserve	Retained profits	Total reserves (note 36(d))	Total equity
		港幣千元 HK\$'000	港幣千元 HK\$'000	港幣千元 HK\$'000	港幣千元 HK\$'000	港幣千元 HK\$'000	港幣千元 HK\$'000	港幣千元 HK\$'000	港幣千元 HK\$'000	港幣千元 HK\$'000	港幣千元 HK\$'000	港幣千元 HK\$'000	港幣千元 HK\$'000
於2011年1月1日	At 1 January 2011	7,283,341	282,930	6,589	100,000	22,415	4,718	(232,010)	11,802	73,636	5,798,382	6,068,462	13,351,803
截至2011年的權益變動：Changes in equity for 2011:													
本年度溢利	Profit for the year	-	-	-	-	-	-	-	-	-	1,410,213	1,410,213	1,410,213
本年度其他全面 收益總額	Other comprehensive income for the year	-	-	-	-	49,798	-	(82,008)	-	-	-	(32,210)	(32,210)
本年度全面 收益總額	Total comprehensive income for the year	-	-	-	-	49,798	-	(82,008)	-	-	1,410,213	1,378,003	1,378,003
本年度宣派中期股息 (附註36(c))	Interim dividend declared and paid in respect of the current year (note 36(c))	-	-	-	-	-	-	-	-	-	(1,624,609)	(1,624,609)	(1,624,609)
轉自保留溢利	Transfer from retained profits	-	-	-	-	-	-	-	9,060	49,104	(58,164)	-	-
於2011年12月31日	At 31 December 2011	7,283,341	282,930	6,589	100,000	72,213	4,718	(314,018)	20,862	122,740	5,525,822	5,821,856	13,105,197
於2010年1月1日	At 1 January 2010	7,283,341	282,930	6,589	100,000	(15)	20,932	(270,815)	6,567	57,099	4,744,079	4,947,366	12,230,707
截至2010年的權益變動：Changes in equity for 2010:													
本年度溢利	Profit for the year	-	-	-	-	-	-	-	-	-	1,056,657	1,056,657	1,056,657
本年度其他全面 收益總額	Other comprehensive income for the year	-	-	-	-	22,430	3,204	38,805	-	-	-	64,439	64,439
本年度全面收益總額	Total comprehensive income for the year	-	-	-	-	22,430	3,204	38,805	-	-	1,056,657	1,121,096	1,121,096
轉自保留溢利	Transfer from retained profits	-	-	-	-	-	-	-	5,235	16,537	(21,772)	-	-
因出售物業而實現 的儲備	Release of reserve upon disposal of property	-	-	-	-	-	(19,418)	-	-	-	19,418	-	-
於2010年12月31日	At 31 December 2010	7,283,341	282,930	6,589	100,000	22,415	4,718	(232,010)	11,802	73,636	5,798,382	6,068,462	13,351,803

第65頁到第217頁的附註屬本財務報表一部份。

The notes on pages 65 to 217 form part of these financial statements.

綜合現金流量表

截至2011年12月31日止年度(以港幣為單位)

Consolidated Cash Flow Statement

for the year ended 31 December 2011 (Expressed in Hong Kong dollars)

	附註 Note	2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
經營業務	Operating activities		
稅前溢利	Profit before taxation	1,692,029	1,160,208
非現金項目調整：	Adjustments for non-cash items:		
客戶貸款及墊款及其他賬項 減值虧損(回撥)/準備	Impairment losses (written back)/charged on loans and advances and other accounts	(75,091)	261,936
可供出售證券減值虧損 準備/(回撥)	Impairment losses charged/(written back) on available-for-sale securities	177,788	(7)
資本票據投資減值及撇值	Impairment and write-down on capital notes investments	–	668,385
出售可供出售證券淨虧損/(收益)	Net loss/(gain) on disposal of available-for-sale securities	136,846	(16,799)
出售物業及設備淨虧損/(收益)	Net loss/(gain) on disposal of property and equipment	11	(521,672)
投資物業重估收益	Revaluation gain on investment properties	(28,352)	(14,858)
遞延支出攤銷	Amortisation of deferred expenses	58,978	52,895
物業及設備折舊	Depreciation on property and equipment	87,754	74,778
權益證券股息收入	Dividend income from equity securities	(4,002)	(4,660)
債務資本利息支出	Interest expense on loan capital	490,510	355,904
匯兌差額	Foreign exchange differences	(129,894)	51,757
		2,406,577	2,067,867
經營資產(增加)/減少	(Increase)/decrease in operating assets		
原到期日超過3個月的在銀行、 中央銀行及其他金融機構的 存款及墊款	Placements with and advances to banks, central banks and other financial institutions with original maturity beyond three months	(10,827,793)	6,770,594
原到期日超過3個月的國庫券	Treasury bills with original maturity beyond three months	(295,225)	(721,050)
原到期日超過3個月的 持有存款證	Certificates of deposit held with original maturity beyond three months	(845,942)	13,408
交易用途資產	Trading assets	(446,026)	150,218
指定為通過損益以反映 公允價值的證券	Securities designated at fair value through profit or loss	290,831	(65,872)
客戶貸款及墊款及其他賬項	Loans and advances to customers and other accounts	(5,634,052)	(16,957,496)
可供出售證券	Available-for-sale securities	2,286,006	469,696
		(15,472,201)	(10,340,502)
經營負債增加/(減少)	Increase/(decrease) in operating liabilities		
銀行及其他金融機構的 存款及結存	Deposits and balances of banks and other financial institutions	3,270,926	(943,983)
客戶存款	Deposits from customers	13,574,283	19,225,133
交易用途負債	Trading liabilities	(146,330)	369,519
已發行存款證	Certificates of deposit issued	5,310,722	3,267,812
已發行債務證券	Debt securities issued	165,814	160,100
其他負債	Other liabilities	1,345,148	969,156
		23,520,563	23,047,737
來自經營業務的現金額	Cash generated from operations	10,454,939	14,775,102

綜合現金流量表
截至2011年12月31日止年度(以港幣為單位)

Consolidated Cash Flow Statement
for the year ended 31 December 2011 (Expressed in Hong Kong dollars)

	附註 Note	2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
來自經營業務的現金額	Cash generated from operations	10,454,939	14,775,102
已付所得稅	Income tax paid		
已付香港利得稅	Hong Kong Profits Tax paid	(74,492)	(122,649)
已付海外稅項	Overseas tax paid	(33,463)	(14,415)
來自經營業務的現金淨額	Net cash generated from operating activities	10,346,984	14,638,038
投資業務	Investing activities		
已收權益證券股息	Dividends received from equity securities	4,002	4,660
購入物業及設備	Purchase of property and equipment	(149,018)	(111,023)
出售物業及設備所得款項	Proceeds from disposal of property and equipment	54	859,585
(用於)／來自投資業務的現金淨額	Net cash (used in)/generated from investing activities	(144,962)	753,222
融資業務	Financing activities		
已派股息	Dividends paid	(1,624,609)	–
發行債務資本所得款項	Proceeds from loan capital issued	–	3,876,200
支付債務資本利息	Interest paid on loan capital	(471,022)	(352,284)
(用於)／來自融資業務的現金淨額	Net cash (used in)/generated from financing activities	(2,095,631)	3,523,916
現金及現金等值增加淨額	Net increase in cash and cash equivalents	8,106,391	18,915,176
於1月1日的現金及現金等值項目	Cash and cash equivalents at 1 January	30,903,532	11,988,356
於12月31日的現金及現金等值項目	Cash and cash equivalents at 31 December	39,009,923	30,903,532
經營業務產生的現金流量包括：	Cash flows from operating activities included:		
已收利息	Interest received	3,468,929	2,724,407
已付利息	Interest paid	(972,650)	(591,547)

第65頁到第217頁的附註屬本財務報表一部份。

The notes on pages 65 to 217 form part of these financial statements.

財務報表附註

(除特別列明外，均以港幣為單位)

1 主要業務

中信銀行國際有限公司(「本行」)及其附屬公司(「本集團」)的主要業務是提供銀行及相關金融服務。這些業務對本集團的業績或資產及負債具有重大影響。

2 主要會計政策

中信銀行國際有限公司為於香港註冊成立的持牌銀行，並以香港為辦事處所在地，其註冊辦事處位於香港德輔道中232號。於截至2011年12月31日止年度的綜合財務報表涵蓋本行和各附屬公司(以下統稱「本集團」)。

(a) 合規聲明

本財務報表是根據香港會計師公會頒佈，所有適用的《香港財務報告準則》(包括所有適用的個別香港財務報告準則、《香港會計準則》及詮釋)、香港一般採用的會計原則及香港《公司條例》的規定編製而成。本集團採用的主要會計政策概述如下。

香港會計師公會頒佈數項新增及經修訂的香港財務報告準則，並可於本年度本集團及本行的會計期被提早採納或生效。在與本集團有關的範圍內初次應用這些新訂的準則所引致當前和以往會計期間的會計政策變更，已於本財務報表內反映，有關資料載列於附註3。

(b) 財務報表編製基礎

除了以下資產與負債項目以公允價值列賬外，編製財務報表時是以歷史成本作為計量基礎。有關詳情已載列於下列會計政策：

- 劃歸為交易用途、指定為通過損益以反映公允價值及可供出售的金融工具(參閱附註2(e)(iii))；及
- 投資物業(參閱附註2(h))；

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Principal Activities

The principal activities of CITIC Bank International Limited ("the Bank") and its subsidiaries ("the Group"), which materially affect the results or comprise the assets and liabilities of the Group, are the provision of banking and related financial services.

2 Significant Accounting Policies

CITIC Bank International Limited is a licensed bank incorporated and domiciled in Hong Kong and has its registered office at 232 Des Voeux Road Central, Hong Kong. The consolidated financial statements for the year ended 31 December 2011 comprise the Bank and its subsidiaries (together referred to as "the Group").

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs"), and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Bank. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- financial instruments classified as trading, designated at fair value through profit or loss and available-for-sale (see note 2(e)(ii)); and
- investment property (see note 2(h)).

2 主要會計政策(續)

(b) 財務報表編製基礎(續)

管理層在按照香港財務報告準則編製財務報表時，需要對會計政策的應用和資產及負債、收入及支出的匯報數額等作判斷、估計及假設從而影響政策實施及資產和負債、及收入與支出之呈報金額。有關估計及假設乃按在既定情況下可合理地相信，根據過往之經驗及其他因素，作出判斷那些未能從其他來源確定的資產及負債的賬面值。實際結果可能與此等估計不盡相同。

有關估計及假設須定期作檢討。若修訂只影響該修訂期，會計估計的修訂於該修訂期內確認；或如該修訂影響本期及未來會計期，則於修訂期及未來會計期確認。

管理層在應用香港財務報告準則時作出對財務報表有重大影響的判斷，以及估計不可確定因素的主要來源，於附註47討論。

(c) 收入確認

收入按已收或應收價款的公允價值釐定。收入是在經濟效益很可能會流入本集團，以及能夠可靠地計量收入和成本(如適用)時，根據下列方法在收益表內確認：

2 Significant Accounting Policies (cont'd)

(b) Basis of preparation of the financial statements (cont'd)

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 47.

(c) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

2 主要會計政策(續)

(c) 收入確認(續)

(i) 利息收入

所有計息金融工具的利息收入均使用實際利率法以應計基礎在收益表內確認。

實際利率法是計算金融資產的攤銷成本及分配有關期間的利息收入的方法。按照金融資產的賬面淨值折讓未來於金融工具預計有效年期或(如適用)較短期間內估計付出或取得的現金值時，所用比率即為實際利率。本集團在計算實際利率時對現金流量作出估計，並且已考慮金融工具的所有合約條款(如提前還款、認購及類似期權)，惟並無考慮未來信貸損失。合約訂約方付出或收取的所有費用(為實際利率的一部份)、交易成本及所有其他溢價或折讓，均在計算之列。因住宅物業按揭貸款所支出的現金回贈會被資本化及按其估計期限於損益表內攤銷。

就減值貸款而言，根據貸款原來條款計算的應計利息收入已停止，但隨時間過去而引致任何減值貸款的現值增加則匯報為利息收入。

指定為通過損益以反映公允價值的金融工具的淨收入，及淨交易收入包括該等金融資產及金融負債的公允價值變動所產生的所有損益(已扣除應計息票)，以及該等金融工具產生的利息收入及支出和股息收入。

2 Significant Accounting Policies (cont'd)

(c) Revenue recognition (cont'd)

(i) Interest income

Interest income for all interest-bearing financial instruments is recognised in the income statement on an accruals basis using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Cash rebates granted in relation to residential mortgage loans are capitalised and amortised to the income statement over their expected life.

For impaired loans, the accrual of interest income based on the original terms of the loan is discontinued, but any increase in the present value of impaired loans due to the passage of time is reported as interest income.

Net income from financial instruments designated at fair value through profit or loss and net trading income comprises all gains and losses from changes in fair value (net of accrued coupon) of such financial assets and financial liabilities, together with interest income and expense and dividend income attributable to those financial instruments.

2 主要會計政策(續)

(c) 收入確認(續)

(ii) 費用及佣金收入

費用及佣金收入在提供相應服務時確認，但如費用是為彌補持續為客戶提供服務或承受風險的成本而收取，或費用屬於利息性質則除外。在這些情況下，費用在產生成本或承受風險的會計期間確認為收入，或視作利息收入。

因本集團創造或購入金融資產而產生之始創或承擔服務費的收入／支出須根據有效利率遞延及確認。如預計承擔不會引致提取貸款，該服務費需按承擔期限以直線法確認為收入。

(iii) 融資租賃及分期付款合約的財務收入

融資租賃及分期付款的隱含財務收入按租賃年期確認為利息收入，以令每個會計期間剩餘的淨投資回報率大致上相同。因購併融資租賃及分期付款合約而付交易商之佣金，已包含於資產的賬面值及於租賃期內攤銷並入收益表，作為對利息收入的調整。

(iv) 經營租賃的租金收入

除非有更具代表性的基準能反映從使用租賃資產獲取利益的模式，其經營租賃的租金收入會按租賃年期內期間，以等額分期確認於收益表內。經營租賃協議所涉及的激勵措施均在收益表內確認為租賃淨收款總額的組成部份。

(v) 股息收入

非上市投資股息收入在股東收取權被確立時才予以確認。上市投資股息收入則在該投資的股價除息時才被確認。

2 Significant Accounting Policies (cont'd)

(c) Revenue recognition (cont'd)

(ii) Fee and commission income

Fee and commission income is recognised when the corresponding service is provided, except where the fee is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised as income in the accounting period in which the costs or risk is incurred and is accounted for as interest income.

Origination or commitment fees received/paid by the Group which result in the creation or acquisition of a financial assets are deferred and recognised as an adjustment to the effective interest rate. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

(iii) Finance income from finance lease and hire purchase contract

Finance income implicit in the finance lease and hire purchase payments is recognised as interest income over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period. Commission paid to dealers for acquisition of finance lease loans or hire purchase contracts is included in the carrying value of the assets and amortised to the income statement over the expected life of the lease as an adjustment to interest income.

(iv) Rental income from operating lease

Rental income received under operating leases is recognised in the income statement in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable.

(v) Dividend income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established. Dividend income from listed investments is recognised when the share price of the investment is quoted ex-dividend.

2 主要會計政策(續)

(d) 附屬公司

附屬公司是指受本集團控制的實體。控制是指本集團有權決定該實體的財務及經營業務，並藉此從其活動中取得利益。在評估控制存在與否時，現時可行使的潛在投票權會納入考慮之列。

於附屬公司的投資由控制權開始生效當日起在綜合財務報表中綜合計算，直至控制權終止期間為止。集團內部的結餘及交易，及任何集團內部交易所產生的未實現溢利均於編製綜合財務報表時悉數抵銷。除有證據顯示已出現減值的部份外，集團內部交易產生的未實現虧損的攤銷方法與未實現收益相同。

集團的權益變化均列作股權交易，不會導致失去附屬公司的控制權，據此在合併資產控制和非控制權益的金額作出調整，以反映變化的相對利益，但對商譽和收益或虧損並無作出調整。

倘本集團失去附屬公司之控制權，有關交易將會當作出售有關附屬公司之全部權益入賬，而所得盈虧將於收益表中確認入賬。於失去控制權當在該前附屬公司仍然保留之任何權益將用公允值確認入賬，而此金額將被視為金融資產首次確認的公允值(參閱附註2(e)(i))。

在本行的財務狀況表中，其於附屬公司的投資是按成本減去減值虧損(如有)(參閱附註2(l))後入賬，除非該投資已分類為持有待出售(或已包含在分類為待出售的處置單位內)(參閱附註2(s))。

2 Significant Accounting Policies (cont'd)

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in the income statement. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(e)(i)).

In the Bank's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses, if any (see note 2(l)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2(s)).

2 主要會計政策(續)

(e) 金融工具

(i) 首次確認

本集團在首次確認金融工具時，是按照購入資產或產生負債的目的而將金融工具分為不同類別。分類為：通過損益以反映公允價值、貸款及應收賬項、可供出售證券及其他金融負債。

金融工具先以公允價值計量，通常與交易價相同。如果金融資產或金融負債不屬於通過損益以反映公允價值，便需加上直接歸屬於購入金融資產或發行金融負債的交易成本。通過損益以反映公允價值的金融資產及金融負債的交易成本將立即支銷。

本集團會在成為金融工具合約其中一方當日確認金融資產及金融負債。以有規律方式買賣通過損益以反映公允價值的金融資產及負債按交易日會計法予以確認。其他金融資產及負債按結算日會計法予以確認。通過損益以反映公允價值的金融資產或金融負債的公允價值變動產生的任何盈虧由該日起記錄。

(ii) 分類

通過損益以反映公允價值

該類別包括持作交易用途的金融資產及金融負債，以及於初始確認時指定為通過損益以反映公允價值的金融資產及金融負債，惟不包括沒有市場報價及不能可靠計量公允價值的股本工具投資。

交易用途金融工具為主要就交易用途而購入或招致的金融資產或金融負債，或屬可辨別金融工具組合的一部份，並有證據顯示該組合最近有可短期獲利的模式。不合資格採用對沖會計法(附註2(g))的衍生工具則計入交易用途工具。

2 Significant Accounting Policies (cont'd)

(e) Financial instruments

(i) Initial recognition

The Group classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: fair value through profit or loss, loans and receivables, available-for-sale securities and other financial liabilities.

Financial instruments are measured initially at fair value, which normally will be equal to the transaction price plus, in case of a financial asset or financial liability not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset or issue of the financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

The Group recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets and financial liabilities at fair value through profit or loss is recognised using trade date accounting. Other financial assets and financial liabilities are recognised using settlement date accounting. From these dates, any gains and losses arising from changes in fair value of the financial assets or financial liabilities at fair value through profit or loss are recorded.

(ii) Categorisation

Fair value through profit or loss

This category comprises financial assets and liabilities held for trading, and those designated at fair value through profit or loss upon initial recognition, but exclude those investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

Trading financial instruments are financial assets or financial liabilities which are acquired or incurred principally for the purpose of trading, or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives that do not qualify for hedge accounting (note 2(g)) are accounted for as trading instruments.

2 主要會計政策(續)

(e) 金融工具(續)

(ii) 分類(續)

如屬以下情況，本集團可以選擇在初始確認時將金融工具指定為通過損益以反映公允價值：

- 本集團內部是按公允價值基準管理、衡量和匯報有關的資產或負債；
- 作出指定後，原應出現的會計錯配情況可予消除或明顯減少；
- 有關的資產或負債包括內含衍生工具，而這些衍生工具令原來按合約所需的現金流量出現明顯的變化；或
- 本集團沒有被禁止將嵌入衍生工具從金融工具內分開。

該類別下的金融資產及金融負債是按公允價值列賬。公允價值的變動在有關變動產生的期間計入收益表。在出售或購回時，淨銷售所得款項或淨付款與賬面值之間的差額會計入收益表內。

貸款及應收賬項

貸款及應收賬項為具有固定或可確定付款且在活躍市場沒有報價的非衍生金融資產，惟除了(a)本集團擬即時或於短期內出售而劃歸為持作交易用途；(b)本集團於初始確認時已指定為通過損益以反映公允價值或可供出售者；或(c)本集團可能無法收回其絕大部份初始投資(因信貸表現惡化而無法收回者除外)則分類為可供出售。貸款及應收賬項主要包括客戶貸款及墊款和在銀行、中央銀行及其他金融機構的存款及墊款。

貸款及應收賬項採用實際利率法，按攤銷成本減去減值虧損(如有)(參閱附註2(l))後列賬。

2 Significant Accounting Policies (cont'd)

(e) Financial instruments (cont'd)

(ii) Categorisation (cont'd)

The Group has the option to designate its financial instruments at fair value through profit or loss upon initial recognition when:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;
- the asset or liability contains embedded derivatives that significantly modifies the cash flows that would otherwise be required under the contract; or
- the separation of the embedded derivatives from the financial instrument is not prohibited.

Financial assets and liabilities under this category are carried at fair value. Changes in the fair value are included in the income statement in the period in which they arise. Upon disposal or repurchase, the difference between the net sale proceeds or the net payment and the carrying value is included in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Group intends to sell immediately or in the near term, which will be classified as held for trading; (b) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (c) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale. Loans and receivables mainly comprise loans and advances to customers and placements with and advances to banks, central banks and other financial institutions.

Loans and receivables are carried at amortised cost using the effective interest method, less impairment losses, if any (see note 2(l)).

2 主要會計政策(續)

(e) 金融工具(續)

(ii) 分類(續)

可供出售證券

可供出售證券是指定為可供出售或並無劃歸上述兩個中任何一個類別的非衍生金融資產，包括計劃作不定期限持有的金融資產，惟可能因應流動資金需求或市場環境變動而出售。

可供出售證券是按公允價值列賬。除如債務證券的貨幣性項目所引致的減值虧損及外匯盈虧須在收益表確認外，因公允價值變動而產生之未實現收益及虧損於其他全面收益內確認，並在權益內分開累計。

權益證券投資並沒有活躍市場的報價，而其公允價值並不能可靠計量，與之有所聯繫的衍生工具須透過交付該權益證券而清償，該類權益證券投資按成本減去減值虧損(如有)(參閱附註2(l))後列賬。

倘出售可供出售證券，出售收益或虧損包括淨銷售所得款項與賬面值之間的差額，以及曾經確認為其他全面收益之累計公允價值調整須由權益重新分類而轉入收益表。

其他金融負債

除交易用途負債及該等指定為通過損益以反映公允價值的金融負債外，金融負債是採用實際利率法按攤銷成本計量。

2 Significant Accounting Policies (cont'd)

(e) Financial instruments (cont'd)

(ii) Categorisation (cont'd)

Available-for-sale securities

Available-for-sale securities are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other two categories above. They include financial assets intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in the market environment.

Available-for-sale securities are carried at fair value. Unrealised gains and losses arising from changes in the fair value are recognised in other comprehensive income and accumulated separately in equity, except for impairment losses and foreign exchange gains and losses on monetary items such as debt securities which are recognised in the income statement.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be measured reliably, and derivatives that are linked to and must be settled by delivery of such unquoted equity securities are carried at cost less impairment losses, if any (see note 2(l)).

When the available-for-sale securities are sold, gains or losses on disposal include the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments which are previously recognised in other comprehensive income shall be reclassified from equity to the income statement.

Other financial liabilities

Financial liabilities, other than trading liabilities and those designated at fair value through profit or loss, are measured at amortised cost using the effective interest method.

2 主要會計政策(續)

(e) 金融工具(續)

(iii) 公允價值計量原則

金融工具的公允價值是於結算日根據其市場報價但未扣除將來估計出售的成本計算。金融資產以當時買入價作價，而金融負債則以當時賣出價作價。

如並無最新公開成交價，或未能從認可證券交易所獲得市場報價或從經紀／交易商獲得屬於非通過交易所買賣的金融工具價格，或如市場交投不活躍，則此工具的公允價值以估值模式估值，而該估值模式可根據市場實際交易提供可靠的估計價格。

當採用現金流量折讓價格模式，估計將來現金流量按管理層的最佳估計及採用的折現率是在結算日適用於相近工具條款及條件的市場利率計算。當採用其他定價模式，輸入項目是依據結算日的市場價格資料。

(iv) 終止確認

當從金融資產獲得現金流量的合約權利屆滿，或當金融資產連同擁有權的絕大部份風險及回報已被轉移，便會終止確認金融資產。

當合約指定的義務已經履行、取消或屆滿，便會終止確認金融負債。

(v) 抵銷

倘若存在可依法強制執行的權利可抵銷已確認數額，且有計劃按淨額基準結算或同時變現資產及償付負債，則金融資產及金融負債可予抵銷，淨額在財務狀況表內匯報。

2 Significant Accounting Policies (cont'd)

(e) Financial instruments (cont'd)

(iii) Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

If there is no publicly available latest traded price nor a quoted market price on a recognised stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments, or if the market for it is not active, the fair value of the instrument is estimated using valuation techniques that provide a reliable estimate of prices which could be obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the end of the reporting period applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the end of the reporting period.

(iv) Derecognition

A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership, have been transferred.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2 主要會計政策(續)

(e) 金融工具(續)

(vi) 內含衍生工具

內含衍生工具是一個包括衍生工具及主合約的混合(合併)工具的一部份，這一部份以獨立衍生工具類似的方式改變該合併工具的部份現金流量。當(a)內含衍生工具的經濟特質及風險與主合約並無密切關係；及(b)混合(合併)工具並非以公允價值計量而公允價值變動在收益表內確認，則內含衍生工具從主合約分開，並入賬列作衍生工具。

當內含衍生工具分開，則主合約根據金融工具的會計政策入賬。(參閱附註2(e)(ii))。

(f) 購回及反向購回交易

出售的證券如同時附有在某一較後日期以固定價格購回這些證券的協議(購回協議)，會在財務報表內保留，並根據其原有計量原則計量。出售所得款項匯報為負債，並以攤銷成本列賬。

根據轉售協議(反向購回協議)購買的證券並非匯報為購買證券，而是應收賬項，並以攤銷成本在財務狀況表內列賬。

反向購回協議賺取的利息及購回協議產生的利息採用實際利率法，在各協議的有效期內分別確認為利息收入及利息支出。

2 Significant Accounting Policies (cont'd)

(e) Financial instruments (cont'd)

(vi) Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. The embedded derivatives are separated from the host contract and accounted for as a derivative when (a) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; and (b) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the income statement.

When the embedded derivative is separated, the host contract is accounted for in accordance with the accounting policies of financial instruments (see note 2(e)(ii)).

(f) Repurchase and reverse repurchase transactions

Securities sold subject to a simultaneous agreement to repurchase these securities at a certain later date at a fixed price (repurchase agreements) are retained in the financial statements and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortised cost.

Securities purchased under agreements to resell (reverse repurchase agreements) are reported not as purchases of the securities, but as receivables and are carried in the statement of financial position at amortised cost.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognised as interest income or interest expense respectively, over the life of each agreement using the effective interest rate method.

2 主要會計政策(續)

(g) 對沖

對沖會計法確認對沖工具與被對沖項目的公允價值變動對損益構成的抵銷影響。本集團於開始進行對沖及持續進行對沖時，評估用於對沖交易的金融工具在抵銷與被對沖風險相關的被對沖項目的公允價值或現金流量變動上是否極具效用，並就此制定文件記錄。當(a)對沖工具到期或售出、終止或行使；或(b)對沖不再符合對沖會計法的使用條件；或(c)本集團撤銷對沖關係的指定，本集團將終止在往後採用對沖會計法。

(i) 公允價值對沖

公允價值對沖尋求抵銷已確認資產或負債的公允價值變動的風險，該等風險將導致損益在收益表內確認。

對沖工具以公允價值計量，公允價值變動在收益表內確認。被對沖項目的賬面值按與被對沖風險相關的對沖工具公允價值變動的數額作出調整。此調整在收益表內確認，以抵銷損益對對沖工具構成的影響。

當對沖工具到期或被出售、終止或行使、對沖不再符合對沖會計法的使用條件或本集團撤銷指定的對沖關係時，截至當時為止對採用實際利率法計量的被對沖項目作出的任何調整，均在收益表中攤銷(作為該項目在尚餘期限內重新計算的實際利率一部份)。

(ii) 對沖效用測試

為符合資格實施對沖會計法，在開始對沖時及預計對沖期內，本集團須進行效用測試以顯示預期對沖成效極具效用(預計效用)。在對沖期內，並必須持續顯示有實際效用(追溯效用)。

有關各種對沖關係的文件載有如何評估對沖的效用。本集團採納的對沖效用評估方法將視乎其風險管理策略而定。

2 Significant Accounting Policies (cont'd)

(g) Hedging

Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item. The Group assesses and documents whether the financial instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risks both at hedge inception and on an ongoing basis. The Group discontinues prospectively hedge accounting when (a) the hedging instrument expires or is sold, terminated or exercised; (b) the hedge no longer meets the criteria for hedge accounting; or (c) the Group revokes the designation.

(i) Fair value hedge

A fair value hedge seeks to offset risks of changes in the fair value of recognised asset or liability that will give rise to a gain or loss being recognised in the income statement.

The hedging instrument is measured at fair value, with fair value changes recognised in the income statement. The carrying amount of the hedged item is adjusted by the amount of the changes in fair value of the hedging instrument attributable to the risk being hedged. This adjustment is recognised in the income statement to offset the effect of the gain or loss on the hedging instrument.

When a hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting, or the Group revokes designation of the hedge relationship, any adjustment up to that point, to a hedged item for which the effective interest rate method is used, is amortised to the income statement as part of the recalculated effective interest rate of the item over its remaining life.

(ii) Hedge effectiveness testing

In order to qualify for hedge accounting, the Group carries out prospective effectiveness testing to demonstrate that it expects the hedge to be highly effective (prospective effectiveness) at the inception of the hedge and throughout its life. Actual effectiveness (retrospective effectiveness) also needs to be demonstrated on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method which the Group adopts for assessing hedge effectiveness will depend on its risk management strategy.

2 主要會計政策(續)

(g) 對沖(續)

(ii) 對沖效用測試(續)

就公允價值對沖關係而言，本集團採用累計價值抵銷法作為測試效用的方法。

就預計效用而言，對沖工具必須被預期為在指定對沖期間內，能高度有效地抵銷被對沖風險的公允價值或現金流量變動。就實際效用而言，公允價值或現金流量變動抵銷額須介乎80%至125%之間才被視為有效。

(h) 投資物業

集團若擁有或以租約業權(參閱附註2(j))持有的土地及／或樓宇，以賺取租金收入及／或作資本增值的目的，列為投資物業。投資物業包括目前未確定將來用途的土地和樓宇。

投資物業按公允價值記入財務狀況表中。投資物業公允價值的變動，或報廢或出售投資物業所產生的任何收益或虧損均在收益表中確認。投資物業的租金收入是按照會計政策第2(c)(iv)項所述方式入賬。

如果本集團以經營租賃持有物業權益以賺取租金收入及／或為資本增值，有關的權益會按每項物業的基準劃歸為投資物業。劃歸為投資物業的任何物業權益的入賬方式與以融資租賃(參閱附註2(j)(ii))持有的權益一樣，而其適用的會計政策也跟以融資租賃出租的其他投資物業相同。租賃付款的入賬方式載列於附註2(c)(iii)。

(i) 其他物業及設備

這些財務報表是按照香港會計師公會頒佈的香港會計準則第16號「物業、廠房及設備」第80A段所載的過渡性條文編製，故並無在結算日重估在截至1995年9月30日前期間的財務報表內以重估數額列賬的其他物業的公允價值。

2 Significant Accounting Policies (cont'd)

(g) Hedging (cont'd)

(ii) Hedge effectiveness testing (cont'd)

For fair value hedge relationships, the Group utilises the cumulative dollar offset method as effectiveness testing methodologies.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness, the changes in fair value or cash flows must offset each other in the range of 80 per cent to 125 per cent for the hedge to be deemed effective.

(h) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(j)) to earn rental income and/or for capital appreciation. These include land and buildings held for a currently undetermined future use.

Investment properties are stated in the statement of financial position at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in the income statement. Rental income from investment properties is accounted for as described in note 2(c)(iv).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2(j)(ii)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 2(c)(iii).

(i) Other property and equipment

In preparing these financial statements, advantage has been taken of the transitional provisions set out in paragraph 80A of HKAS 16 "Property, plant and equipment", issued by the HKICPA, with effect that other premises which are carried at revalued amounts in financial statements relating to periods ended before 30 September 1995 have not been revalued to fair value at the end of the reporting period.

2 主要會計政策(續)

(i) 其他物業及設備(續)

下列物業及設備項目以成本減累計折舊及減值虧損(如有)(參閱附註2(l))列賬：

- 於租賃土地中持作自用的樓宇被列作
持持有經營租賃(參閱附註2(j)(iii))；及
- 其他設備項目。

持有自用物業的重估變動一般計入其他全面收益內，並在權益中的物業重估儲備內分開累計。

報廢或出售物業及設備項目所產生的損益以出售所得淨額與項目的賬面值之間的差額釐定，並於報廢或出售當日在收益表內確認。任何相關的重估盈餘將由重估儲備轉入保留溢利，而非重新分類至收益表內。

2 Significant Accounting Policies (cont'd)

(i) Other property and equipment (cont'd)

The following items of property and equipment are stated at cost less accumulated depreciation and impairment losses, if any (see note 2(l)):

- buildings held for own use which are situated on leasehold land classified as held under operating leases (see note 2(j)(iii)); and
- other items of equipment.

Changes arising on the revaluation of properties held for own use are generally dealt with in other comprehensive income and are accumulated separately in equity in the property revaluation reserve.

Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the income statement on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to the income statement.

2 主要會計政策(續)

(i) 其他物業及設備(續)

物業及設備項目按以下方式在估計可用年期內以直線法計算折舊以沖銷其成本或估值(已扣除估計殘值(如有))：

- 永久業權土地不予折舊。
- 租賃物業列作融資租賃持有按照租約剩餘年折舊攤銷。
- 樓宇 — 以30年以上或土地租賃剩餘年期兩者中的較短者計算折舊。
- 傢俬、固定裝置及設備 — 3至10年。

倘若物業及設備項目部份的可用年期不同，則項目成本或估值在各部份作出合理分配，而各部份分開計算折舊。資產的可用年期及其餘值(如有)每年作出檢討。

(j) 租賃及分期付款合約

如果本集團把一項安排(包括一項交易或一系列交易)確定為在一段商定期間轉讓一項或一些特定資產的使用權，以換取一筆或多筆付款，則這項安排便包含租賃。確定時是以對有關安排的實質所作評估為準，而不管這項安排是否涉及租賃的法律形式。

(i) 租賃資產分類

本集團承受擁有權帶來的絕大部份風險及回報的資產租賃列為融資租賃。出租人沒有轉移擁有權帶來的絕大部份風險及報酬的租賃列為經營租賃。

2 Significant Accounting Policies (cont'd)

(i) Other property and equipment (cont'd)

Depreciation is calculated to write off the cost or valuation of items of property and equipment, less their estimated residual value, if any, using the straight line method over the estimated useful lives as follows:

- freehold land is not depreciated.
- leasehold land classified as held under finance leases is depreciated over the unexpired term of lease.
- buildings – over 30 years or the unexpired terms of the land leases, whichever is shorter.
- furniture, fixtures and equipment – 3 to 10 years.

Where parts of an item of property and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(j) Leases and hire purchase contracts

An arrangement, comprising a transaction or a series of the transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of leased assets

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the lessee are classified as operating leases.

2 主要會計政策(續)

(j) 租賃及分期付款合約(續)

(ii) 融資租賃

在本集團是融資租賃的出租人情況下，對在租賃中租出的資產的投資淨額視作客戶貸款及墊款，在財務狀況表列賬。有融資租賃特徵的分期付款合約以同樣方式列作融資租賃。減值虧損根據附註2(i)所載的會計政策入賬。

(iii) 經營租賃

倘若本集團根據經營租賃租出資產，則資產根據其性質計入財務狀況表，而在適用的情況下，折舊會根據附註2(i)所載的本集團折舊政策計算。減值虧損根據附註2(i)所載的會計政策入賬。經營租賃的收入會根據附註2(c)(iv)所載的本集團收入確認政策確認。

如本集團使用根據經營租賃持有的資產，除非有其他基準更能表示從該等經營租賃資產獲得利益的模式，否則其租賃支出按該租賃年期相關的會計期間以等額分期記入收益表。租賃回贈收入視為淨租賃支出總額的一部分，在收益表內確認。

(k) 取回抵押資產

在收回減值貸款及墊款時，本集團可透過法律程序或借款人自願交付而取回持作抵押品的資產。當本集團再不向借款人追索還款，並欲轉為透過有秩序的減值資產變現時，則取回抵押資產會在「其他資產」下匯報。本集團沒有持有取回抵押資產作自用途。

取回資產在交易日以有關貸款及墊款的賬面值及公允價值減出售成本確認(以較低者為準)，不予折舊或攤銷。

初次分類及其後重新計量引致的減值虧損在收益表內確認。

2 Significant Accounting Policies (cont'd)

(j) Leases and hire purchase contracts (cont'd)

(ii) Finance leases

Where the Group is a lessor under finance leases, an amount representing the net investment in the lease is included in the statement of financial position as loans and advances to customers. Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases. Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(i).

(iii) Operating leases

Where the Group leases out assets under operating leases, the assets are included in the statement of financial position according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 2(i). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(i). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 2(c)(iv).

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made.

(k) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. Where it is intended to achieve an orderly realisation of the impaired assets and the Group is no longer seeking repayment from the borrower, repossessed assets are reported in "Other assets". The Group does not hold the repossessed assets for its own use.

Repossessed assets are recognised at the lower of the carrying amount of the related loans and advances and fair value less costs to sell at the date of exchange. They are not depreciated or amortised.

Impairment losses on initial classification and on subsequent remeasurement are recognised in the income statement.

2 主要會計政策(續)

(I) 資產減值

本集團在每個結算日審閱資產的賬面金額，以確定是否出現客觀的減值跡象。金融資產減值的客觀跡象包括本集團注意到有關以下任何一宗或多宗損失事件的可觀察數據，並對能夠可靠地估計的資產的未來現金流量構成影響：

- 發行人或借款人出現重大的財務困難；
- 違反合約，如拖欠利息或本金付款；
- 借款人很可能面臨破產或其他財務重組；
- 技術、市場、經濟或法律環境出現對借款人構成負面影響的重大變動；
- 金融資產因財務困難而失去活躍市場；及
- 於權益工具的投資顯著或長期跌至低於成本。

如果出現任何這類跡象，賬面金額便會透過在收益表內列支而減少至估計可收回金額。

減值損失會直接沖銷相應的資產，但就以攤銷成本計量的貸款及應收賬項確認的減值損失而言，其可收回性被視為可疑，但不是可能性極低則除外。在這種情況下，減值損失會採用準備賬來記錄。當本集團認為收回的可能性極低時，被視為不可收回的數額便會直接沖銷貸款及應收賬項，與該借款人／投資有關而在準備賬內持有的任何數額也會轉回。其後收回早前計入準備賬的數額會在準備賬轉回，準備賬的其他變動和其後收回早前直接沖銷的數額均在收益表內確認。

2 Significant Accounting Policies (cont'd)

(I) Impairment of assets

The carrying amount of the Group's assets are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Group about one or more of the following loss events which has an impact on the future cash flows on the assets that can be estimated reliably:

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower;
- disappearance of an active market for financial assets because of financial difficulties; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, the carrying amount is reduced to the estimated recoverable amount by means of a charge to the income statement.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of loans and receivables, which are measured at amortised cost, whose recovery is considered doubtful but not remote. In this case, the impairment losses are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against loans and receivables directly and any amounts held in the allowance account relating to that borrower/investment are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the income statement.

2 主要會計政策(續)

(I) 資產減值(續)

(i) 貸款及應收賬項

貸款及應收賬項的減值虧損是以資產賬面值，以及就資產以其原本的實際利率(即於首次確認這些資產時計算的實際利率)用折現方式計算預計的未來現金流量的現值差額計量。如果折現影響並不重大，則短年期應收賬項不予折現。

信貸損失準備總額包括兩個組成部份：個別減值準備及綜合減值準備。

本集團首先評估客觀減值證據是否個別存在於個別上重大的金融資產，及個別或整體存在於非個別上重大的金融資產。如果本集團確定個別評估金融資產(不論是否重大)並無存在減值的客觀證據，則本集團將有相同信貸風險特質的金融資產歸類，並作綜合減值評估。作個別減值評估的資產而減值損失須持續確認，其減值損失不會包括於綜合減值評估內。

個別減值準備是根據管理層的最佳估計，以原本的實際利率折現預計收取的現金流量的現值。在估計這些現金流量時，管理層須判斷有關借款人的財政狀況及任何向本集團提供的相關抵押品或擔保的可變現淨值，並須評估每宗減值資產的真正價值。

在評估綜合減值準備的需要時，管理層採用統計模式及考慮過往趨勢的因素包括信貸素質、組合規模、集中度及經濟因素。為了估計所需準備，本集團根據過往的經驗和現時的經濟情況去釐定潛在虧損及輸入變數。

2 Significant Accounting Policies (cont'd)

(I) Impairment of assets (cont'd)

(i) Loans and receivables

Impairment losses on loans and receivables are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets). Receivables with a short duration are not discounted if the effect of discounting is immaterial.

The total allowance for credit losses consists of two components: individual impairment allowances and collective impairment allowances.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The individual impairment allowance is based upon management's best estimate of the present value of the cash flows which are expected to be received discounted at the original effective interest rate. In estimating these cash flows, management makes judgements about the borrower's financial situation and the net realisable value of any underlying collateral or guarantees in favour of the Group. Each impaired asset is assessed on its own merits.

In assessing the need for collective impairment allowances, management uses statistical modelling and considers historical trends of factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, the Group makes assumptions both to define the way the Group models inherent losses and to determine the required input parameters, based on historical experience and current economic conditions.

2 主要會計政策(續)

(I) 資產減值(續)

(i) 貸款及應收賬項(續)

減值準備的準確性須視乎本集團能否在個別評估減值準備時準確估計未來現金流量及在釐定綜合減值準備時所採用的推測模式及變數。雖然視乎判斷而定，本集團相信客戶貸款及墊款減值準備是合理和足夠的。

任何因估計未來現金流量的金額及時間上與先前估計的其後轉變，而該轉變是可客觀地與減值後發生的事件有關連，從而導致貸款及墊款減值準備亦需改變，該轉變會支銷或存入收益表。所回撥的減值虧損以在以往年度沒有確認任何減值虧損而應已釐定的貸款及應收款賬面金額為限。

當再無實際機會收回貸款時，則貸款及相關應收利息將會沖銷。

附有可再議條款的貸款及應收賬項是指由於借款人的財務狀況轉差而獲重新議定比一般情況寬鬆的還款條件的貸款及應收賬項。有關部門會對重新議訂條例之貸款及應收賬項作出持續監察，以決定是否仍存有減值需要或逾期的狀況。

(ii) 可供出售證券

當可供出售證券出現客觀證據顯示已減值時，已直接在公允價值儲備內確認的累計虧損會被轉入收益表內。在收益表內確認的累計虧損金額是購入成本(扣除任何本金還款及攤銷後)與現時公允價值之間的差額，再減該資產以往在收益表內確認的任何減值虧損。

2 Significant Accounting Policies (cont'd)

(I) Impairment of assets (cont'd)

(i) Loans and receivables (cont'd)

The accuracy of the impairment allowances the Group makes depends on how well the Group can estimate future cash flows for individually assessed impairment allowances and the model assumptions and parameters used in determining collective impairment allowances. While this necessarily involves judgement, the Group believes that the impairment allowances on loans and advances to customers are reasonable and supportable.

Any subsequent changes to the amounts and timing of the expected future cash flows compared to the prior estimates that can be linked objectively to an event occurring after the write-down, will result in a change in the impairment allowances on loans and receivables and be charged or credited to the income statement. A reversal of impairment losses is limited to the loans and receivables' carrying amount that would have been determined had no impairment loss been recognised in prior years.

When there is no reasonable prospect of recovery, the loan and the related interest receivables are written off.

Loans and receivables with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Renegotiated loans and receivables are subject to ongoing monitoring to determine whether they remain impaired or past due.

(ii) Available-for-sale securities

When there is objective evidence that an available-for-sale security is impaired, the cumulative loss that had been recognised in the fair value reserve is reclassified to the income statement. The amount of the cumulative loss that is recognised in the income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the income statement.

2 主要會計政策(續)

(I) 資產減值(續)

(ii) 可供出售證券(續)

就按成本列賬的無報價可供出售股份證券而言，減值虧損是以股份證券賬面值，以及就類似金融資產(如果折現影響重大)以現行市場回報率用折現方式計算預計的未來現金流量的現值差額計量，此減值虧損將不能轉回。

在收益表內確認有關可供出售股份證券的減值虧損不會透過收益表轉回。這些資產其後的任何公允價值增加會直接在其他全面收益內確認。

如果其後的公允價值增加是可客觀地與確認減值虧損後發生的事件有關連，則有關可供出售債務證券的減值虧損會轉回。在這些情況下的減值虧損轉回會在收益表內確認。

(iii) 其他資產

本行在每一結算日檢討內部和外來的資料，以確定下列資產有否出現減值跡象，或以往確認的減值虧損是否不復存在或有否減少：

- 物業及設備(以重估數額列賬的物業除外)；及
- 附屬公司及聯營公司投資。

如果存在任何有關跡象，便會估計資產的可收回數額。

- 計算可收回數額
資產可收回數額是公允價值減出售成本及使用值兩者中的較高者。在評估使用值時，會採用一項當時市場評估貨幣的時間值及相對於該資產的風險的稅前折扣率將預計未來現金流量折現為現值。當某資產未能大部份地獨立於其他資產產生現金流量時，其可收回數額取決於可獨立地產生現金流量的最小資產組合(即一個現金生產單位)。

2 Significant Accounting Policies (cont'd)

(I) Impairment of assets (cont'd)

(ii) Available-for-sale securities (cont'd)

For unquoted available-for-sale equity securities that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the equity securities and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Such impairment losses are not reversed.

Impairment losses recognised in the income statement in respect of available-for-sale equity securities are not reversed through the income statement. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in the income statement.

(iii) Other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

- property and equipment (other than properties carried at revalued amounts); and
- investments in subsidiaries and associates.

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount
The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

2 主要會計政策(續)

(I) 資產減值(續)

(iii) 其他資產(續)

- 確認減值虧損
每當資產(或其所屬的現金生產單位)的賬面值高於其可收回數額時,便會在收益表內確認減值虧損。就現金生產單位確認的減值虧損先分配以減少任何分配至現金生產單位(或單位組別)的商譽的賬面值,然後按比例減少單位(或單位組別)內其他資產的賬面值,惟資產賬面值不會減少至低於其個別公允價值減出售成本或使用值(如可釐定)所得數額。

- 減值損失轉回
有關資產,如在用來釐定可收回金額的估計發生有利的變化,則減值損失會被轉回。

減值損失轉回只局限至該資產的賬面值,猶如該等減值損失從未在往年被確認。減值損失轉回在該被確認的年度計入收益表內。

(iv) 中期財務報告和減值

本集團為年度首6個月編製符合香港會計準則第34號「中期財務報告」規定的中期財務報告。本集團在中期期末採用了在本年度終結時會採用的相同減值測試、確認和轉回準則(參閱附註2(I)(i)至(iii))。

(m) 現金等值項目

現金等值項目包括短期以及流動性極高的投資,可隨時兌換為已知的現金數額,而價值變動風險並不重大,並在購入後三個月內到期。

2 Significant Accounting Policies (cont'd)

(I) Impairment of assets (cont'd)

(iii) Other assets (cont'd)

- Recognition of impairment losses
An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversal of impairment losses
In respect of assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(iv) Interim financial reporting and impairment

The Group prepares an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the year (see note 2(I)(i) to (iii)).

(m) Cash equivalents

Cash equivalents are short-terms, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

2 主要會計政策(續)

(n) 僱員福利

(i) 僱員福利及界定供款退休計劃供款

薪金、年度花紅、有薪年假、界定供款計劃供款及非貨幣性福利成本均列入僱員提供相關服務的年度。如果有關付款或結算受到遞延，而其影響將十分重大，則這些金額將以現值列賬。

(ii) 員工退休計劃

本集團設有一項界定供款公積金計劃及一項強制性公積金計劃。有關供款在供款到期時計入收益表內。

(o) 所得稅

本年度所得稅包括本期稅項及遞延稅項資產和負債的變動。本期稅項及遞延稅項資產和負債的變動在收益表內確認，除非與其他全面收益或權益項目有關之遞延稅項變動，則分別在其他全面收益或權益項內確認。

本期稅項為本年度應課稅收入按結算日已頒佈或基本上已頒佈的稅率計算的預計應付稅項，並已包括往年應付稅項的任何調整。

遞延稅項資產及負債是因納稅基礎計算的資產及負債與其賬面值之間的差異而分別產生的可扣稅及應課稅的暫時性差異。遞延稅項資產也包括尚未使用的稅項虧損及尚未使用的稅項抵免。

2 Significant Accounting Policies (cont'd)

(n) Employee benefits

(i) *Employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) *Staff retirement scheme*

The Group operates a defined contribution provident fund and a Mandatory Provident Fund scheme. Contributions are charged to the income statement as and when the contributions fall due.

(o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

2 主要會計政策(續)

(o) 所得稅(續)

除了某些有限的例外情況外，所有遞延稅項負債和所有遞延稅項資產(只限於可用來抵銷日後應課稅溢利的部份)均予確認。可支持確認可扣稅暫時性差異所產生的遞延稅項資產的日後應課稅溢利包括因回撥現有應課稅暫時性差異所產生者，惟該等差異必須與同一稅務機關及同一應課稅實體有關，並預期會在預期回撥可扣稅暫時性差異的同一期間或遞延稅項資產所產生的稅務虧損可向後期或前期結轉的期間內回撥。在釐定現有應課稅暫時性差異是否支持確認未使用稅務虧損及抵免所產生的遞延稅項資產時，會採用同一準則，即如果差異與同一稅務機關及同一應課稅實體有關，便會計算在內，並預期會在可動用稅務虧損或抵免的期間內回撥。

遞延稅項是以有關資產及負債賬面值的預期實現或結算金額，按結算日已頒佈或基本上已頒佈的稅率確認。遞延稅項資產及負債不予折現。

於每一結算日，本行將檢討有關的遞延稅項資產的賬面值，對不再有足夠的應課稅溢利以實現相關稅務利益的部份予以扣減。被扣減的遞延稅項資產若於將來出現足夠的應課稅溢利時，應予回撥。

因派發股息而產生的額外所得稅在確認支付有關股息的責任時確認。

2 Significant Accounting Policies (cont'd)

(o) Income tax (cont'd)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

2 主要會計政策(續)

(o) 所得稅(續)

本期稅項及遞延稅項結餘和其變動會分開列示，而且不予抵銷。當本集團或本行有合法權利並符合以下附帶條件的情況下，本期和遞延稅項資產才可分別抵銷本期和遞延稅項負債：

- 本期稅項資產和負債：本集團或本行計劃按淨額基準結算，或在實現資產的同時清償負債；或
- 遞延稅項資產和負債：這些資產和負債必須與同一稅務機關就以下其中一項徵收的所得稅有關：
 - 同一應課稅實體；或
 - 不同的應課稅實體。這些實體計劃在預期有大額遞延稅項負債需要清償或遞延稅項資產可以收回的每一未來期間，按淨額基準實現本期稅項資產和清償本期稅項負債，或在實現資產的同時清償負債。

(p) 外幣換算

本年度內的外幣交易按交易日的匯率換算為港幣。以外幣計算的貨幣資產與負債則按結算日的匯率換算為港幣。匯兌盈虧均在收益表確認。

以歷史成本計量的外幣非貨幣資產與負債是按交易日的匯率換算為港幣。以外幣為單位並以公允價值列賬的非貨幣資產與負債按釐定公允價值當日的匯率換算。

2 Significant Accounting Policies (cont'd)

(o) Income tax (cont'd)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Group or the Bank has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group or the Bank intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Hong Kong dollars using the foreign exchange rates ruling at the transactions dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

2 主要會計政策(續)

(p) 外幣換算(續)

有關通過損益以反映公允價值的投資及衍生金融工具的匯兌差額，計入指定為通過損益以反映公允價值的交易用途證券或金融工具的收益減虧損中。所有其他有關貨幣項目的匯兌差額在收益表外幣買賣淨盈虧項下列示。因折算可供出售權益工具而產生的差額則於其他全面收益內確認，並分別累計在權益之匯兌儲備內。

海外企業的業績按交易日的匯率換算為港幣。財務狀況表項目則按結算日的匯率換算。所產生的匯兌差額在其他全面收益內確認，並分別累計在權益之匯兌儲備內。

當出售海外企業的出售收益或虧損確認時，與該海外業務相關的累計匯兌差額由權益重新分類而轉入收益表。

(q) 財務擔保簽發、準備及或有負債

(i) 財務擔保簽發

財務擔保合約是指當某一指定債務人不能根據債務工具的條款支付到期債務，發行人(即擔保人)須向擔保受益人(持保人)償付有關款項。

本集團簽發給客戶之財務擔保，初始時按擔保之公允價值(即已收擔保金)確認為遞延收入，列入「其他負債」項下。本行簽發給子公司之財務擔保，則估計其擔保之公允價值，分別資本化於附屬公司投資成本，及「其他負債」項下之遞延收入內。

2 Significant Accounting Policies (cont'd)

(p) Translation of foreign currencies (cont'd)

Exchange differences relating to investments at fair value through profit or loss and derivative financial instruments are included in gains less losses from trading securities or financial instruments designated at fair value through profit or loss. All other exchange differences relating to monetary items are presented as gains less losses from dealing in foreign currencies in the income statement. Differences arising on translation of available-for-sale equity instruments are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the rates of exchange ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to the income statement when the profit or loss on disposal is recognised.

(q) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee to customers, the fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income within other liabilities. Where the Bank issues a financial guarantee to its subsidiaries, the fair value of the guarantee is estimated and capitalised as the cost of investment in subsidiaries and deferred income within other liabilities.

2 主要會計政策(續)

(q) 財務擔保簽發、準備及或有負債(續)

(i) 財務擔保簽發(續)

遞延收入按擔保期限於收益表內攤銷，確認為財務擔保簽發收入。此外，如當(a)擔保持保人很可能就擔保合約向本集團追索；及(b)向本集團追索的金額預計超過現行就該擔保列入「其他負債」的金額，即初始確認金額減累計攤銷，會根據附註2(q)(ii)確認準備。

(ii) 其他準備及或有負債

倘若本集團或本行須就已發生的事件承擔法律或推定義務，而履行該義務預期很可能會導致經濟效益外流，並可作出可靠的估計，便會就該時間或數額不定的負債計提準備。如果貨幣時間價值重大，則按預計履行義務支出的現值計列準備。

倘若經濟效益外流的可能性不大，或是無法對有關數額作出可靠的估計，便會將該義務披露為或有負債；但倘若經濟效益外流的可能性極低則除外。須視乎某宗或多宗未來事件是否發生而確定存在與否的潛在義務，亦會披露為或有負債；但倘若經濟效益外流的可能性極低則除外。

(r) 關聯方

(a) 個人，或與該個人關係密切的家庭成員與本集團相關聯，如果該個人：

- (i) 控制或共同控制本集團；
- (ii) 對本集團具有重大影響；或
- (iii) 是本集團或本集團母公司主要管理人員的成員。

2 Significant Accounting Policies (cont'd)

(q) Financial guarantees issued, provisions and contingent liabilities (cont'd)

(i) Financial guarantees issued (cont'd)

The deferred income is amortised in the income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(q)(ii) if and when (a) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (b) the amount of that claim on the Group is expected to exceed the amount currently carried in other liabilities in respect of that guarantee, i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Bank has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

2 主要會計政策(續)

(r) 關聯方(續)

(b) 如果符合以下任何條件，則某實體與本集團相關聯：

- (i) 該實體與本集團受同一母公司控制(這意味著任何一方的母公司、附屬公司以及同級附屬公司都與另一方相關聯)；
- (ii) 某一實體是另一實體的聯營公司或共同控制公司(或是另一實體所屬集團的一個成員的聯營公司或共同控制公司)；
- (iii) 兩家實體都是相同第三方的共同控制公司；
- (iv) 某一實體是第三方的共同控制公司並且另一實體是該第三方的聯營公司；
- (v) 該實體是為本集團或與本集團關聯的實體的僱員福利而設的離職後福利計劃；
- (vi) 該實體受(a)項所述個人的控制或共同控制；
- (vii) (a)(i)項所述的個人對該實體實施重大影響或是該實體(或其母公司)的主要管理人員的成員。

與個人關係密切的家庭成員是指在他們與實體交易中可影響，或受該個人影響的家庭成員。

2 Significant Accounting Policies (cont'd)

(r) Related parties (cont'd)

(b) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member);
- (iii) Both entities are joint ventures of the same third party;
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) The entity is controlled or jointly controlled by a person identified in (a);
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2 主要會計政策(續)

(s) 持有作出售的非流動資產

如一項非流動資產(或出售組合)的賬面值很有可能透過出售交易而非透過持續使用收回,並且該非流動資產(或出售組合)能按現況出售,則可被分類為持有作出售。出售組合是指一組資產於單一交易中一併售出,而直接與該等資產相關的負債將於交易中轉移。

當本集團進行一項出售計劃而該計劃牽涉失去一間附屬公司之控制權時,當附合上述可被分類為持有作出售條件,該附屬公司之所有資產與負債應分類為持作出售,而不論本集團於出售後是否保留附屬公司之非控股權益。

在分類為持有作出售類別前,非流動資產(及在出售組合中所有個別的資產及負債)的計量按重新分類前適用的會計政策作出更新。非流動資產(以下所述之若干資產除外)或出售組合在初始分類為持有作出售類別至售出期間,會以其賬面值及公允價值減銷售成本的較低者列賬。在本集團及本行財務報表中沒有使用此計量政策的主要項目包括遞延稅項資產、因僱員福利所產生的金融資產(於附屬公司、聯營公司及共同控制公司的投資除外)及投資物業。這些資產即使持有作出售,亦會繼續按附註2其他部份所載的政策計量。

持有作出售資產因初始分類或以後的重新計量而產生的減值虧損於收益表內確認。只要分類為持有作出售或包括於出售組合的非流動資產則不會計算折舊或攤銷。

2 Significant Accounting Policies (cont'd)

(s) Non-current assets held for sale

A non-current assets (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Bank are concerned are deferred tax assets, assets arising from employee benefits financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in the income statement. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

2 主要會計政策(續)

(t) 分部報告

於財務報表中呈列的經營分部及各分部項目金額，是根據定期提供予本集團最高行政管理層用於資源分配，以及評核本集團各業務部份及區域所在地表現的財務資料辨識出來。

除非分部的經濟特性、在產品和服務性質、生產程序性質、客戶類別和等級、銷售產品和提供服務的方法、及監管環境的性質相近，個別重大的經營分部不會在財務報表內合計。如它們擁有以上大部份的標準，並且個別上不重大，則可能會被合計。

3 會計政策的修訂

香港會計師公會頒佈了一系列香港財務報告準則的修改及一項新訂的詮釋，這些改變在本集團及本行的當前會計期間首次生效。其中，以下為與本集團的財務報告相關的發展：

- 《香港會計準則》第24號(2009年修訂) —「關聯方披露」
- 《香港財務報告準則》的改進(2010)
- 香港(國際財務報告準則詮釋委員會)詮釋第19條—「以股權工具消除金融負債」
- 經修訂香港(國際財務報告準則詮釋委員會)詮釋第14條，《香港會計準則》第19號—「界定福利資產限額、最低資金要求及兩者相互關係—最低資金要求之預付款」

本集團並無應用任何於本會計期間尚未生效之新訂準則或詮釋。(參閱附註48)

2 Significant Accounting Policies (cont'd)

(t) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 Changes in Accounting Policies

The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Bank. Of these, the following developments are relevant to the Group's financial statements:

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

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 48).

3 會計政策的修訂(續)

經修訂香港(國際財務報告準則詮釋委員會)詮釋第14條已與本集團採用的會計政策一致，因此對本集團的財務報表沒有重大影響。香港(國際財務報告準則詮釋委員會)詮釋第19條也並未對本集團的財務報表產生重大影響，因有關變動將會在集團進行相關交易時首次生效(例如：債轉股交易)。

餘下發展的影響披露如下：

《香港會計準則》第24號(於2009年修訂)對關連人士之定義作出修訂。因此，本集團已重新評估關連人士之識別方法，並認為該經修訂定義對本集團於本期間及過往期間之關連人士披露並無任何重大影響。此外，《香港會計準則》第24號(於2009年修訂)亦對政府相關實體之披露規定作出修改。由於本集團並非政府相關實體，故此修訂對本集團並無影響。

《香港財務報告準則》之改進(2010年)綜合準則對《香港財務報告準則》第7號—「金融工具：披露」之披露規定作出多項修訂。附註41內有關本集團金融工具之披露規定與經修訂披露規定一致。該等修訂對本期間及過往期間於財務報表內確認金額之分類、確認及計量並無任何重大影響。

3 Changes in Accounting Policies (cont'd)

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

The impacts of other developments are discussed below:

HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.

Improvements to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, Financial instruments: Disclosures. The disclosures about the Group's financial instruments in note 41 has been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

4 利息收入及利息支出

4 Interest Income and Interest Expense

(a) 利息收入

(a) Interest income

		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
上市證券	Listed securities	20,681	87,863
非上市證券	Unlisted securities	435,832	362,308
其他(附註)	Others (Note)	3,116,767	2,380,711
非按公允價值計入損益的 金融資產的利息收入	Interest income on financial assets that are not at fair value through profit or loss	3,573,280	2,830,882

(b) 利息支出

(b) Interest expense

		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
客戶、銀行及其他金融機構的 存款及已發行存款證	Deposits from customers, banks and other financial institutions, certificates of deposit issued and others	1,220,786	661,915
已發行債務證券	Debt securities issued	237	268
已發行債務資本	Loan capital issued	490,510	355,904
非按公允價值計入損益的 金融負債的利息支出	Interest expense on financial liabilities that are not at fair value through profit or loss	1,711,533	1,018,087
其中：	Of which:		
客戶、銀行及其他金融機構的 存款以及已發行存款證 於5年以後償還	Deposits from customers, banks and other financial institutions, certificates of deposit issued and others repayable after 5 years	6,254	4,277
已發行債務資本於5年以後償還	Loan capital issued repayable after 5 years	270,364	139,980

附註：

Note:

於截至2011年12月31日止年度，其他利息收入包括減值金融資產的應計利息收入港幣22,300,000元(2010年：港幣26,598,000元)，其中已包括貸款減值虧損折現撥回的利息收入港幣12,151,000元(2010年：港幣8,817,000元)(附註22(b))。

Included in the above is interest income accrued on impaired financial assets of HK\$22,300,000 (2010: HK\$26,598,000), which includes interest income on the unwinding of discount on loan impairment losses of HK\$12,151,000 (2010: HK\$8,817,000) (note 22(b)) for the year ended 31 December 2011.

5 淨費用及佣金收入

5 Net Fee and Commission Income

		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
費用及佣金收入：	Fee and commission income:		
票據佣金	Bills commission	109,898	76,117
信用卡相關收入	Cards-related income	20,871	21,554
一般銀行服務	General banking services	79,294	65,480
保險	Insurance	168,296	136,667
投資及結構性投資產品	Investment and structured investment products	101,377	101,176
貸款、透支及融資費用	Loans, overdrafts and facilities fees	147,433	319,950
其他	Others	657	663
		627,826	721,607
費用及佣金支出	Fee and commission expense	(38,035)	(30,877)
		589,791	690,730
其中：	Of which:		
淨費用及佣金收入(不包括用作 計算實際利率的金額)，關於 並非按公允價值計入損益賬的 金融資產及負債：	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:		
— 費用及佣金收入	— Fee and commission income	168,304	341,504
— 費用及佣金支出	— Fee and commission expense	(14,487)	(14,286)
		153,817	327,218

6 淨交易收入

6 Net Trading Income

		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
買賣外幣收益減虧損	Gains less losses from dealing in foreign currencies	407,435	280,634
買賣交易用途證券收益減虧損	Gains less losses from trading securities	2,364	(25,008)
其他買賣活動收益減虧損	Gains less losses from other dealing activities	430,062	168,338
交易用途資產利息收入	Interest income on trading assets		
— 非上市	— Unlisted	—	77
交易負債利息支出	Interest expense on trading liabilities	(35,899)	(2,857)
		803,962	421,184

7 指定為通過損益以反映公允價值的金融工具淨收益

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

		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
淨收益	Net gain	625	3,898
利息收入	Interest income		
— 上市	— Listed	4,963	4,953
— 非上市	— Unlisted	11,502	14,343
利息支出	Interest expense	(7,708)	(42)
		9,382	23,152

8 淨對沖虧損

8 Net Hedging Loss

		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
公允價值對沖淨虧損	Net loss on fair value hedge	1,124	1,022

9 出售可供出售證券淨(虧損)/收益

9 Net (Loss)/Gain on Disposal of Available-For-Sale Securities

		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
由儲備轉撥的淨重估 (虧損)/收益	Net revaluation (loss)/gain transferred from reserves	(136,303)	18,919
年度內產生的淨虧損	Net loss arising in current year	(543)	(2,120)
		(136,846)	16,799

10 其他經營收入

10 Other Operating Income

		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
可供出售權益證券股息收入	Dividend income from available-for-sale equity securities		
– 上市	– Listed	102	100
– 非上市	– Unlisted	3,900	4,560
投資物業租金收入	Rental income from investment properties		
減直接支出港幣253,000元	less direct outgoings of HK\$253,000		
(2010年：港幣242,000元)	(2010: HK\$242,000)	5,049	3,970
其他(附註)	Others (Note)	282,867	33,921
		291,918	42,551

附註：

繼Lehman Brothers Special Financial Inc. (「雷曼兄弟」)、受託人、接管人(作為發行人的代理而並沒有個人責任)和其他有關各方於2011年3月28日已達成「有條件協議」，包括已解決了雷曼兄弟就收回雷曼迷債押品提出的對立申索。該協議已於截至2011年12月31日止年度內獲得批准並全面實施。本行已於2008年和2009年期間從客戶回購了雷曼迷債，本行將享有「有條件協議」項下收取分派的權利。

本行於2008年和2009年對所回購的迷債已計提撥備共計約港幣298,000,000元，經計入「有條件協議」項下雷曼迷債的收回款項、本行根據「特惠款項安排」支付的款項，以及根據「開支資金協議」增加的資金，本行於截至2011年12月31日止年度內將大部份過往年度已計提撥備，約港幣229,000,000元回撥至收益表。

Note:

After Lehman Brothers Special Financing Inc. ("Lehman Brothers"), the Trustee, the Receivers (as agents of the Issuer and without personal liability) and others agreed on the Conditional Agreement on 28 March 2011 to settle opposing claims asserted by Lehman Brothers in respect of the recovery of collateral for Lehman Brothers Minibonds, the Conditional Agreement was approved and fully implemented in the year ended 31 December 2011. As the Bank had repurchased the Lehman Brothers Minibonds from customers during 2008 and 2009, the Bank was entitled to receive distributions under the Conditional Agreement.

Taking into account the recovery payments of the Lehman Brothers Minibonds under the Conditional Agreement, the payments by the Bank pursuant to the Ex-gratia Payment Scheme and the increased funding under the Expenses Funding Agreement, the Bank wrote back approximately HK\$229,000,000 to the income statement during the year ended 31 December 2011, which represented substantial recovery of the LB Minibonds compensation provisions of approximately HK\$298,000,000 made in 2008 and 2009.

11 經營支出

11 Operating Expenses

		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
(a) 員工成本	(a) Staff costs		
薪金及其他員工成本	Salaries and other staff costs	944,595	852,554
退休金成本(附註37)	Retirement costs (note 37)	60,860	50,368
		1,005,455	902,922
(b) 折舊	(b) Depreciation		
物業及設備折舊 (附註26(a))	Depreciation of property and equipment (note 26(a))		
— 根據經營租賃持有的資產	— Assets held for use under operating leases	27,515	9,034
— 其他資產	— Other assets	60,239	65,744
		87,754	74,778
(c) 其他經營支出	(c) Other operating expenses		
物業及設備支出(不包括折舊) (附註)	Property and equipment expenses (excluding depreciation) (Note)		
— 物業租金	— Rental of properties	158,913	110,119
— 其他	— Others	108,176	90,544
核數師酬金	Auditor's remuneration	6,211	5,292
廣告費	Advertising	33,756	44,780
通訊費、印刷及文儀用品	Communication, printing and stationery	66,805	59,298
法律及專業費用	Legal and professional fees	27,864	35,204
其他	Others	157,511	129,260
		559,236	474,497
經營支出總額	Total operating expenses	1,652,445	1,452,197

附註：

其他經營支出包括根據經營租賃支付的最低應付租賃支出，分別為設備租賃支出港幣2,655,000元(2010年：港幣1,371,000元)及其他資產租賃支出(包括物業租金)港幣152,666,000元(2010年：港幣104,450,000元)。

Note:

Included in other operating expenses are minimum lease payments under operating leases of HK\$2,655,000 (2010: HK\$1,371,000) for the hire of equipment, and HK\$152,666,000 (2010: HK\$104,450,000) for the hire of other assets (including property rentals).

12 董事酬金

根據香港《公司條例》第161條披露的董事酬金如下：

12 Directors' Remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
董事袍金	Directors' fees	2,695	2,395
薪金、津貼及實物利益 (附註(i)至(iii))	Salaries, allowances and benefits in kind (Note (i) to (iii))	19,209	12,384
酌情花紅	Discretionary bonuses	3,451	4,637
退休計劃供款	Retirement scheme contributions	1,010	754
		26,365	20,170

附註：

Note:

- (i) 根據本行的保留激勵計劃(採用遞延機制)，於2011年支付予本集團執行董事的現金獎勵為港幣3,633,000元。
- (ii) 一項新的長期獎勵計劃(「計劃」)已於2009年獲批准。根據這項計劃，合資格人士將獲得一定數量的增值權。增值權的支付取決於計算超過3年本行資產的賬面價值升值。根據管理層的最佳估計，於2011年為數港幣14,000,000元(2010年：港幣19,000,000元)已計提在員工成本，並包括向董事發放的數額。
- (iii) 一項特別頒發的長期獎勵計劃已於2011年得到批准。為確保高級行政人員薪酬的競爭力，於2011年支付的現金獎勵為港幣1,324,000元。

- (i) Under the Bank's retention incentive scheme (using a deferred mechanism), cash benefits amounting to HK\$3,633,000 were paid to the executive directors of the Group in 2011.
- (ii) A new long-term incentive scheme ("LTI") was approved in 2009. Under the scheme, eligible persons will be granted a number of Appreciation Rights. Payment for each Appreciation Right is determined by the appreciation in the Bank's net asset value over a three-year performance period. In 2011, HK\$14,000,000 (2010: HK\$19,000,000) was accrued in the staff costs, including the amount payable to the directors based on management's best estimation.
- (iii) A special grant of LTI was approved in 2011. Cash benefits amounting to HK\$1,324,000 were paid in 2011 to ensure the competitiveness of the executive remuneration.

**13 貸款及墊款及其他賬項減值虧損
回撥／(準備)**
**13 Impairment Losses Written Back/(Charged) on Loans
and Advances and other Accounts**

		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
減值虧損回撥／(準備)	Impairment losses written back/(charged)		
– 貸款及墊款	– Loans and advances	15,131	(200,807)
– 其他賬項	– Other accounts	59,960	(61,129)
		75,091	(261,936)
貸款及墊款及其他賬項減值虧 損回撥／(準備) (附註22(b))	Impairment losses written back/(charged) on loans and advances and other accounts (note 22(b))		
– 個別評估	– Individual assessment	62,965	(207,078)
– 綜合評估	– Collective assessment	12,126	(54,858)
		75,091	(261,936)
其中(附註22(b))	of which (note 22(b)):		
– 提撥	– Additions	(122,692)	(307,927)
– 回撥	– Releases	168,561	25,315
– 收回金額	– Recoveries	29,222	20,676
		75,091	(261,936)

14 綜合收益表所示的所得稅

14 Income Tax in the Consolidated Income Statement

(a) 綜合收益表所示的所得稅

(a) Income tax in the consolidated income statement

		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
本期稅項－香港利得稅	Current tax – Hong Kong Profits Tax		
年內準備(附註31(a))	Provision for the year (note 31(a))	225,194	88,073
過往年度稅項準備補提／(回撥)	Under/(Over)-provision in respect of prior years	4,723	(80)
		229,917	87,993
本期稅項－海外稅項	Current tax – Overseas		
年內準備	Provision for the year	39,549	20,658
過往年度稅項準備回撥	Over-provision in respect of prior years	(2,162)	(2,417)
		37,387	18,241
遞延稅項	Deferred tax		
暫時性差額產生／(回撥) (附註31(b))	Origination/(Reversal) of temporary differences (note 31(b))	14,512	(2,683)
		281,816	103,551

2011年度香港利得稅稅項是以年度估計應課稅溢利按稅率16.5%(2010年：16.5%)計算。海外分行及附屬公司的稅項則按照相關國家的適當現行稅率提撥準備。

The provision for Hong Kong Profits Tax for 2011 is calculated at 16.5% (2010: 16.5%) of the estimated assessable profits for the year. Taxation for overseas branches and subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

(b) 稅項支出與會計溢利按適用稅率計算稅款的對賬表

(b) Reconciliation between tax expense and accounting profit at applicable tax rates

		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
稅前溢利	Profit before tax	1,692,029	1,160,208
按以有關國家適用利得稅稅率計算 稅前溢利的名義稅項	Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	296,170	197,219
不可扣減支出的稅項影響	Tax effect of non-deductible expenses	19,386	27,759
非應課稅收入的稅項影響	Tax effect of non-taxable revenue	(34,144)	(115,817)
過往年度稅項準備補提／(回撥)	Under/(Over)-provision in prior years	2,561	(2,497)
其他	Others	(2,157)	(3,113)
實際稅項支出	Actual tax expense	281,816	103,551

15 本行股東應佔溢利

本行股東應佔綜合溢利包括已列入本行財務報表內的溢利港幣1,159,491,000元(2010年：港幣857,962,000元)。

15 Profit Attributable to Equity Shareholders of the Bank

The consolidated profit attributable to equity shareholders of the Bank includes a profit of HK\$1,159,491,000 (2010: HK\$857,962,000) which has been dealt with in the financial statements of the Bank.

16 其他全面收益

關於其他全面收益各組成部份的稅項影響

16 Other Comprehensive Income

Tax effects relating to each component of other comprehensive income

		2011			2010		
		稅前數額	稅項 (支出)/收益	除稅後 淨額	稅前收額	稅項 (支出)/收益	除稅後 淨額
		Before tax amount	Tax (expense)/ benefit	Net-of-tax amount	Before tax amount	Tax (expense)/ benefit	Net-of-tax amount
		港幣千元	港幣千元	港幣千元	港幣千元	港幣千元	港幣千元
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
換算海外附屬 公司的財務 報表的匯兌 差額	Exchange differences on translation of financial statements of overseas subsidiaries	49,798	–	49,798	22,430	–	22,430
因出售由其他 物業轉至的投資 物業而實現的 遞延稅項負債	Release of deferred tax liabilities upon disposal of investment properties transferred from other premises	–	–	–	–	3,204	3,204
可供出售證券 — 可供出售證券 公允價值儲備 淨變動	Available-for-sale securities – Net movement in available-for-sale fair value reserve	(98,802)	16,794	(82,008)	46,465	(7,660)	38,805
其他全面收益	Other comprehensive income	(49,004)	16,794	(32,210)	68,895	(4,456)	64,439

17 分部資料

分部資料的呈報形式乃按呈報與主要營運決策人用作定期審閱及內部評核以決定如何分配資源和評核表現的方式一致。本集團確認了以下四大主要呈報分部。

企業銀行業務主要包括貿易融資、銀團貸款及其他企業借貸。

零售銀行業務主要包括存款戶口服務、住宅物業按揭、其他消費借貸、信用卡服務及融資租賃、財富管理服務及私人銀行。

財資及市場業務包括提供外匯交易服務、資金市場活動、管理投資證券及中央現金管理。另外還包括本行經外界基金經理管理的基金投資。

其他業務主要包括未能直接歸類任何現有呈報分部的營運項目，總行及企業支出。

就分部報告而言，經營收入的分配是根據內部轉讓價格機制反映資金的利益分配到業務分部上。成本的分配是根據各業務分部的直接成本及合理基準分配經常費用予各業務分部。使用銀行物業產生的市值租金會反映於「其他」業務下的分部間經營收入及各業務分部的分部間經營支出中。

17 Segment Reporting

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

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

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

Treasury and markets covers provision of foreign exchange services, money market activities, management of investment securities and central cash management. In addition, it comprises all fund investments made by the Bank that are managed by external fund managers.

Others mainly comprise unallocated revenue and expenses, head office and corporate expenses.

For the purpose of segment reporting, the allocation of operating income reflects the benefits of funding resources allocated to the business segments based on an internal funds transfer pricing mechanism. Cost allocation is based on the direct costs incurred by the respective business segments and apportionment of overheads on a reasonable basis to the business segments. Rental charges at market rate for usage of bank premises are reflected as inter-segment income for the "Others" segment and inter-segment expenses for the respective business segments.

17 分部資料(續)

(a) 可呈報分部

17 Segment Reporting (cont'd)

(a) Reportable segments

		本集團 The Group				
		2011				
		企業銀行 Wholesale banking 港幣千元 HK\$'000	零售銀行 Retail banking 港幣千元 HK\$'000	財資及市場 Treasury and markets 港幣千元 HK\$'000	其他 Others 港幣千元 HK\$'000	綜合 Consolidated 港幣千元 HK\$'000
淨利息收入／(支出)	Net interest income/(expense)	1,047,770	695,554	(193,551)	311,974	1,861,747
其他經營收入	Other operating income	334,702	680,726	675,058	3,443	1,693,929
出售可供出售證券 淨(虧損)／收益	Net (loss)/gain on disposal of available-for-sale securities	5	–	(136,867)	16	(136,846)
經營收入	Operating income	1,382,477	1,376,280	344,640	315,433	3,418,830
經營支出	Operating expenses	(254,679)	(455,927)	(79,683)	(862,156)	(1,652,445)
分部間之經營 (支出)／收入	Inter-segment (expenses)/ income	(203,583)	(305,397)	(77,889)	586,869	–
扣除減值準備前之 經營溢利	Operating profit before impairment	924,215	614,956	187,068	40,146	1,766,385
貸款及墊款及 其他賬項減值 虧損回撥	Impairment losses written back on loans and advances and other accounts	69,275	5,475	–	341	75,091
可供出售證券減值 虧損(準備)／ 回撥	Impairment losses (charged)/ written back on available-for-sale securities	–	–	(178,000)	212	(177,788)
減值虧損(準備)／ 回撥	Impairment losses (charged)/ written back	69,275	5,475	(178,000)	553	(102,697)
經營溢利	Operating profit	993,490	620,431	9,068	40,699	1,663,688
出售物業及設備 淨虧損	Net loss on disposal of property and equipment	–	(6)	–	(5)	(11)
投資物業重估收益	Revaluation gain on investment properties	–	–	–	28,352	28,352
稅前溢利	Profit before taxation	993,490	620,425	9,068	69,046	1,692,029
所得稅	Income tax	–	–	–	(281,816)	(281,816)
本年度溢利／(虧損)	Profit/(loss) for the year	993,490	620,425	9,068	(212,770)	1,410,213
其他分部項目	Other segment items:					
折舊	Depreciation	10,736	14,606	334	62,078	87,754
分部資產	Segment assets	69,096,551	33,863,664	62,546,194	5,919,716	171,426,125
分部負債	Segment liabilities	69,515,757	64,256,967	22,206,581	2,341,623	158,320,928
本年度產生的 資本開支	Capital expenditure incurred during the year	55,933	31,401	16,127	45,557	149,018

17 分部資料(續)

(a) 可呈報分部(續)

17 Segment Reporting (cont'd)

(a) Reportable segments (cont'd)

		本集團 The Group				
		2010				
		企業銀行 Wholesale banking 港幣千元 HK\$'000	零售銀行 Retail banking 港幣千元 HK\$'000	財資及市場 Treasury and markets 港幣千元 HK\$'000	其他 Others 港幣千元 HK\$'000	綜合 Consolidated 港幣千元 HK\$'000
淨利息收入／(支出)	Net interest income/(expense)	882,040	819,278	(88,564)	200,041	1,812,795
其他經營收入	Other operating income	376,467	409,858	363,928	26,342	1,176,595
出售可供出售證券 淨收益	Net gain on disposal of available-for-sale securities	–	–	16,799	–	16,799
經營收入	Operating income	1,258,507	1,229,136	292,163	226,383	3,006,189
經營支出	Operating expenses	(178,168)	(424,564)	(41,420)	(808,045)	(1,452,197)
分部間之經營 (支出)／收入	Inter-segment (expenses)/ income	(181,866)	(236,835)	(79,553)	498,254	–
扣除減值準備前之經營 溢利／(虧損)	Operating profit/(loss) before impairment	898,473	567,737	171,190	(83,408)	1,553,992
貸款及墊款及其他 賬項減值虧損 (準備)／回撥	Impairment losses (charged)/ written back on loans and advances and other accounts	(264,357)	(1,119)	–	3,540	(261,936)
可供出售證券減值 虧損回撥	Impairment losses written back on available-for-sale securities	–	7	–	–	7
減值虧損(準備)／ 回撥	Impairment losses (charged)/ written back	(264,357)	(1,112)	–	3,540	(261,929)
經營溢利／(虧損)	Operating profit/(loss)	634,116	566,625	171,190	(79,868)	1,292,063
資本票據投資減值 及撇值	Impairment and write-down on capital notes investments	–	–	(668,385)	–	(668,385)
出售物業及設備 淨收益／(虧損)	Net gain/(loss) on disposal of property and equipment	(3,398)	(235)	(388)	525,693	521,672
投資物業重估收益	Revaluation gain on investment properties	–	–	–	14,858	14,858
稅前溢利／(虧損)	Profit/(loss) before taxation	630,718	566,390	(497,583)	460,683	1,160,208
所得稅	Income tax	–	–	–	(103,551)	(103,551)
本年度溢利／(虧損)	Profit/(loss) for the year	630,718	566,390	(497,583)	357,132	1,056,657
其他分部項目：	Other segment items:					
折舊	Depreciation	2,747	9,338	220	62,473	74,778
分部資產	Segment assets	56,094,264	31,841,713	56,515,297	3,757,627	148,208,901
分部負債	Segment liabilities	59,455,273	57,108,175	18,700,806	(407,156)	134,857,098
本年度產生的 資本開支	Capital expenditure incurred during the year	22,269	36,684	11,738	40,332	111,023

17 分部資料(續)

(b) 區域資料

區域資料的分析是根據附屬公司的主要業務所在地點，或按負責報告業績或將資產及負債入賬的本行及其分行位置予以披露。

17 Segment Reporting (cont'd)

(b) Geographical information

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

		本集團 The Group				
		2011				
		稅前溢利／ (虧損) Profit/(loss) before taxation 港幣千元 HK\$'000	總資產 Total assets 港幣千元 HK\$'000	總負債 Total liabilities 港幣千元 HK\$'000	經營收入 Operating income 港幣千元 HK\$'000	或有負債 及承擔 Contingent liabilities and commitments 港幣千元 HK\$'000
香港	Hong Kong	1,531,819	156,160,679	143,567,767	2,929,392	43,446,840
中國內地	Mainland China	161,591	15,636,529	14,087,474	294,921	1,378,711
美國	United States	12,853	2,486,245	2,424,020	53,070	975,226
新加坡	Singapore	2,581	5,760,368	5,759,463	105,643	1,341,223
其他	Others	(16,854)	1,602,848	1,609,798	35,937	1,498,659
分部間項目	Inter-segment items	39	(10,220,544)	(9,127,594)	(133)	—
		1,692,029	171,426,125	158,320,928	3,418,830	48,640,659

		本集團 The Group				
		2010				
		稅前溢利／ (虧損) Profit/(loss) before taxation 港幣千元 HK\$'000	總資產 Total assets 港幣千元 HK\$'000	總負債 Total liabilities 港幣千元 HK\$'000	經營收入 Operating income 港幣千元 HK\$'000	或有負債 及承擔 Contingent liabilities and commitments 港幣千元 HK\$'000
香港	Hong Kong	1,054,082	142,400,913	129,529,906	2,744,970	41,535,834
中國內地	Mainland China	95,448	9,016,339	7,642,692	201,880	838,691
美國	United States	(974)	1,558,498	1,452,247	35,120	560,413
新加坡	Singapore	(1,018)	94,447	95,486	(16)	—
其他	Others	7,677	983,104	958,966	26,681	1,565,567
分部間項目	Inter-segment items	4,993	(5,844,400)	(4,822,199)	(2,446)	—
		1,160,208	148,208,901	134,857,098	3,006,189	44,500,505

18 現金及在銀行、中央銀行及其他金融機構的結存
18 Cash and Balances with Banks, Central Banks and Other Financial Institutions

		本集團 The Group		本行 The Bank	
		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000	2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
現金	Cash in hand	202,274	185,482	201,727	185,150
在中央銀行的結存	Balances with central banks	1,120,805	906,542	101,396	411,469
在銀行的結存	Balances with banks	10,256,612	9,208,301	10,058,320	9,164,943
在其他金融機構的結存	Balances with other financial institutions	1,364,414	10,924,797	1,364,414	10,924,797
		12,944,105	21,225,122	11,725,857	20,686,359

19 在銀行、中央銀行及其他金融機構的存款及墊款
19 Placements with and Advances to Banks, Central Banks and Other Financial Institutions

		本集團 The Group		本行 The Bank	
		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000	2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
在銀行的存款	Placements with banks	24,146,120	8,127,133	16,708,144	4,898,332
在銀行的墊款	Advances to banks	11,692,723	4,101,993	11,692,723	4,101,993
		35,838,843	12,229,126	28,400,867	9,000,325
到期日：	Maturing:				
— 1個月內	— Within one month	13,245,092	6,879,447	8,952,045	4,988,526
— 1個月至1年內	— Between one month and one year	22,593,751	4,019,890	19,448,822	2,835,448
— 1年後	— After one year	—	1,329,789	—	1,176,351
		35,838,843	12,229,126	28,400,867	9,000,325

於2011年及2010年12月31日，本集團在銀行及其他金融機構的墊款中並無減值墊款，亦無就該等墊款提撥作個別減值準備。

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

20 交易用途資產

20 Trading Assets

		本集團 The Group		本行 The Bank	
		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000	2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
權益證券	Equity securities	–	3,029	–	3,029
投資基金	Investment funds	2,965	4,162	2,965	4,162
交易用途證券	Trading securities	2,965	7,191	2,965	7,191
衍生工具的正公允價值 (附註43(b))	Positive fair values of derivatives (note 43(b))	2,076,718	1,626,466	2,072,039	1,613,631
		2,079,683	1,633,657	2,075,004	1,620,822
以上項目的發行機構如下：	Issued by:				
企業	Corporate entities	2,965	7,191	2,965	7,191
按上市地點分析：	Analysed by place of listing:				
於香港以外地區上市	Listed outside Hong Kong	–	3,029	–	3,029
非上市	Unlisted	2,965	4,162	2,965	4,162
		2,965	7,191	2,965	7,191

21 指定為通過損益以反映公允價值的證券

21 Securities Designated at Fair Value Through Profit or Loss

		本集團及本行 The Group and the Bank	
		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
持有的存款證	Certificates of deposit held	200,613	–
債務證券	Debt securities	155,064	646,508
		355,677	646,508
以上項目的發行機構如下：	Issued by:		
政府機關	Sovereigns	18,835	29,729
銀行及其他金融機構	Banks and other financial institutions	212,954	485,181
企業	Corporate entities	123,888	131,598
		355,677	646,508
按上市地點分析：	Analysed by place of listing:		
於香港以外地區上市	Listed outside Hong Kong	78,285	81,992
非上市	Unlisted	277,392	564,516
		355,677	646,508

22 客戶貸款及墊款及其他賬項

22 Loans and Advances to Customers and Other Accounts

(a) 客戶貸款及墊款及其他賬項減減值準備

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

		本集團 The Group		本行 The Bank	
		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000	2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
客戶貸款及墊款總額	Gross loans and advances to customers	93,718,132	88,818,235	84,136,441	79,520,361
減值準備(附註22(b))	Impairment allowances (note 22(b))				
— 個別評估	– Individually assessed	(195,660)	(297,634)	(195,660)	(297,634)
— 綜合評估	– Collectively assessed	(346,898)	(359,960)	(346,859)	(359,901)
		93,175,574	88,160,641	83,593,922	78,862,826
應計利息及其他賬項	Accrued interest and other accounts	3,191,927	2,619,750	3,073,413	2,560,553
減值準備(附註22(b))	Impairment allowances (note 22(b))				
— 個別評估	– Individually assessed	(2,221)	(65,711)	(620)	(60,604)
		3,189,706	2,554,039	3,072,793	2,499,949
		96,365,280	90,714,680	86,666,715	81,362,775
客戶貸款及墊款其中	Included in loans and advances				
包括：	to customers are:				
貿易票據	Trade bills	3,046,382	1,658,060	3,046,382	1,649,249
減值準備(附註22(b))	Impairment allowances (note 22(b))				
— 綜合評估	– Collectively assessed	(507)	(655)	(507)	(655)
		3,045,875	1,657,405	3,045,875	1,648,594

於截至2011年12月31日止年度內，其他賬項內包括一項賬面價值為港幣174,602,000元的持作出售資產，此資產是透過收回一項已減值貸款獲得並已經通過股權轉讓協議出售予獨立第三者。因此，本集團收到金額約港幣273,194,000元(已扣除相關交易成本)。相關減值虧損撥回約港幣58,078,000元以及淨收益約港幣30,057,000元已在收益表中確認。

During the year ended 31 December 2011, a held-for-sale asset with a carrying value of HK\$174,602,000 included in other accounts, which had been acquired through the recovery of an impaired loan, was disposed of by the Group to an independent party through a share transfer agreement. Accordingly, the Group received approximately HK\$273,194,000 net of related transaction costs. A reversal of impairment loss of approximately HK\$58,078,000 and a net gain of approximately HK\$30,057,000 were recognised in the income statement.

22 客戶貸款及墊款及其他賬項(續)

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

(b) 客戶貸款及墊款及其他賬項減值準備的變動

(b) Movement in impairment allowances on loans and advances to customers and other accounts

		本集團 The Group					
		2011			2010		
		個別評估 Individually assessed 港幣千元 HK\$'000	綜合評估 Collectively assessed 港幣千元 HK\$'000	總額 Total 港幣千元 HK\$'000	個別評估 Individually assessed 港幣千元 HK\$'000	綜合評估 Collectively assessed 港幣千元 HK\$'000	總額 Total 港幣千元 HK\$'000
於1月1日	At 1 January	363,345	359,960	723,305	328,500	313,090	641,590
在收益表列支的減值虧損/(回撥) (附註13)	Impairment losses charged/ (written back) on the income statement (note 13)	127,097	(4,405)	122,692	245,672	62,255	307,927
在收益表撥回的減值虧損(附註13)	Impairment losses released to the income statement (note 13)	(190,062)	(7,721)	(197,783)	(38,594)	(7,397)	(45,991)
沖銷數額	Amounts written off	(111,849)	(8,657)	(120,506)	(176,695)	(15,385)	(192,080)
收回以往年度已沖銷的貸款及墊款	Recoveries of loans and advances written off in previous years	21,501	7,721	29,222	13,279	7,397	20,676
貸款減值虧損折現撥回(附註4)	Unwinding of discount on loan impairment losses (note 4)	(12,151)	–	(12,151)	(8,817)	–	(8,817)
於12月31日	At 31 December	197,881	346,898	544,779	363,345	359,960	723,305
扣除自(附註22(a))：	Deducted from (note 22(a)):						
客戶貸款及墊款	Loans and advances to customers	195,660	346,391	542,051	297,634	359,305	656,939
其他賬項	Other accounts	2,221	–	2,221	65,711	–	65,711
貿易票據	Trade bills	–	507	507	–	655	655
		197,881	346,898	544,779	363,345	359,960	723,305

22 客戶貸款及墊款及其他賬項(續)

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

(b) 客戶貸款及墊款及其他賬項減值準備的變動(續)

(b) Movement in impairment allowances on loans and advances to customers and other accounts (cont'd)

		本行 The Bank					
		2011			2010		
		個別評估 Individually assessed 港幣千元 HK\$'000	綜合評估 Collectively assessed 港幣千元 HK\$'000	總額 Total 港幣千元 HK\$'000	個別評估 Individually assessed 港幣千元 HK\$'000	綜合評估 Collectively assessed 港幣千元 HK\$'000	總額 Total 港幣千元 HK\$'000
於1月1日	At 1 January	358,238	359,901	718,139	324,722	312,933	637,655
在收益表列支的減值虧損/(回撥)	Impairment losses charged/(written back) on the income statement	127,073	(4,384)	122,689	245,496	62,353	307,849
在收益表撥回的減值虧損	Impairment losses released to the income statement	(189,651)	(7,146)	(196,797)	(39,171)	(6,957)	(46,128)
沖銷數額	Amounts written off	(108,319)	(8,658)	(116,977)	(176,695)	(15,385)	(192,080)
收回以往年度已沖銷的貸款及墊款	Recoveries of loans and advances written off in previous years	21,090	7,146	28,236	12,703	6,957	19,660
貸款減值虧損折現撥回	Unwinding of discount on loan impairment losses	(12,151)	–	(12,151)	(8,817)	–	(8,817)
於12月31日	At 31 December	196,280	346,859	543,139	358,238	359,901	718,139
扣除自(附註22(a))：	Deducted from (note 22(a)):						
客戶貸款及墊款	Loans and advances to customers	195,660	346,352	542,012	297,634	359,246	656,880
其他賬項	Other accounts	620	–	620	60,604	–	60,604
貿易票據	Trade bills	–	507	507	–	655	655
		196,280	346,859	543,139	358,238	359,901	718,139

22 客戶貸款及墊款及其他賬項(續)

(c) 按行業分析的客戶貸款及墊款

以下按經濟行業進行的分析是根據香港金融管理局(「金管局」)所採用的分類及定義作出。

22 Loans and advances to customers and Other accounts (cont'd)

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

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

		本集團 The Group			
		2011		2010	
		客戶貸款 及墊款總額 Gross loans and advances to customers 港幣千元 HK\$'000	減值客戶 貸款及墊款 Impaired loans and advances to customers 港幣千元 HK\$'000	客戶貸款 及墊款總額 Gross loans and advances to customers 港幣千元 HK\$'000	減值客戶 貸款及墊款 Impaired loans and advances to customers 港幣千元 HK\$'000
工商金融	Industrial, commercial and financial				
— 物業發展	– Property development	4,000	–	313,400	–
— 物業投資	– Property investment	12,905,620	–	11,585,272	–
— 金融企業	– Financial concerns	2,951,325	–	4,386,559	–
— 股票經紀	– Stockbrokers	35,000	–	182,000	–
— 批發及零售業	– Wholesale and retail trade	6,352,248	29,934	9,189,862	43,769
— 製造業	– Manufacturing	6,153,567	69,018	9,490,999	130,950
— 運輸及運輸設備	– Transport and transport equipment	2,532,195	4,368	2,940,451	218
— 娛樂活動	– Recreational activities	269,183	108,966	261,747	–
— 資訊科技	– Information technology	1,456	–	16,370	–
— 其他	– Others	2,557,801	31	2,692,537	11
個人	Individuals				
— 購買「居者有其屋計劃」、「私人發展商參建居屋計劃」及「租者置其屋計劃」的樓宇貸款	– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	23,124	–	25,806	–
— 購買其他住宅物業的貸款	– Loans for the purchase of other residential properties	10,135,734	11,154	10,912,294	13,793
— 信用咭墊款	– Credit card advances	283,061	497	267,441	1,719
— 其他	– Others	5,335,304	3,636	4,430,096	9,269
在香港使用的貸款及墊款總額	Gross loans and advances for use in Hong Kong	49,539,618	227,604	56,694,834	199,729
貿易融資	Trade finance	10,372,639	108,460	7,360,087	111,142
在香港以外使用的貸款及墊款總額	Gross loans and advances for use outside Hong Kong	33,805,875	364,537	24,763,314	919,941
客戶貸款及墊款總額	Gross loans and advances to customers	93,718,132	700,601	88,818,235	1,230,812

22 客戶貸款及墊款及其他賬項(續)

22 Loans and advances to customers and Other accounts (cont'd)

(c) 按行業分析的客戶貸款及墊款(續)

(c) Loans and advances to customers analysed by industry sectors (cont'd)

		本行 The Bank			
		2011		2010	
		客戶貸款 及墊款總額 Gross loans and advances to customers 港幣千元 HK\$'000	減值客戶 貸款及墊款 Impaired loans and advances to customers 港幣千元 HK\$'000	客戶貸款 及墊款總額 Gross loans and advances to customers 港幣千元 HK\$'000	減值客戶 貸款及墊款 Impaired loans and advances to customers 港幣千元 HK\$'000
工商金融	Industrial, commercial and financial				
— 物業發展	– Property development	4,000	–	313,400	–
— 物業投資	– Property investment	11,622,656	–	10,418,937	–
— 金融企業	– Financial concerns	2,951,325	–	4,386,559	–
— 股票經紀	– Stockbrokers	35,000	–	182,000	–
— 批發及零售業	– Wholesale and retail trade	6,352,027	29,934	9,189,004	43,769
— 製造業	– Manufacturing	6,152,892	69,018	9,490,109	130,950
— 運輸及運輸設備	– Transport and transport equipment	2,519,998	4,368	2,925,856	218
— 娛樂活動	– Recreational activities	269,183	108,966	261,747	–
— 資訊科技	– Information technology	1,456	–	16,370	–
— 其他	– Others	2,556,380	31	2,690,605	11
個人	Individuals				
— 購買「居者有其屋計劃」、「私人發展商參建居屋計劃」及「租者置其屋計劃」的樓宇貸款	– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	23,124	–	25,806	–
— 購買其他住宅物業的貸款	– Loans for the purchase of other residential properties	7,403,237	11,154	8,140,031	13,793
— 信用咭墊款	– Credit card advances	283,061	497	267,441	1,719
— 其他	– Others	4,183,588	3,636	3,403,451	9,269
在香港使用的貸款及墊款總額	Gross loans and advances for use in Hong Kong	44,357,927	227,604	51,711,316	199,729
貿易融資	Trade finance	10,372,639	108,460	7,360,087	111,142
在香港以外使用的貸款及墊款總額	Gross loans and advances for use outside Hong Kong	29,405,875	308,187	20,448,958	865,015
客戶貸款及墊款總額	Gross loans and advances to customers	84,136,441	644,251	79,520,361	1,175,886

22 客戶貸款及墊款及其他賬項(續)

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

(d) 減值客戶貸款及墊款

(d) Impaired loans and advances to customers

		本集團 The Group		本行 The Bank	
		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000	2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
減值客戶貸款及 墊款總額	Gross impaired loans and advances to customers	700,601	1,230,812	644,251	1,175,886
減值準備	Impairment allowances				
— 個別評估	— Individually assessed	(195,660)	(297,634)	(195,660)	(297,634)
		504,941	933,178	448,591	878,252
減值貸款及墊款總額 佔客戶貸款及墊款 總額的百分率	Gross impaired loans and advances as a % of total loans and advances to customers	0.75%	1.39%	0.77%	1.48%

減值貸款及墊款是主要根據個別具有減值的客觀證據，以作個別減值評估的貸款。

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

經個別評估的減值準備已計算本集團和本行就這些貸款及墊款所持抵押品的可變現價值，分別為港幣534,858,000元及港幣481,536,000元(2010年：港幣282,912,000元及港幣228,962,000元)。這些抵押品主要由住宅或商業物業按揭權益和在本集團的現金存款組成。

Individually assessed impairment allowances were made after taking into account the realisable value of collateral in respect of such loans and advances of HK\$534,858,000 and HK\$481,536,000 (2010: HK\$282,912,000 and HK\$228,962,000) of the Group and the Bank respectively. This collateral mainly comprises mortgage interest over residential or commercial properties and cash with the Group.

22 客戶貸款及墊款及其他賬項(續)

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

(e) 融資租賃及分期付款合約的投資淨額

(e) Net investment in finance leases and hire purchase contracts

客戶貸款及墊款包括按融資租賃及具備融資租賃特徵的分期付款合約租借給客戶的汽車及設備的投資淨額。這些合約的最初租賃期一般為期5至20年，其後可選擇按賬面值購入這些租借資產。於年結日按融資租賃及分期付款合約應收的最低租賃付款總額及其現值如下：

Loans and advances to customers include net investment in motor vehicles, and equipment leased to customers under finance leases and hire purchase contracts which have the characteristics of finance leases. These contracts usually run for an initial period of 5 to 20 years, with an option of acquiring the leased asset at nominal value. The total minimum lease payments receivable under finance leases and hire purchase contracts and their present values at the year end are as follows:

		本集團 The Group			
		2011		2010	
		最低租賃 付款現值 Present value of the minimum lease payments 港幣千元 HK\$'000	最低租賃 付款總額 Total minimum lease payments 港幣千元 HK\$'000	最低租賃 付款現值 Present value of the minimum lease payments 港幣千元 HK\$'000	最低租賃 付款總額 Total minimum lease payments 港幣千元 HK\$'000
1年內	Within 1 year	257,660	310,603	211,737	260,767
1年至5年	After 1 year but within 5 years	475,172	596,036	430,016	559,432
5年後	After 5 years	1,367,210	1,599,598	1,517,782	1,781,243
		2,100,042	2,506,237	2,159,535	2,601,442
減值準備：	Impairment allowances:				
— 個別評估	— Individually assessed	(1,156)		(919)	
— 綜合評估	— Collectively assessed	(113)		(91)	
融資租賃及分期付款 合約的投資淨額	Net investment in finance leases and hire purchase contracts	2,098,773		2,158,525	

22 客戶貸款及墊款及其他賬項(續)

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

(e) 融資租賃及分期付款合約的投資淨額(續)

(e) Net investment in finance leases and hire purchase contracts (cont'd)

		本行 The Bank			
		2011		2010	
		最低租賃 付款現值 Present value of the minimum lease payments 港幣千元 HK\$'000	最低租賃 付款總額 Total minimum lease payments 港幣千元 HK\$'000	最低租賃 付款現值 Present value of the minimum lease payments 港幣千元 HK\$'000	最低租賃 付款總額 Total minimum lease payments 港幣千元 HK\$'000
1年內	Within 1 year	256,826	309,491	210,666	259,361
1年至5年	After 1 year but within 5 years	471,916	591,853	426,103	554,405
5年後	After 5 years	1,359,103	1,590,291	1,508,170	1,770,167
		2,087,845	2,491,635	2,144,939	2,583,933
減值準備：	Impairment allowances:				
— 個別評估	– Individually assessed	(1,156)		(919)	
— 綜合評估	– Collectively assessed	(113)		(91)	
融資租賃及分期付款 合約的投資淨額	Net investment in finance leases and hire purchase contracts	2,086,576		2,143,929	

23 可供出售證券

23 Available-for-sale Securities

		本集團 The Group		本行 The Bank	
		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000	2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
持有的存款證	Certificates of deposit held	2,176,591	1,480,621	2,176,591	1,480,621
債務證券	Debt securities	14,020,172	16,727,106	13,439,276	16,668,340
國庫券(包括外匯 基金票據)	Treasury bills (including Exchange Fund Bills)	6,661,256	2,610,576	6,542,667	2,610,576
權益證券	Equity securities	46,935	39,442	46,935	39,442
		22,904,954	20,857,745	22,205,469	20,798,979
以上項目的發行機構如下：		Issued by:			
政府機關	Sovereigns	7,402,616	2,771,218	6,912,806	2,771,218
銀行及其他金融機構	Banks and other financial institutions	12,410,202	14,480,134	12,200,527	14,480,134
企業	Corporate entities	3,092,136	3,606,393	3,092,136	3,547,627
		22,904,954	20,857,745	22,205,469	20,798,979
按上市地點分析：		Analysed by place of listing:			
於香港以外地區上市	Listed outside Hong Kong	197,455	1,608,651	197,455	1,608,651
非上市	Unlisted	22,707,499	19,249,094	22,008,014	19,190,328
		22,904,954	20,857,745	22,205,469	20,798,979
個別減值債務證券的 公允價值(附註)	Fair value of individually impaired debt securities (Note)	214,878	124	214,878	124

附註：

於2011年下半年，由於受歐債危機的影響，某歐洲公司發行的債務證券的公允價值大幅下降。為了反映此影響，本集團管理層決定對本集團所持有的這類債務證券的賬面價值計提減值並在損益中予以確認。因此於截至2011年12月31日止年度，本集團有一項金額約港幣1.78億元的投資重估儲備赤字轉移至收益表並確認為減值損失。

Note:

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

24 應收附屬公司款項

24 Amounts Due from Subsidiaries

		本行 The Bank	
		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
現金及在銀行及其他金融機構的結存	Cash and balances with banks and other financial institutions	887,744	—
在銀行及其他金融機構存款	Placements with banks and other financial institutions	7,203,597	7,171,303
附屬公司貸款及墊款及其他賬項	Loans and advances to subsidiaries and other accounts	110,245	90,480
		8,201,586	7,261,783

25 附屬公司投資

25 Investments in Subsidiaries

		本行 The Bank	
		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
非上市股份(按成本入賬)	Unlisted shares, at cost	1,274,990	1,274,990

於2011年12月31日，下文列出對本集團的業績、資產或負債有重大影響的主要附屬公司詳情。除非另有註明，否則所持股份類別均為普通股。

以下全部公司均為附註2(d)所界定的受控制附屬公司，並已在本集團的財務報表內綜合計算。

The following list contains the particulars of the principal subsidiaries at 31 December 2011 which materially affect the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

All of these are controlled subsidiaries as defined under note 2(d) and have been consolidated into the Group's financial statements.

25 附屬公司投資(續)

25 Investments in Subsidiaries (cont'd)

公司名稱 Name of company	註冊成立／經營地區 Place of incorporation/ operation	持有股份 百分率 % of shares held	主要業務 Principal activities	已發行及 繳足股本 Issued and paid up capital
啓福國際有限公司 Carford International Limited	香港 Hong Kong	100%	物業持有 Property holding	港幣2元 HK\$2
中信銀行國際(中國)有限公司* CITIC Bank International (China) Limited* ("CBI (China)")	中華人民共和國(「中國」) People's Republic of China ("Mainland China")	100%	銀行 Banking	人民幣1,000,000,000元 RMB1,000,000,000
中信保險服務有限公司 CITIC Insurance Brokers Limited	香港 Hong Kong	100%	保險經紀 Insurance broker	港幣5,000,000元 HK\$5,000,000
CKWB-SN Limited	開曼群島／香港 Cayman Islands/Hong Kong	100%	發行結構票據和投資 Issue of structured notes and investments	美元1元 US\$1
CKWH-UT2 Limited	開曼群島／香港 Cayman Islands/Hong Kong	100%	發行後償票據 Issue of subordinated notes	美元1元 US\$1
香港華人財務有限公司 HKCB Finance Limited	香港 Hong Kong	100%	消費借貸 Consumer financing	港幣200,000,000元 HK\$200,000,000
香港華人銀行(代理人)有限公司 The Hongkong Chinese Bank (Nominees) Limited	香港 Hong Kong	100%	代理人服務 Nominees services	港幣5,000元 HK\$5,000
嘉華銀行(信託)有限公司 The Ka Wah Bank (Trustee) Limited	香港 Hong Kong	100%	信託服務 Trustee services	港幣3,000,000元 HK\$3,000,000
恒康香港有限公司 Viewcon Hong Kong Limited	香港 Hong Kong	100%	按揭融資 Mortgage financing	港幣2元 HK\$2

* 附屬公司中信嘉華銀行(中國)有限公司已於2010年11月22日更改為中信銀行國際(中國)有限公司。自2010年10月1日，中信銀行國際(中國)有限公司的功能貨幣已從港幣換成人民幣，藉以配合中信銀行國際(中國)有限公司的主要經濟環境和相關基礎交易。按照會計政策附註2(p)，海外業務將換算為港幣。

* The subsidiary was renamed from CITIC Ka Wah Bank (China) Limited to CITIC Bank International (China) Limited ("CBI (China)") on 22 November 2010. On 1 October 2010, the functional currency of CBI (China) changed from Hong Kong Dollars to Renminbi to align with CBI (China)'s primary economic environment and relevant underlying transactions. The results of foreign operations are translated into Hong Kong dollars in accordance with the accounting policies in note 2(p).

26 物業及設備

(a) 本集團

26 Property and Equipment

(a) The Group

		投資物業 Investment properties 港幣千元 HK\$'000	其他物業 Other premises 港幣千元 HK\$'000	傢俬、固定 裝置及設備 Furniture, fixtures and equipment 港幣千元 HK\$'000	總額 Total 港幣千元 HK\$'000
成本或估值：	Cost or valuation:				
於2011年1月1日	At 1 January 2011	159,250	641,814	785,450	1,586,514
增加	Additions	–	–	149,018	149,018
出售	Disposals	–	–	(2,824)	(2,824)
重估盈餘	Surplus on revaluation	28,352	–	–	28,352
匯兌調整	Exchange adjustments	–	–	2,622	2,622
於2011年12月31日	At 31 December 2011	187,602	641,814	934,266	1,763,682
上述資產的成本或 估值分析如下：	The analysis of cost or valuation of the above assets is as follows:				
成本	Cost	–	624,217	934,266	1,558,483
估值	Valuation				
– 1985年	– 1985	–	17,597	–	17,597
– 2011年	– 2011	187,602	–	–	187,602
		187,602	641,814	934,266	1,763,682
於2010年1月1日	At 1 January 2010	183,192	1,011,270	705,317	1,899,779
增加	Additions	–	–	111,023	111,023
出售	Disposals	(38,800)	(369,456)	(30,823)	(439,079)
重估盈餘	Surplus on revaluation	14,858	–	–	14,858
匯兌調整	Exchange adjustments	–	–	(67)	(67)
於2010年12月31日	At 31 December 2010	159,250	641,814	785,450	1,586,514
上述資產的成本或 估值分析如下：	The analysis of cost or valuation of the above assets is as follows:				
成本	Cost	–	624,217	785,450	1,409,667
估值	Valuation				
– 1985年	– 1985	–	17,597	–	17,597
– 2010年	– 2010	159,250	–	–	159,250
		159,250	641,814	785,450	1,586,514

26 物業及設備(續)

(a) 本集團(續)

26 Property and Equipment (cont'd)

(a) The Group (cont'd)

		投資物業 Investment properties 港幣千元 HK\$'000	其他物業 Other premises 港幣千元 HK\$'000	傢俬、固定 裝置及設備 Furniture, fixtures and equipment 港幣千元 HK\$'000	總額 Total 港幣千元 HK\$'000
累計折舊：	Accumulated depreciation:				
於2011年1月1日	At 1 January 2011	–	243,490	601,278	844,768
本年度折舊(附註11(b))	Charge for the year (note 11(b))	–	14,087	73,667	87,754
因出售而回撥	Written back on disposals	–	–	(2,759)	(2,759)
匯兌調整	Exchange adjustments	–	–	1,797	1,797
於2011年12月31日	At 31 December 2011	–	257,577	673,983	931,560
於2010年1月1日	At 1 January 2010	–	301,148	570,292	871,440
本年度折舊(附註11(b))	Charge for the year (note 11(b))	–	22,628	52,150	74,778
因出售而回撥	Written back on disposals	–	(80,286)	(20,880)	(101,166)
匯兌調整	Exchange adjustments	–	–	(284)	(284)
於2010年12月31日	At 31 December 2010	–	243,490	601,278	844,768
賬面淨值：	Net book value:				
於2011年12月31日	At 31 December 2011	187,602	384,237	260,283	832,122
於2010年12月31日	At 31 December 2010	159,250	398,324	184,172	741,746

26 物業及設備(續)

(b) 本行

26 Property and Equipment (cont'd)

(b) The Bank

		投資物業 Investment properties 港幣千元 HK\$'000	其他物業 Other premises 港幣千元 HK\$'000	傢俬、固定 裝置及設備 Furniture, fixtures and equipment 港幣千元 HK\$'000	總額 Total 港幣千元 HK\$'000
成本或估值：		Cost or valuation:			
於2011年1月1日	At 1 January 2011	133,897	641,814	736,194	1,511,905
增加	Additions	–	–	144,395	144,395
出售	Disposals	–	–	(2,299)	(2,299)
重估盈餘	Surplus on revaluation	24,305	–	–	24,305
匯兌調整	Exchange adjustments	–	–	(8)	(8)
於2011年12月31日	At 31 December 2011	158,202	641,814	878,282	1,678,298
上述資產的成本或 估值分析如下：		The analysis of cost or valuation of the above assets is as follows:			
成本	Cost	–	624,217	878,282	1,502,499
估值	Valuation				
– 1985年	– 1985	–	17,597	–	17,597
– 2011年	– 2011	158,202	–	–	158,202
		158,202	641,814	878,282	1,678,298
於2010年1月1日		At 1 January 2010			
於2010年1月1日	At 1 January 2010	157,800	1,011,270	662,597	1,831,667
增加	Additions	–	–	103,815	103,815
出售	Disposals	(38,800)	(369,456)	(30,247)	(438,503)
重估盈餘	Surplus on revaluation	14,897	–	–	14,897
匯兌調整	Exchange adjustments	–	–	29	29
於2010年12月31日	At 31 December 2010	133,897	641,814	736,194	1,511,905
上述資產的成本或 估值分析如下：		The analysis of cost or valuation of the above assets is as follows:			
成本	Cost	–	624,217	736,194	1,360,411
估值	Valuation				
– 1985年	– 1985	–	17,597	–	17,597
– 2010年	– 2010	133,897	–	–	133,897
		133,897	641,814	736,194	1,511,905

26 物業及設備(續)

(b) 本行(續)

26 Property and Equipment (cont'd)

(b) The Bank (cont'd)

		投資物業 Investment properties 港幣千元 HK\$'000	其他物業 Other premises 港幣千元 HK\$'000	傢俬、固定 裝置及設備 Furniture, fixtures and equipment 港幣千元 HK\$'000	總額 Total 港幣千元 HK\$'000
累計折舊：	Accumulated depreciation:				
於2011年1月1日	At 1 January 2011	–	243,490	568,456	811,946
本年度折舊	Charge for the year	–	14,087	66,906	80,993
因出售而回撥	Written back on disposals	–	–	(2,285)	(2,285)
匯兌調整	Exchange adjustments	–	–	(344)	(344)
於2011年12月31日	At 31 December 2011	–	257,577	632,733	890,310
於2010年1月1日	At 1 January 2010	–	301,148	543,445	844,593
本年度折舊	Charge for the year	–	22,628	45,308	67,936
因出售而回撥	Written back on disposals	–	(80,286)	(20,319)	(100,605)
匯兌調整	Exchange adjustments	–	–	22	22
於2010年12月31日	At 31 December 2010	–	243,490	568,456	811,946
賬面淨值：	Net book value:				
於2011年12月31日	At 31 December 2011	158,202	384,237	245,549	787,988
於2010年12月31日	At 31 December 2010	133,897	398,324	167,738	699,959

26 物業及設備(續)

- (c) 於2011年12月31日，獨立測量師行測建行(香港)有限公司按公開市場價值為基準，重估本集團及本行的所有投資物業。有關本集團及本行的重估盈餘分別為港幣28,352,000元及港幣24,305,000元(2010年：本集團及本行錄得盈餘港幣14,858,000元及港幣14,897,000元)已分別計入本集團及本行的收益表中。測建行(香港)有限公司部份僱員為香港測量師學會資深專業會員，具有評估同類物業地點及類別的近期經驗。

投資物業產生的租金收入總額為港幣5,302,000元(2010年：港幣4,212,000元)。

本年度無投資物業出售(2010年：出售投資物業的收益為港幣990,000元)。

- (d) 投資物業及其他物業的賬面淨值分析如下：

26 Property and Equipment (cont'd)

- (c) All investment properties of the Group and the Bank were revalued on 31 December 2011 by Prudential Surveyors (Hong Kong) Limited, independent firm of surveyors on an open market value basis. The revaluation surpluses of HK\$28,352,000 and HK\$24,305,000 were recognised by the Group and the Bank respectively (2010: revaluation surpluses of HK\$14,858,000 and HK\$14,897,000 were recognised by the Group and the Bank respectively), which have been credited to the income statement. Prudential Surveyors (Hong Kong) Limited has among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the locations and categories of properties being valued.

The gross rental income arising from investment properties is HK\$5,302,000 (2010: HK\$4,212,000).

During the year, there were no disposals of investment properties (2010: gain on disposal of investment properties amounted to HK\$990,000).

- (d) The analysis of net book value of investment properties and other premises is as follows:

		本集團 The Group		本行 The Bank	
		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000	2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
租賃	Leasehold				
香港	Held in Hong Kong				
— 長期租賃	— Long-term leases	79,467	78,337	79,467	78,337
— 中期租賃	— Medium-term leases	459,052	451,077	459,052	451,077
香港以外地區	Held outside Hong Kong				
— 中期租賃	— Medium-term leases	33,320	28,160	3,920	2,807
		571,839	557,574	542,439	532,221

本集團及本行若干其他物業曾於過往年度進行重估。如果這些物業是以成本減累計折舊入賬，本集團及本行於2011年12月31日的其他物業賬面淨值應為港幣5,239,000元(2010年：港幣5,373,000元)。

Some of the other premises of the Group and the Bank were revalued in previous years. The net book value of other premises of the Group and the Bank at 31 December 2011 would have been HK\$5,239,000 (2010: HK\$5,373,000) had they been carried at cost less accumulated depreciation.

26 物業及設備(續)

(e) 通過經營租賃租出的物業及設備

本集團通過經營租賃的方式租出投資物業。有關物業的最初租賃期一般為兩至三年，其後可重新商定後續期及所有條款。

本集團及本行按不可解除的投資及分租物業的經營租賃應收的未來最低租金總額如下：

26 Property and Equipment (cont'd)

(e) Property and equipment leased out under operating leases

The Group leases out investment properties under operating leases. The leases typically run for an initial period of two to three years, with an option to renew the leases after that date, at which time all terms are renegotiated.

The Group's and the Bank's total future minimum lease payments under non-cancellable operating leases for investment and subletting properties are receivable as follows:

		本集團 The Group		本行 The Bank	
		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000	2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
1年內	Within 1 year	4,583	3,019	3,174	1,662
1年至5年	After 1 year but within 5 years	1,230	2,776	935	1,134
		5,813	5,795	4,109	2,796

27 銀行及其他金融機構的存款及結存

27 Deposits and balances of banks and other financial institutions

		本集團 The Group		本行 The Bank	
		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000	2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
銀行的存款及結存	Deposits and balances from banks	5,121,298	1,850,372	4,360,231	727,892

28 客戶存款

28 Deposits from Customers

		本集團 The Group		本行 The Bank	
		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000	2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
活期及往來	Demand deposits and				
賬戶存款	current deposits	14,622,800	14,818,265	10,794,526	14,574,030
儲蓄存款	Savings deposits	20,749,497	24,472,934	20,703,902	24,430,485
定期、即期及短期	Time, call and				
通知存款	notice deposits	91,668,099	74,174,914	87,676,919	71,597,177
		127,040,396	113,466,113	119,175,347	110,601,692

29 交易用途負債

29 Trading Liabilities

		本集團 The Group		本行 The Bank	
		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000	2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
衍生工具的負公允	Negative fair value of derivatives				
價值(附註43(b))	(note 43(b))	1,331,198	1,477,528	1,321,019	1,464,497

30 已發行存款證

30 Certificates of Deposit Issued

		本集團及本行 The Group and the Bank	
		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
指定為通過損益以反映公允價值	Designated at fair value through profit or loss	–	775,217
非交易用途	Non-trading	12,123,896	6,209,837
		12,123,896	6,985,054

30 已發行存款證(續)

指定為通過損益以反映公允價值的已發行存款證具備可改變現金流量的內含衍生工具，若內含衍生工具未能有效改變現金流量，則兩者需要分別入賬。

2010年，指定為通過損益以反映公允價值的已發行存款證的賬面值較到期時應付合約金額高達港幣217,000元，主要是因為基準利率變動而產生。

30 Certificates of Deposit Issued (cont'd)

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

In 2010, the carrying amount of certificates of deposit issued designated at fair value through profit or loss was HK\$217,000 higher than the contractual amount at maturity, which was mainly attributable to changes in the benchmark interest rate.

31 財務狀況表所示的所得稅**(a) 綜合財務狀況表所示的本期稅項為：****31 Income Tax in the Statement of Financial Position****(a) Current taxation in the consolidated statement of financial position represents:**

		本集團 The Group		本行 The Bank	
		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000	2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
本年度香港利得稅準備(附註14(a))	Provision for Hong Kong Profits Tax for the year (note 14(a))	225,194	88,073	203,531	64,628
可抵扣應付稅金的稅項抵免	Tax credit to be claimed	(3,476)	—	(3,476)	—
已付暫繳利得稅	Provisional Profits Tax paid	(24,023)	(136,551)	—	(122,248)
		197,695	(48,478)	200,055	(57,620)
與以往年度有關的利得稅準備結餘	Balance of Profits Tax provision relating to prior years	(96,359)	—	(96,359)	—
		101,336	(48,478)	103,696	(57,620)
海外稅項準備	Provision for overseas taxation	17,890	7,706	8,603	3,117
		119,226	(40,772)	112,299	(54,503)
其中：	Of which:				
可收回稅項	Tax recoverable	(3,038)	(59,744)	—	(57,771)
本期稅項	Current taxation	122,264	18,972	112,299	3,268
		119,226	(40,772)	112,299	(54,503)

31 財務狀況表所示的所得稅(續)

(b) 已確認的遞延稅項資產及負債

已於綜合財務狀況表確認的遞延稅項(資產)/負債的組合及本年度內的變動如下:

31 Income Tax in the Statement of Financial Position (cont'd)

(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 year are as follows:

		本集團 The Group						
		折舊免稅額 超過有關折舊 Depreciation allowances in excess of related depreciation 港幣千元 HK\$'000	貸款及墊款 減值準備 Impairment allowances for loans and advances 港幣千元 HK\$'000	物業 重估調整 Revaluation adjustments for properties 港幣千元 HK\$'000	可供出售證券 重估調整 Revaluation adjustments for available- for-sale securities 港幣千元 HK\$'000	稅項虧損 Tax losses 港幣千元 HK\$'000	其他 Others 港幣千元 HK\$'000	總額 Total 港幣千元 HK\$'000
遞延稅項源自:	Deferred tax arising from:							
於2011年1月1日	At 1 January 2011	13,347	(58,464)	13,153	(45,854)	(385)	(20,173)	(98,376)
收益表內	Charged/(credited) to							
撤銷/(回撥)	income statement	12,609	2,687	1,750	-	385	(2,919)	14,512
儲備內回撥	Credited to reserves	-	-	-	(16,794)	-	-	(16,794)
匯兌及其他調整	Exchange and other adjustments	(9)	(1)	(1)	-	-	(258)	(269)
於2011年12月31日	At 31 December 2011	25,947	(55,778)	14,902	(62,648)	-	(23,350)	(100,927)
於2010年1月1日	At 1 January 2010	8,679	(52,038)	14,163	(53,514)	(1,414)	(15,513)	(99,637)
收益表內	Charged/(credited) to							
撤銷/(回撥)	income statement	4,663	(6,308)	2,194	-	1,029	(4,261)	(2,683)
儲備內(回撥)/撤銷	(Credited)/charged to reserves	-	-	(3,204)	7,660	-	-	4,456
匯兌及其他調整	Exchange and other adjustments	5	(118)	-	-	-	(399)	(512)
於2010年12月31日	At 31 December 2010	13,347	(58,464)	13,153	(45,854)	(385)	(20,173)	(98,376)

31 財務狀況表所示的所得稅(續)

31 Income Tax in the Statement of Financial Position (cont'd)

(b) 已確認的遞延稅項資產及負債(續)

(b) Deferred tax assets and liabilities recognised (cont'd)

		本行 The Bank						
		折舊免稅額 超過有關折舊 Depreciation allowances in excess of related depreciation 港幣千元 HK\$'000	貸款及墊款 減值準備 Impairment allowances for loans and advances 港幣千元 HK\$'000	物業 重估調整 Revaluation adjustments for properties 港幣千元 HK\$'000	可供出售證券 重估調整 Revaluation adjustments for available- for-sale securities 港幣千元 HK\$'000	稅項虧損 Tax losses 港幣千元 HK\$'000	其他 Others 港幣千元 HK\$'000	總額 Total 港幣千元 HK\$'000
遞延稅項源自：	Deferred tax arising from:	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
於2011年1月1日	At 1 January 2011	17,957	(58,445)	11,454	(45,854)	(385)	(13,409)	(88,682)
收益表內	Charged/(credited) to							
撤銷/(回撥)	income statement	10,569	2,672	2,030	-	385	(3,331)	12,325
儲備內回撥	Credited to reserves	-	-	-	(16,794)	-	-	(16,794)
匯兌及其他調整	Exchange and other adjustments	(1)	(1)	-	-	-	(49)	(51)
於2011年12月31日	At 31 December 2011	28,525	(55,774)	13,484	(62,648)	-	(16,789)	(93,202)
於2010年1月1日	At 1 January 2010	14,028	(52,018)	12,464	(53,514)	(1,414)	(13,105)	(93,559)
收益表內	Charged/(credited) to							
撤銷/(回撥)	income statement	3,930	(6,308)	2,194	-	1,029	(286)	559
儲備內(回撥)/撤銷	(Credited)/charged to reserves	-	-	(3,204)	7,660	-	-	4,456
匯兌及其他調整	Exchange and other adjustments	(1)	(119)	-	-	-	(18)	(138)
於2010年12月31日	At 31 December 2010	17,957	(58,445)	11,454	(45,854)	(385)	(13,409)	(88,682)

31 財務狀況表所示的所得稅(續)

31 Income Tax in the Statement of Financial Position (cont'd)

(b) 已確認的遞延稅項資產及負債(續)

(b) Deferred tax assets and liabilities recognised (cont'd)

		本集團 The Group		本行 The Bank	
		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000	2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
在財務狀況表確認的 淨遞延稅項資產	Net deferred tax assets recognised on the statement of financial position	(102,423)	(100,573)	(93,220)	(89,169)
在財務狀況表確認的 淨遞延稅項負債	Net deferred tax liabilities recognised on the statement of financial position	1,496	2,197	18	487
		(100,927)	(98,376)	(93,202)	(88,682)

(c) 未確認的遞延稅項資產

由於未來可能沒有適用於有關稅務機關的應課稅溢利以彌補有關虧損，本集團並未確認累計稅項虧損的遞延稅項資產為港幣5,309,000元(2010年：港幣5,300,000元)。根據現時稅務條例，這些稅項虧損沒有到期日。

(c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of cumulative tax losses of HK\$5,309,000 (2010: HK\$5,300,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

32 已發行債務證券

32 Debt Securities Issued

		本集團 The Group		本行 The Bank	
		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000	2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
非交易性已發行債務證券	Non-trading debt securities issued	397,436	231,900	388,383	—

由本行附屬公司及本行發行的非交易性債務證券金額分別為港幣9,053,000元(2010年：港幣231,900,000元)及港幣388,383,000元(2010年：無)。

The amounts of HK\$9,053,000 (2010: HK\$231,900,000) and HK\$388,383,000 (2010: Nil) represented non-trading debt securities issued by a subsidiary of the Bank and the Bank respectively.

33 其他負債

33 Other Liabilities

		本集團 The Group		本行 The Bank	
		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000	2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
與其他金融機構	Items in the course of transmission				
結算應付項目	to other financial institutions	–	725	–	725
應計及其他應付賬項	Accruals and other payables	3,990,018	3,060,508	3,634,159	2,706,783
		3,990,018	3,061,233	3,634,159	2,707,508

34 應付附屬公司款項

34 Amounts Due to Subsidiaries

		本行 The Bank	
		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
其他負債	Other liabilities	145,485	369,574
銀行及其他金融機構的	Deposits and balances from banks and		
存款及結存	other financial institutions	83,679	107,784
客戶存款	Deposits from customers	2,043,949	2,033,774
		2,273,113	2,511,132

35 債務資本

35 Loan Capital

		本集團 The Group		本行 The Bank	
		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000	2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
年息率為9.125%， 面值美元250,000,000元 的後償票據*	Subordinated notes with US\$250 million 9.125%*	1,950,007	1,972,153	—	—
年息率為倫敦銀行 同業拆息率加1.75%， 面值美元250,000,000元 的後償票據**	Subordinated notes with US\$250 million 1.75%+LIBOR rate**	1,941,913	1,943,529	1,941,913	1,943,529
年息率為6.875%， 面值美元500,000,000元 的後償票據***	Subordinated notes with US\$500 million 6.875%***	4,301,006	3,848,047	4,301,006	3,848,047
		8,192,926	7,763,729	6,242,919	5,791,576

* 年息率為9.125%，面值美元250,000,000元（等值港幣1,944,100,000元）的後償票據是於2002年5月23日由本行的全資附屬公司CKWH-UT2 Limited發行，並合資格列作第二級資本。本行無條件及不可撤回地對這些票據的所有應付金額作出擔保。CKWH-UT2 Limited可於2012年提前贖回年息率為9.125%的永久後償票據。

** 2007年12月11日，本行根據美元2,000,000,000元的中期票據計劃，發行年息率為3個月美金存款適用於倫敦銀行同業拆息率加1.75%，面值美元250,000,000元（等值港幣1,949,500,000元）的浮動利率後償票據。這些票據在新加坡交易所有限公司上市，並將於2017年12月12日到期。

*** 2010年6月24日，本行根據以上的中期票據計劃及於2010年6月發出的發售通函，發行年息率為6.875%，面值美元500,000,000元（等值港幣3,888,900,000元）的定息後償票據。這些票據在新加坡交易所有限公司上市，並將於2020年6月24日到期。

* Subordinated notes with a coupon of 9.125% per annum and with face value of US\$250 million (equivalent to HK\$1,944.1 million) were issued on 23 May 2002 by CKWH-UT2 Limited, a wholly-owned subsidiary of the Bank, and have been qualified as tier 2 capital. The Bank unconditionally and irrevocably guarantees all amounts payable under the notes. The 9.125% per annum perpetual subordinated notes will be callable by CKWH-UT2 Limited in 2012.

** On 11 December 2007, the Bank, under a US\$2 billion Medium Term Note Programme ("the Programme"), issued subordinated float rate notes with a coupon of 1.75% per annum above the LIBOR for three-month US dollar deposits with face value of US\$250 million (equivalent to HK\$1,949.5 million). The notes are listed on the Singapore Exchange Securities Trading Limited and will mature on 12 December 2017.

*** Under the Programme and the new Offering Circular issued in June 2010, the Bank issued subordinated fixed rate notes on 24 June 2010 at 6.875% per annum and with a face value of US\$500 million (equivalent to HK\$3,888.9 million). The notes are listed on the Singapore Exchange Securities Trading Limited and will mature on 24 June 2020.

36 資本，儲備及股息

(a) 股本

法定及已發行股本

36 Capital, Reserves and Dividend

(a) Share capital

Authorised and issued share capital

		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
法定股本：	Authorised:		
每股面值港幣1元的普通股	8,000,000,000 ordinary shares of HK\$1 each		
8,000,000,000股		8,000,000	8,000,000
已發行及繳足股本：	Issued and fully paid:		
於1月1日及12月31日：	At 1 January and at 31 December:		
每股面值港幣1元的普通股	7,283,341,176 (2010: 7,283,341,176) ordinary		
7,283,341,176股	shares of HK\$1 each		
(2010年：7,283,341,176股)		7,283,341	7,283,341

普通股持有人有權收取不時宣派的股息，亦有權於本行的會議上按每股一票的方式投票。所有普通股均有同等地位享有於本行的剩餘資產。

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 the shareholders' meetings of the Bank. All ordinary shares rank equally with regard to the Bank's residual assets.

36 資本，儲備及股息(續)

(b) 權益各組成部份的變動

本集團的綜合權益各組成部份於年初至年終期內結餘變動對賬表呈列於綜合權益變動表內。本行的個別權益組成部份於年初及年終結餘變動則詳列如下：

36 Capital, Reserves and Dividend (cont'd)

(b) Movement in components of equity of the Bank

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Bank's individual components of equity between the beginning and the end of the year are set out below:

		本行 The Bank							儲備總額 (附註 36(d))	
		股本 Share capital 港幣千元 HK\$'000	股份溢價 Share premium 港幣千元 HK\$'000	資本儲備 Capital reserve 港幣千元 HK\$'000	一般儲備 General reserve 港幣千元 HK\$'000	物業 重估儲備 Property revaluation reserve 港幣千元 HK\$'000	投資 重估儲備 Investment revaluation reserve 港幣千元 HK\$'000	保留溢利 Retained profits 港幣千元 HK\$'000	Total reserves (note 36(d)) 港幣千元 HK\$'000	權益總額 Total equity 港幣千元 HK\$'000
於2011年1月1日	At 1 January 2011	7,283,341	282,930	2,903	100,000	4,718	(231,822)	5,264,264	5,422,993	12,706,334
截至2011年的 權益變動：	Changes in equity for 2011:									
本年度溢利	Profit for the year	-	-	-	-	-	-	1,159,491	1,159,491	1,159,491
本年度其他全面 收益總額	Other comprehensive income for the year	-	-	-	-	-	(85,227)	-	(85,227)	(85,227)
本年度全面收益總額	Total comprehensive income for the year	-	-	-	-	-	(85,227)	1,159,491	1,074,264	1,074,264
本年度宣派中期股息	Interim dividend declared and paid in respect of the current year	-	-	-	-	-	-	(1,624,609)	(1,624,609)	(1,624,609)
於2011年12月31日	At 31 December 2011	7,283,341	282,930	2,903	100,000	4,718	(317,049)	4,799,146	4,872,648	12,155,989
於2010年1月1日	At 1 January 2010	7,283,341	282,930	2,903	100,000	20,932	(270,815)	4,386,884	4,522,834	11,806,175
截至2010年的 權益變動：	Changes in equity for 2010:									
本年度溢利	Profit for the year	-	-	-	-	-	-	857,962	857,962	857,962
本年度其他全面 收益總額	Other comprehensive income for the year	-	-	-	-	3,204	38,993	-	42,197	42,197
本年度全面收益總額	Total comprehensive income for the year	-	-	-	-	3,204	38,993	857,962	900,159	900,159
因出售物業而實現 的儲備	Release of reserve upon disposal of property	-	-	-	-	(19,418)	-	19,418	-	-
於2010年12月31日	At 31 December 2010	7,283,341	282,930	2,903	100,000	4,718	(231,822)	5,264,264	5,422,993	12,706,334

36 資本，儲備及股息(續)**(c) 股息**

於截至2011年12月31日止年度內，本行已宣派中期股息港幣1,624,609,207.59元(於2011年9月1日等值美元208,648,560.66元)予中信國際金融控股有限公司(2010年：無)。

(d) 儲備性質及目的**(i) 股份溢價**

股份溢價賬的應用受香港《公司條例》第48B條所管轄。

(ii) 資本儲備

資本儲備乃不可分派予股東。

(iii) 一般儲備

一般儲備是從保留溢利轉出一部份來設立，並且可分派予股東。

(iv) 匯兌差額儲備

匯兌差額儲備包括所有因換算海外業務的財務報表而產生的匯兌差額，並根據附註2(p)所載的會計政策處理。

(v) 物業重估儲備

物業重估儲備是根據附註2(i)所載的會計政策處理，並且不可分派予股東，因為根據香港《公司條例》第79B(2)條的定義，這些儲備不屬於已實現溢利。

(vi) 投資重估儲備

投資重估儲備包括於結算日持有的可供出售證券的累計淨公允價值變動，並會根據附註2(e)(ii)所載的會計政策處理。

36 Capital, Reserves and Dividend (cont'd)**(c) Dividend**

During the year ended 31 December 2011, an interim dividend of HK\$1,624,609,207.59 (equivalent to US\$208,648,560.66 as at 1 September 2011) was declared and paid to CITIC International Financial Holdings Limited (2010: Nil).

(d) Nature and purpose of components of reserves**(i) Share premium**

The application of the share premium account is governed by section 48B of the Hong Kong Companies Ordinance.

(ii) Capital reserve

The capital reserve is not available for distribution to shareholders.

(iii) General reserve

General reserve was set up from the transfer of retained earnings, and 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. The reserve is dealt with in accordance with the accounting policies set out in notes 2(p).

(v) Property revaluation reserve

The property revaluation reserve is dealt with in accordance with the accounting policies set in note 2(i) and is not available for distribution to shareholders because it does not constitute realised profits within the meaning of section 79B(2) of the Hong Kong Companies Ordinance.

(vi) Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the end of the reporting period and is dealt with in accordance with the accounting policies in note 2(e)(ii).

36 資本，儲備及股息(續)

(d) 儲備性質及目的(續)

(vii) 法定盈餘公積

根據中國法例規定，中信銀行國際(中國)需要從其每年的稅後溢利中轉撥10%作為不能分派予股東的法定盈餘公積，直至法定盈餘公積達至法定股本之50%的水平。

(viii) 法定一般儲備

根據中國銀行法規，中信銀行國際(中國)需設法定一般儲備，透過從當年度的利潤分配，直接轉撥提取一般準備以彌補未被發現的潛在損失，提取的考慮是基於風險資產在結算日的總賬面值的1%計算。法定一般準備是銀行權益的組成部份。

(ix) 保留溢利

為符合香港《銀行業條例》有關審慎監管的規定，本行需在規管儲備中維持超過已經確認減值損失的將會或可能產生的貸款及墊款的減值損失金額。經諮詢金管局後，儲備的變動已直接在保留溢利內劃定。於2011年12月31日，保留溢利中包括與此有關並屬可派發予本行股東的金額為港幣1,340,028,000元(2010年：港幣732,504,000元)。但本行於派發前須諮詢金管局。

(e) 儲備的可分派性

於2011年12月31日，根據香港《公司條例》第79B條的規定作為計算，可供分派予本行股東的儲備總額為港幣3,451,301,000元(2010年：港幣4,548,248,000元)。根據附註36(b)所報告的可供分派的儲備港幣3,451,301,000元(2010年：港幣4,548,248,000元)與本行保留溢利港幣4,799,146,000元(2010年：港幣5,264,264,000元)之間的差額主要指不包括未實現重估收益的投資物業及上述的銀行監管儲備。

36 Capital, Reserves and Dividend (cont'd)

(d) Nature and purpose of components of reserves (cont'd)

(vii) Statutory reserve

Under the relevant legislation of Mainland China, CBI (China) is required to transfer 10% of its profit after taxation to a non-distributable statutory reserve until such reserve has reached 50% of its registered share capital.

(viii) Regulatory general reserve

Pursuant to the banking regulations of Mainland China, CBI (China) is required to set up a regulatory general reserve through a direct transfer from the current year's profit appropriation, as determined based on the 1% of the total risk assets at the end of the reporting period to cover its unidentified potential loss exposures. The regulatory general reserve forms part of the equity of the Group.

(ix) Retained profits

A regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of impairment losses recognised which the Bank will or may incur on loans and advances. Movements in the reserve are earmarked directly through retained profits and in consultation with the HKMA. At 31 December 2011, HK\$1,340,028,000 (2010: HK\$732,504,000) was included in the retained profits in this respect, which was distributable to equity holders of the Bank subject to consultation with the HKMA.

(e) Distributability of reserve

At 31 December 2011, the aggregate amount of reserves available for distribution to equity shareholders of the Bank, as calculated under the provision of section 79B of the Hong Kong Companies Ordinance, was HK\$3,451,301,000 (2010: HK\$4,548,248,000). The difference between the aggregate distributable reserves of HK\$3,451,301,000 (2010: HK\$4,548,248,000) and the Bank's retained profits of HK\$4,799,146,000 (2010: HK\$5,264,264,000) as reported in note 36(b) mainly represents the inclusion of general reserve and the exclusion of unrealised revaluation gains on investment properties and the above regulatory reserve of the Bank.

37 僱員退休計劃

本集團設有一項界定供款公積金計劃(「該退休計劃」)；據此，本集團須作出相當於僱員基本薪金10%的供款。該退休計劃是一個強積金豁免計劃，涵蓋範圍遍及本集團的所有全職僱員。僱員毋須作出任何供款。如果僱員在獲得全數供款前離職，本集團不得將僱員所放棄的供款用作減少現時的供款額，而需將有關供款撥入一個獨立的福利基金，作為該退休計劃成員的福利金。

除了該退休計劃外，本集團自2000年12月1日起，也參與一項認可強積金計劃，為現有及新聘的僱員提供計劃選擇。本集團已根據強積金計劃提供等同強制部份的福利。

本年度內，本集團就這些計劃作出的供款約為港幣60,860,000元(2010年：港幣50,368,000元)(附註11(a))。

37 Staff Retirement Scheme

The Group has a defined contribution provident fund scheme ("the Retirement Scheme") under which it contributes 10% of the employees' basic salaries. The Retirement Scheme is a Mandatory Provident Fund ("MPF") exempted scheme and covers all permanent full-time employees of the Group. No employee contributions are required. Contributions forfeited by leavers prior to vesting fully may not be used by the Group to reduce the existing level of contribution but are transferred to a separate welfare fund which shall be applied for the welfare of the Retirement Scheme's members.

In addition to the Retirement Scheme, the Group also participated in an approved MPF scheme effective from 1 December 2000 to provide a choice of schemes to both existing and new employees. Mandatory benefits are being provided under the MPF Scheme.

During the year, the Group contributed approximately HK\$60,860,000 (2010: HK\$50,368,000) (note 11(a)) to these schemes.

38 現金及現金等值項目

38 Cash and Cash Equivalents

		本集團 The Group	
		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
(i) 綜合現金流量表內的現金及現金等值項目	(i) Components of cash and cash equivalents in the consolidated cash flow statement		
現金及在銀行、中央銀行及其他金融機構的結存	Cash and balances with banks, central banks and other financial institutions	12,944,105	21,225,122
在銀行、中央銀行及其他金融機構的存款及墊款(原於3個月內到期)	Placements with and advances to banks, central banks and other financial institutions with original maturity within three months	20,441,222	7,659,298
國庫券及持有的存款證(原於3個月內到期)：	Treasury bills and certificates of deposit held with original maturity within three months:		
— 可供出售證券	— Available-for-sale securities	5,624,596	2,019,112
		39,009,923	30,903,532
(ii) 與綜合財務狀況表的對賬	(ii) Reconciliation with the consolidated statement of financial position		
現金及在銀行、中央銀行及其他金融機構的結存	Cash and balances with banks, central banks and other financial institutions	12,944,105	21,225,122
在銀行、中央銀行及其他金融機構的存款及墊款	Placements with and advances to banks, central banks and other financial institutions	35,838,843	12,229,126
國庫券及持有的存款證：	Treasury bills and certificates of deposit held:		
— 可供出售證券	— Available-for-sale securities	8,837,847	4,091,197
綜合財務狀況表所示的數額	Amounts shown in the consolidated statement of financial position	57,620,795	37,545,445
減：原到期日超過3個月的數額	Less: Amounts with an original maturity of over three months	(18,610,872)	(6,641,913)
綜合現金流量表內的現金及現金等值項目	Cash and cash equivalents in the consolidated cash flow statement	39,009,923	30,903,532

截至2011年12月31日止，現金及現金等值項目內已包括受外匯監管及法定限制的中央銀行及其他金融機構的現金結存為港幣918,102,000元(2010年：港幣857,355,000元)。

The balances of cash and cash equivalents included cash balances with central banks and other financial institutions that are subject to exchange control and regulatory restrictions, amounting to HK\$918,102,000 at 31 December 2011 (2010: HK\$857,355,000).

39 用作抵押的資產

39 Assets Pledged as Security

		本集團及本行 The Group and the Bank	
		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
現金及在銀行、中央銀行及 其他金融機構的結存	Cash and balances with banks, central banks and other financial institutions	–	1,012
可供出售證券	Available-for-sale securities	85,739	86,176
海外分行已抵押的資產(附註(i))	Assets pledged for overseas branches (note (i))	85,739	87,188
為信用違約掉期合約作抵押的資產 (附註(ii))	Assets pledged for credit default swap (note (ii))	–	2,168,957
		85,739	2,256,145

附註：

(i) 用作抵押的資產是指於結算日抵押予美國貨幣監理處的法定存款。

(ii) 在過去年度內，本集團已與高級債務提供者訂立兩份信用違約掉期合約，為此高級債務提供者所提供的不良有期貨款的違約作出部份信貸保護，於2010年12月31日價值約港幣1,381,312,000元的可供出售證券及一項美元101,316,000元(等值港幣787,645,000元)的保證金存款已存放於高級債務提供者以作為信貸保護。由於本集團與高級債務已於2011年年內將這兩份信用違約掉期合約全額交割，作為信貸保護的可供出售證券及保證金存款亦相應得以解除，故於2011年12月31日本集團此類為信用違約掉期合約作抵押的資產餘額為零。

Note:

(i) The assets pledged represented statutory deposits pledged by the overseas branches of the Bank to the Office of the Comptroller of the Currency in the United States.

(ii) The Group had entered into two credit default swaps ("CDSs") with a senior loan provider in previous years as partial credit protection against the non-performance of a term loan provided by the senior loan provider, both available-for-sale securities and a margin deposit amounting to approximately HK\$1,381,312,000 and US\$101,316,000 (equivalent to HK\$787,645,000) respectively as at 31 December 2010 had been provided for such credit protection with the senior loan provider. As these two CDSs were fully settled by the Group with the senior loan provider during 2011, both available-for-sale securities and the margin deposit were released accordingly and there were no such pledged assets as at 31 December 2011.

40 重大關聯方交易

40 Material Related Party Transactions

除在本財務報表其他部份披露的交易及結餘外，本集團進行了以下重大關聯方交易。

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

(a) 與集團公司的交易

(a) Transactions with group companies

(1) 本年度內，本集團在其日常銀行業務過程中與關聯方進行了多項交易，其中特別包括借貸、接受及存放同業存款、參與銀團貸款、往來銀行交易和外匯交易。這些交易的合約定價是按照每次進行交易時的相關市場利率而定，並與提供給本集團其他交易方及客戶的條款相同。董事會認為，這些交易是按正常商業條款進行。

(1) During the year, the Group entered into a number of transactions with related parties in the normal course of its banking business including inter alia, lending, the acceptance and placement of inter-bank deposits, participation in loan syndicates, correspondent banking transactions and foreign exchange transactions. The transactions were priced based on relevant market rates at the time of each transaction, and were under the same terms as those available to other counterparties and customers of the Group. In the opinion of the directors, these transactions were conducted on normal commercial terms.

40 重大關聯方交易(續)

(a) 與集團公司的交易(續)

- (1) 本年度內，關聯方交易的數額及於結算日的結欠如下：

本集團及本行 The Group and the Bank		最終控股方 Ultimate controlling party		直接控股母公司 Immediate parent		同系附屬公司 Fellow subsidiaries		聯營公司 (附註(i)) Associates (note (i))		關聯公司 (附註(ii)) Related companies (note (ii))	
		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000	2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000	2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000	2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000	2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
利息收入	Interest income	-	-	-	-	14,392	28,948	6,639	2,085	196,858	48,068
利息支出	Interest expense	(10,758)	(32,541)	(2,313)	(2,838)	(96,955)	(56,313)	(32,748)	(10,807)	(169,632)	(93,111)
其他經營收入	Other operating income	-	-	131	394	-	-	42,190	47,369	-	6,004
經營支出	Operating expenses	-	-	(27,571)	(5,083)	(4,609)	(4,606)	(10,174)	(974)	(5)	(2)
衍生工具交易 收益/(虧損)	Trading gain/(loss) on derivatives	-	(707)	-	-	223	7,684	-	-	136,539	(97,518)
資產		Assets									
可供出售證券	Available-for-sale securities	-	-	-	-	-	316,667	-	-	915,564	1,107,819
衍生金融工具	Derivative financial instruments	-	342	-	-	-	7,708	-	-	277,282	37,678
其他應收賬項	Other receivables	-	-	117	253,436	2,088	4,023	2,902	1,453	76,022	28,046
負債		Liabilities									
衍生金融工具	Derivative financial instruments	-	1,050	-	-	-	23	-	-	162,163	135,196
其他應付賬項	Other payables	2,237	10	2,055	229	66,171	43,760	4,984	2,232	40,722	33,239
債務資本	Loan capital	-	-	-	-	878,069	800,734	-	-	3,160,298	2,934,659
貸款活動：		Lending activities									
於12月31日	At 31 December	-	-	-	-	576,588	367,365	200,000	321,150	7,571,854	2,710,230
本年度平均金額	Average for the year	-	-	-	-	435,577	508,704	286,139	189,689	6,823,122	1,457,530
接受存款：		Acceptance of deposits									
於12月31日	At 31 December	2,286,294	601,915	452,171	429,995	5,171,920	11,651,779	5,477,570	3,215,155	2,353,346	303,968
本年度平均金額	Average for the year	942,968	2,981,786	438,088	430,798	5,915,378	10,067,516	3,598,012	3,100,452	761,824	171,827
財務狀況表外項目		Off-statement of financial position items									
承兌匯票、擔保及 信用證	Acceptances, guarantees and letters of credit										
—合約金額應收 /(應付)	— contract amounts in receivable/(payable)	-	-	-	889,359	(110,669)	(161)	(3,000)	(3,000)	-	-
租賃承擔	Lease commitments	-	-	-	-	23,733	19,507	-	-	-	-
衍生金融工具 —名義金額	Derivative financial instruments — notional amounts	-	1,904,823	-	-	499,609	446,707	-	-	19,509,444	20,909,228

40 重大關聯方交易(續)**(a) 與集團公司的交易(續)**

- (1) 並無就上述關聯方貸款及存款作出減值準備。

本行**The Bank**

		附屬公司	
		Subsidiaries	
		2011	2010
		港幣千元	港幣千元
		HK\$'000	HK\$'000
利息收入	Interest income	114,781	50,460
利息支出	Interest expense	(177,846)	(177,537)
其他經營收入／(虧損)	Other operating income/(loss)	2,259	(1,674)
經營支出	Operating expenses	—	(47)
衍生工具交易虧損	Trading loss on derivatives	(455)	—

附註：

- (i) 本集團及本行的聯營公司包括屬於最終控股公司及直接控股母公司的聯營公司。
- (ii) 關聯公司是指對直接控股母公司有重要影響的一位直接控股母公司的股東。

- (2) 關於本集團持有由 Farmington Finance Limited (「Farmington」) 發行並於2010年全額撇值的資本票據，本集團已在過往年度與 Farmington 的高級債務提供者共訂立了兩份票面價值為美元4.56億元(等值港幣35.489億元)的信用違約掉期合約，向此高級債務提供者所提供予 Farmington 的不良有期貨款作出部份信貸違約保護。

於2010年，本集團與其直接控股母公司，中信國際金融控股有限公司(「中信國金」)，簽訂了一份再承保協議。根據該協議，中信國金同意將以現金償還的形式，承擔本集團因該信用違約掉期合約產生的任何潛在損失最高不超過美元1.47億元(等值港幣11.428億元)。於截至2011年12月31日止年度內，本集團與中信國金訂立另外一份再承保協議，中信國金同意承擔本集團因信用違約掉期合約產生的任何潛在損失最高不超過美元3.09億元(等值港幣24.048億元)。根據這兩份協議，中信國金將承擔信用違約掉期合約產生的最大潛在損失總額為美元4.56億元(等值港幣35.489億元)。依據以上提及的兩份再承保協議的條款，於截至2011年12月31日止年度，本集團同意繳付中信國金年費總額約美元330萬元(等值港幣2,580萬元)。

於截至2011年12月31日止年度內，本集團已與高級債務提供者就這兩份信用違約掉期合約的結算安排達成一致，而隨後此高級債務提供者即與受託人安排於2011年8月初以公開拍賣的方式出售 Farmington 的抵押品。根據2011年8月25日，高級債務提供者向本集團發出的繳款通知，金額為美元208,648,560.66元(等值港幣1,624,609,207.59元)，作為結清以上信用違約掉期合約。由於與中信國金所訂立的再再保安排，上述結算將不會對本集團於截至2011年12月31日止年度的收益表產生淨額影響。

40 Material Related Party Transactions (cont'd)**(a) Transactions with group companies (cont'd)**

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

Note:

- (i) Associates of the Group and the Bank include the associates of the ultimate controlling party and immediate parent, respectively.
- (ii) Related companies refers to shareholders of the immediate parent, which exercise significant influence on the immediate parent.

- (2) Regarding the Group's capital notes investments issued by Farmington Finance Limited ("Farmington") which were fully impaired in 2010, the Group had entered into two CDSs with a notional value of US\$456 million (equivalent to HK\$3,548.9 million) in previous years with Farmington's senior loan provider as partial credit protection against the non-performance of a term loan to Farmington provided by this senior loan provider.

In 2010, the Group entered into a sub-underwriting agreement with its immediate parent, CITIC International Financial Holdings Limited ("CIFH"), where CIFH agreed to undertake any potential CDS loss to be borne by the Group under the CDS arrangement with the senior loan provider. This would be in the form of a reimbursement to the Group, up to an amount not exceeding US\$147 million (equivalent to HK\$1,142.8 million). During the year ended 31 December 2011, the Group entered into another sub-underwriting agreement with CIFH, where CIFH agreed to undertake any CDS potential loss up to an additional amount not exceeding US\$309 million (equivalent to HK\$2,404.8 million). The total maximum potential CDS loss to be undertaken by CIFH for the two sub-underwriting agreements amounted to US\$456 million (equivalent to HK\$3,548.9 million). In consideration of CIFH's agreements herein for the above two sub-underwriting agreements, the Group agreed on and paid CIFH annual fees of approximately US\$3.3 million (equivalent to HK\$25.8 million) for the year ended 31 December 2011.

During the year ended 31 December 2011, the Group reached a settlement arrangement for the two CDSs with the senior loan provider. The senior loan provider arranged with the trustee to liquidate the Farmington investments by public auction in early August 2011 as collaterals of the term loan. In accordance with a notice of demand issued on 25 August 2011, the Group settled the two CDSs with the senior loan provider for an amount totalling US\$208,648,560.66 (equivalent to HK\$1,624,609,207.59). Due to the sub-underwriting arrangements with CIFH, there was no net impact to the income statement of the Group for the year ended 31 December 2011.

40 重大關聯方交易(續)**(b) 與主要管理人員的交易**

本集團及本行主要管理人員酬金包括附註12所披露已付予本行董事的款項，詳情如下：

		本集團及本行 The Group and the Bank	
		2011	2010
		港幣千元	港幣千元
		HK\$'000	HK\$'000
短期僱員福利	Short-term employee benefits	66,526	61,246
離職後福利	Post-employment benefits	2,615	2,407
		69,141	63,653

酬金總額已計入「員工成本」(附註11(a))。

本年度內，本行向本行內部及其控股公司的主要管理人員和他們的近親及由他們控制或受他們重大影響的公司提供信貸融資。信貸融資是在日常業務過程中提供，並與身份類似人士或(如適用)與其他僱員進行可比較交易的條款大致相同。

40 Material Related Party Transactions (cont'd)**(b) Transactions with key management personnel**

Remuneration for key management personnel of the Group and the Bank, including amounts paid to the Bank's directors as disclosed in note 12 is as follows:

		本集團及本行 The Group and the Bank	
		2011	2010
		港幣千元	港幣千元
		HK\$'000	HK\$'000
短期僱員福利	Short-term employee benefits	66,526	61,246
離職後福利	Post-employment benefits	2,615	2,407
		69,141	63,653

Total remuneration is included in "staff costs" (note 11(a)).

During the year, the Bank provided credit facilities to key management personnel of the Bank and its holding companies and their close family members, as well as to companies controlled or significantly influenced by them. The credit facilities were provided in the ordinary course of business and on substantially the same terms as for comparable transactions with persons of a similar standing or, where applicable, with other employees.

		本集團及本行 The Group and the Bank	
		2011	2010
		港幣千元	港幣千元
		HK\$'000	HK\$'000
於1月1日的結餘	At 1 January	9,416	14,655
於12月31日的結餘	At 31 December	11,981	9,416
年內最高結欠總額	Maximum amount during the year	12,856	18,167

本集團沒有就主要管理人員於年內的結欠額確認任何減值虧損，也沒有就主要管理人員和他們的近親於年末的結欠額提撥個別評估的減值準備。

No impairment losses were recorded against outstanding balances with key management personnel during the year, and no individually assessed impairment allowance was made on balances with key management personnel and their immediate relatives as at the year end.

40 重大關聯方交易(續)**(c) 行政人員貸款**

本行根據香港《公司條例》第161B條披露行政人員的貸款如下：

		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
於12月31日本行提供的有關貸款 結欠總額	Aggregate amount of relevant loans made by the Bank outstanding at 31 December	30,581	32,369
本年度內本行提供的有關貸款 最高結欠總額	Maximum aggregate amount of relevant loans made by the Bank outstanding during the year	32,770	34,146

於2011年及2010年12月31日，本集團沒有需要為這些貸款提撥減值準備。

40 Material Related Party Transactions (cont'd)**(c) Loans to officers**

Loans to officers of the Bank disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

There were no impairment allowances made against these loans at 31 December 2011 and 2010.

41 金融風險管理

本節呈列有關本集團的風險及其對風險的管理及控制，尤其是與使用金融工具有關的主要風險：

- 信貸風險：信貸風險是客戶或交易對手不能履行其合約責任所招致財務損失的風險。
- 市場風險：因匯率、商品價格、利率、信用利差及股票價格等市場風險因素的變動，引致本集團收入、投資組合價值及儲備價值減少。
- 流動資金風險：因未能準時支付所有負債而承擔之風險。這風險可能因資金流動問題，如未能將資產變現或取得資金以履行責任或因市場波動而引致市場流動問題，並阻礙本集團在不用大幅下調市值以解除或抵銷特定的敞口。
- 業務操作風險：因內部作業、人員及系統之不當與失誤，或其他外部作業相關事件所造成損失之風險。

本集團制定了政策和程序來識別及分析這些風險、設定適當的風險限額及控制措施，和透過可靠及最新的管理及資訊系統不斷監察風險及限額。本集團不斷修改及提升其風險管理政策和系統，以緊貼市場、產品提供及國際最佳風險管理程序。本集團的內部核數師亦會定期進行獨立審核，以確保遵守內部政策和監管要求。

除了呈列有關本集團所承受及管理的上述各項風險、本附註亦包括本集團管理資本的資料。

41 Financial Risk Management

This section presents information about the Group's exposure to and its management and control of risks, in particular the primary risks associated with its use of financial instruments as follows:

- Credit risk: the risk of financial loss due to the failure of a customer or counterparty to fulfil its contractual obligations.
- Market risk: the risk that movements in market risk factors, including foreign exchange rates, commodity prices, interest rates, credit spreads and equity prices, will reduce the Group's income, the value of its portfolios and its reserve value.
- Liquidity risk: the risk of inability to meet financial obligations as they fall due. This may be caused by a funding liquidity problem such as the inability to liquidate assets or obtain funding to meet obligations, or may be attributable to a market liquidity problem resulting in market disruptions, thus hindering the Group's ability to unwind or offset specific exposures without lowering market prices significantly.
- Operational risk: the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

The Group has established policies and procedures to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor these risks and limits continually by means of reliable and up-to-date management and information systems. The Group continually modifies and enhances its risk management framework and infrastructure in keeping 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.

In addition to the Group's exposure to and management of the aforesaid risks, this note also includes information about the Group's capital management.

41 金融風險管理(續)

(a) 信貸風險管理

信貸風險是客戶或交易對手不能履行其合約責任所招致財務損失的風險。信貸風險主要來自貸款及墊款、債務證券、國庫券、衍生工具及資產負債表外業務，如貸款承諾。本集團已建立一系列標準、政策及程序以量度、監控及減低借貸業務的風險。本集團會按要求而評估有關政策及程序，以便能夠在急速轉變的市場環境下作快速的回應以更有效反映在信貸考慮中的風險因素。

信貸風險管理及監控集中於信貸委員會轄下之風險管理部，並每季在董事會向信貸及風險管理委員會匯報。該委員會對本集團的風險管理程序提供合適的監察，確定集團的政策及風險取態，並為風險管理部提供方法以執行措施來減低因集團已採納的策略而產生的信貸風險。

產品的信貸風險會在產品計劃中確定及計量。各交易對手的信貸風險由信貸人員根據本集團內部之風險評級機制確定及計量。信貸申請之批核會因情況而定，並由指定職權的信貸人員或信貸委員會負責。

本集團通過取得抵押品、與借款人或交易對手訂立可依法執行的可抵銷或按淨額基準結算的協議，以減低信貸風險。

當地理、經濟或行業因素的變動對各交易對手團體產生類似影響，而這些團體的信貸風險合計起來對本集團的總體風險而言屬重大時，便會產生信貸風險集中的問題。本集團的金融工具組合分散在不同的地區、行業和產品類別。本集團有關金融資產的信貸風險集中的分析在附註20至23中披露。

財資交易信貸風險的管理方式，與本集團管理企業借貸風險的方式相同，並根據各債券發行人的風險評級，設定個別風險額度。按照本集團的債券組合投資及策略指引，本集團的信貸政策是不投資於評級低於Baa3的非上市債務證券。

41 Financial Risk Management (cont'd)

(a) Credit risk management

Credit risk is the risk of financial loss due to failure of a customer or counterparty to fulfil its contractual obligations. Credit exposures principally arise in loans and advances, debt securities, treasury bills and trading derivatives, as well as in the credit risk from financial arrangements in the off-statement of financial position such as loan commitments. The Group has developed standards, policies and procedures to measure, monitor and mitigate the risk of its lending business. The policies and procedures are reviewed as required, to respond quickly to the changing market environment to better reflect the risk factors for the Group's credit considerations.

Credit risk management and control is centralised in the Risk Management Group ("RMG") under the oversight of the Credit Committee, and is reported to the Credit & Risk Management Committee ("CRMC") at the board level on a quarterly basis. These committees provide appropriate oversight on the Group's risk management practices by defining the Group's policies and risk appetite and providing the RMG with the means to implement measures to mitigate credit risk arising from the Group's adopted strategy.

Credit risk imbedded in products is identified and measured in product programmes. Credit risk pertaining to individual customers is identified and measured by credit officers utilising internal risk rating models. Credit applications are approved by credit officers under delegated authorities or by the Credit Committee, depending on the case.

The Group mitigates credit risk by taking collateral and entering into offsetting or netting agreements with borrowers and counterparties, as the case may be, should such clauses and agreements be legally established and enforceable.

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Group's total exposures. The Group's portfolio of financial instruments is diversified among geographic, industry and product sectors. Credit risk concentration of the Group's respective financial assets is disclosed in notes 20 to 23.

Credit risk of treasury transactions is managed in the same way as the Group manages its corporate lending risk. Risk grading is applied to the debt issuers with individual credit limits set. It is the Group's credit policy not to invest in unlisted debt securities that are below the rating of Baa3, based on the Group's Bond Portfolio Investment Strategy Guideline.

41 金融風險管理(續)

(a) 信貸風險管理(續)

對於信貸及交易對手風險有關的國家及財務機構會根據本集團的國家風險和財務機構風險政策作出評估及定期監察。該政策的實施對處於同一國家風險額度函蓋底下的各國相關財務機構能作出有效的評估及控制信貸額度和期限。

本集團對或有負債採用與財務狀況報表內記錄的金融工具相同的信貸政策，根據貸款審批程序，使用限額以減低風險及監察。信貸風險亦透過向借款人及第三者取得以抵押資產形式的抵押品及擔保而減低。

(i) 信貸素質

本集團有一套對應外部評級機構主要級別的14級內部風險評級系統(其中1至11級為正常貸款，12至14級為不良貸款)。這系統與本集團匯報架構的整合能確保風險報告更為精確，從而提升本行的內部管理水平。風險評級工具均按照不同客戶行業(製造業、貿易業、物業發展／投資等)作校準，確保本集團能為每位客戶的信貸素質評級，並決定本行對個別客戶或交易對手的信貸敞口。

41 Financial Risk Management (cont'd)

(a) Credit risk management (cont'd)

Credit and counterparty risks related to countries and financial institutions are assessed and monitored regularly according to our Group's Country Risks and Financial Institution Risks policies. The policies are implemented together to effectively assess and control credit limits and tenors made available to the respective financial institutions under an umbrella country risk limit for each country.

The Group applies the same credit policy in respect of contingent liabilities as in respect of financial instruments recorded on the statement of financial position, based on loan approval procedures, use of limits to reduce risk and monitoring. Credit risk is also mitigated by obtaining collateral in the form of pledged assets and guarantees from borrowers and third parties.

(i) Credit quality

The Group has a 14-grade internal risk rating system (Grades 1 to 11 for performing loans and Grades 12 to 14 for non-performing loans) that maps to external agencies' Master Scales, providing calibrated internal ratings. The integration of this framework into the Group's reporting structure has enabled more accurate risk reporting, thus enhancing the internal management. The risk rating tools are calibrated according to differing customer segments (manufacturing, trading, property development/investment, etc.) which enables the ranking of the credit quality of each customer and the governing of the credit exposure for individual customers or counterparties.

41 金融風險管理(續)

(a) 信貸風險管理(續)

(i) 信貸素質(續)

每位客戶的風險評級均會作定期檢討，並按需要作及時修改，尤其是波動的市場情況下如2008年的金融危機。本集團亦有委員會負責定期監察較弱的信貸(即風險評級為8至11級)以鞏固本集團貸款組合的素質。下表列示本集團的評級基準相對應的外部信貸機構評級：

內部評級體系 (14-級別) Internal Rating System (14-grade)	ECAI評級(附註(i)) (標普/穆迪/惠譽) ECAI Rating (note(i)) (S&P/Moody's/Fitch)	評級原則 Rating Principles
1	AA-/Aa3/AA-或以上 AA-/Aa3/AA- or above	<ul style="list-style-type: none"> – 借款人幾乎無風險。 – 備極強的能力以滿足財政義務。 – Borrowers are almost risk-free. – Extremely strong ability to meet financial obligations.
2	A-/A3/A-至A+/A1/A+ A-/A3/A- to A+/A1/A+	<ul style="list-style-type: none"> – 借款人有違約的極小低風險。 – 備非常強的能力以滿足財政義務。 – Borrowers with minimal risk of default. – Very strong ability to meet financial obligations.
3	BBB-/Baa2/BBB至BBB+/Baa1/BBB+ BBB-/Baa2/BBB to BBB+/Baa1/BBB+	<ul style="list-style-type: none"> – 借款人有違約的最低風險。 – 備強的能力以滿足財政義務。 – Borrowers with very low risk of default. – Strong ability to meet financial obligations.
4	BBB-/Baa3/BBB- BBB-/Baa3/BBB-	<ul style="list-style-type: none"> – 借款人有違約的低風險。 – 備滿意的能力以滿足財政義務。 – Borrowers with low risk of default. – Satisfactory ability to meet financial obligations.
5	BB+/Ba1/BB+ BB+/Ba1/BB+	<ul style="list-style-type: none"> – 借款人低於平均的風險。 – 此為中等級別而具有一定的投機特性。 – Borrowers with below average risk. – This is a medium-grade and it possesses certain speculative characteristics.

41 Financial Risk Management (cont'd)

(a) Credit risk management (cont'd)

(i) Credit quality (cont'd)

Customers' risk ratings are reviewed regularly and amendments, where necessary, are implemented promptly, particularly in times of fluctuating market conditions such as the financial crisis in 2008. The Group also maintains a committee to regularly oversee weaker credits (which have lower risk ratings of 8 to 11) to preserve the Group's quality portfolio. The table below outlines the Group's rating scale benchmarked against external credit agencies:

41 金融風險管理(續)

(a) 信貸風險管理(續)

(i) 信貸素質(續)

內部評級體系 (14-級別) Internal Rating System (14-grade)	ECAI評級(附註(i)) (標普/穆迪/惠譽) ECAI Rating (note(i)) (S&P/Moody's/Fitch)	評級原則 Rating Principles
6	BB/Ba2/BB BB/Ba2/BB	– 借款人於平均的風險。 – 備滿意的能力以滿足財政義務。 – Borrowers with average risk. – Satisfactory ability to meet financial obligations.
7	BB-/Ba3/BB- BB-/Ba3/BB-	– 借款人可以接受，但高於平均水平的風險。 – Borrowers with acceptable but above average risk.
8	B+/B1/B+ B+/B1/B+	– 借款人中度風險違約。 – Borrowers with moderate risk of default.
9	B/B2/B B/B2/B	– 借款人重大風險違約。 – Borrowers with substantial risk of default.
10	B-/B3/B- B-/B3/B-	– 借款人高風險違約。 – Borrowers with high risk of default.
11 額外關注 Special Mention	C/C/C 至CCC+/Caa1/CCC+ C/C/C to CCC+/Caa1/CCC+	– 借款人有明確的困難以滿足財政義務。 – Borrowers with clear difficulties meeting financial obligations.
12 不合標準 Substandard	D/-/D D/-/D	– 等同貸款分類政策的不合格貸款(附註(ii))。 – Identical to Substandard of Loan Classification Policy (note (ii)).
13 可疑 Doubtful	– –	– 等同貸款分類政策的可疑貸款。 – Identical to Doubtful of Loan Classification Policy.
14 虧損 Loss	– –	– 等同貸款分類政策的虧損貸款。 – Identical to Loss of Loan Classification Policy.

附註：

- (i) ECAI為外部信用評估機構。
- (ii) 貸款分類制度的政策規定了相關資產，按照由金管局發出的貸款分類指引進行分類，使相關資產落實按統一的標準和時間實施分級。

Note:

- (i) ECAI stands for External Credit Assessment Institution.
- (ii) The Loan Classification Policy sets out a system for classifying relevant assets in accordance with the Loan Classification Guideline issued by the HKMA such that consistent criteria and timing for the grading of relevant assets shall be put into effect.

41 金融風險管理(續)**(a) 信貸風險管理(續)****(ii) 信貸風險上限**

於結算日承受的信貸風險上限，未計及任何持有的抵押品或其他信用提升，為財務狀況表中每項金融資產於扣除任何減值準備後的賬面金額。信貸風險上限概述如下：

41 Financial Risk Management (cont'd)**(a) Credit risk management (cont'd)****(ii) Exposure of credit risk**

The maximum exposure to credit risk at the end of the reporting period, without considering any collateral held or other credit enhancements, is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance. A summary of the maximum exposure is as follows:

		本集團 The Group		本行 The Bank	
		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000	2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
現金及在銀行、中央銀行及其他金融機構的結存	Cash and balances with banks, central banks and other financial institutions	12,944,105	21,225,122	11,725,857	20,686,359
在銀行、中央銀行及其他金融機構的存款及墊款	Placements with and advances to banks, central banks and other financial institutions	35,838,843	12,229,126	28,400,867	9,000,325
交易用途資產	Trading assets	2,076,718	1,626,466	2,072,039	1,613,631
指定為通過損益以反映公允價值的證券	Securities designated at fair value through profit or loss	355,677	646,508	355,677	646,508
客戶貸款及墊款及其他賬項	Loans and advances to customers and other accounts	96,206,144	90,261,402	86,512,917	80,914,843
可供出售證券	Available-for-sale securities	22,858,019	20,818,303	22,158,534	20,759,537
財務擔保及其他與信貸有關的或有負債	Financial guarantees and other credit-related contingent liabilities	7,200,367	7,749,397	6,003,900	7,454,178
貸款承擔及其他與信貸有關的承擔	Loan commitments and other credit-related commitments	41,440,292	36,751,108	41,319,490	36,325,448
		218,920,165	191,307,432	198,549,281	177,400,829

41 金融風險管理(續)

(a) 信貸風險管理(續)

(iii) 信貸風險的減緩 – 抵押品及其他信用提升

本集團致力投放資源以不同方式減緩信貸風險。一般而言，本集團以抵押品及其它信用提升以減緩最終信貸敞口的風險。本集團將繼續提升減緩信貸風險的水平，特別在2008年金融危機中，本集團仍然成功保持信貸素質。

本集團用作貸款及墊款而持有的抵押品主要包括按揭、現金抵押、於主要指數或認可的交易所上市的股權、應收賬款賦值、備用信用証及其它認可的債務證券。在一些情況下，本集團將視乎客戶的狀況和申請的信貸產品類別，批核由企業或個人作擔保的無抵押貸款。

本集團有一套特定的準則以評核特定級別的抵押品及信用提升的可接受度及其估值參數。該估值參數傾向保守並會作定期檢討。本集團對結構性證券及契約(財務及非財務)作定期檢討以確保它們均能符合有關協定情況。儘管抵押品在減緩信貸風險上十分重要，本集團政策以評估個人客戶或交易對手的還款能力為本而並非單純依靠抵押品。

本集團於2011年及2010年12月31日含抵押品的信貸風險分佈(扣除減值的承擔後)如下：

41 Financial Risk Management (cont'd)

(a) Credit risk management (cont'd)

(iii) Mitigation of credit risk – Collateral and other credit enhancements

The Group dedicates great effort and resources to mitigating credit risk, and this takes many forms. In general, risk on the Group's ultimate credit exposure is mitigated by recognised collateral and credit risk enhancement. The Group continuously seeks to enhance its level of credit risk mitigation, and it was particularly successful at safeguarding its credit quality during the financial crisis in 2008.

The principal collateral received to secure loans and advances include mortgages, cash collateral, equities listed on a main index/recognised exchanges, account receivable ("AR") assignments, standby letters of credit and listed debt securities acceptable to the Group. In some cases, depending on the customer's position and the types of credit products, loans may be granted on a clean basis, backed by corporate or personal guarantees.

The Group has guidelines on the acceptability of specific classes of collateral or credit risk enhancements accompanied by the determination of valuation parameters. Such parameters are expected to be conservative and reviewed regularly. Security structures and covenants (financial and non-financial) are subject to regular review to ensure they comply with the stipulated conditions. The collateral is important to mitigate credit risk, but it is the Group's policy to assess the repayment ability of individual customers or counterparties rather than just solely relying on security.

The Group's collateralised credit risk at 31 December 2011 and 2010, excluding impaired exposures, is broken down as follows:

		本集團 The Group		本行 The Bank	
		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000	2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
貸款及墊款總額及持有作抵押金融資產之抵押品及其他信用提升的公允價值兩者之較低者為：					
Lower of gross loans and advances and fair value of collateral and other credit enhancements held against financial assets that are:					
— 沒有逾期或減值	— neither past due nor impaired	56,690,999	49,397,094	48,682,785	41,792,051
— 逾期但沒有減值	— past due but not impaired	869,419	394,960	754,255	262,196
		57,560,418	49,792,054	49,437,040	42,054,247

41 金融風險管理(續)

(a) 信貸風險管理(續)

(iv) 貸款組合管理及風險集中度

貸款組合管理—以風險為本的定價制度模型
本集團採用以風險為本的定價制度模型作為貸款組合管理的其中一組措施。本集團希望透過採用這個模型，在考慮風險亦就是貸款敞口及其它成本所需資本後，在不同交易類別中引入最低價格臨界，務求改善銀行的整體回報(創造價值)。這個工具能夠於不同顧客、產品及交易上在價格和可接受的風險上取得平衡。主要的評估風險及價格工具為違約概率及違約損失率。本集團已實行並鼓勵使用以上兩項的風險管理措施及其減緩風險技術。

定義：

- 違約概率是客戶一年內發生違約的或然率(以百分比顯示)。
- 違約損失率是當客戶違約時本集團有可能承受的損失的嚴重性估計。
- 違約敞口是交易對手在違約時的貸款敞口。

風險集中度

本集團已推行風險集中度管理政策並經常檢視貸款敞口以監控在客戶、國家、市場細分及產品上的風險，避免風險過度集中。

資本充足度

2011年，本集團實施內部資本充足評估程序，用以評估本行的風險狀況，並同本行的資本狀況比較，最終達到滿意結果。2012年，本行將繼續在這方面發展。

41 Financial Risk Management (cont'd)

(a) Credit risk management (cont'd)

(iv) Portfolio management and risk concentration

Portfolio management – Risk Based Pricing Model

As part of the Group's portfolio management practices, it adopted the Risk Based Pricing Model with the aim of introducing a minimum pricing threshold on different types of transactions in order to improve the overall return for the Group (value creation), after taking into account the risks, and thus the capital required, to support the loan exposure and other costs. This tool strikes a balance between price and accepted risks, while taking into consideration the differing customers, products and transactions. The key components required to estimate the risks, and thus the pricing are Probability of Default and Loss Given Default. Both measures of risk take into account the mitigation techniques put in place in the Group in order to encourage its use.

Definitions:

- Probability of Default ("PD") is the likelihood, expressed as a percentage, of a default event in a one-year time horizon, for that customer.
- Loss Given Default ("LGD") is an estimate of the severity of the loss that the Group is likely to incur in the event that the customer defaults.
- Exposure at Default ("EAD") is the exposure to the counterparty in the event that the default occurs.

Risk concentration

A Risk Concentration Policy is in place and the Group frequently reviews its loan exposure to monitor the concentration risk relating to customers, countries, market segments and products.

Capital adequacy

The Bank went through an Internal Capital Adequacy Assessment Process (ICAAP) in 2011 to evaluate the risk position of the Bank and compare it to its capital position, achieving satisfactory results. Further developments in this area will continue in 2012.

41 金融風險管理(續)

(a) 信貸風險管理(續)

(v) 貸款及墊款的信貸質量

本集團致力管理及監控其風險並已推行審慎的貸款分類政策及減值評估政策為這範疇作有效管治。

於2011年及2010年12月31日，所有銀行貸款及墊款均沒有減值。客戶貸款及墊款的信貸質量分析如下：

		本集團 The Group		本行 The Bank	
		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000	2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
客戶貸款及墊款總額	Gross loans and advances to customers				
— 沒有逾期或減值	— neither past due nor impaired	92,058,662	86,895,502	82,648,485	77,858,777
— 已逾期但沒有減值	— past due but not impaired	958,869	691,921	843,705	485,698
— 已減值	— impaired	700,601	1,230,812	644,251	1,175,886
		93,718,132	88,818,235	84,136,441	79,520,361

其中：

Of which:

		本集團 The Group		本行 The Bank	
		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000	2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
沒有逾期或減值的客戶 貸款及墊款總額	Gross loans and advances to customers that are neither past due nor impaired				
— 正常包括評級1至10	— Pass includes Grades 1 to 10	90,557,674	85,592,366	81,147,497	76,557,524
— 關注包括評級11	— Special mention includes Grade 11	1,500,988	1,303,136	1,500,988	1,301,253
		92,058,662	86,895,502	82,648,485	77,858,777

41 金融風險管理(續)

(a) 信貸風險管理(續)

(v) 貸款及墊款的信貸質量(續)

已逾期但沒有減值的客戶貸款及墊款的賬齡分析如下：

		本集團 The Group		本行 The Bank	
		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000	2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
已逾期但沒有減值的客戶	Gross loans and advances to				
貸款及墊款總額	customers that are past due but				
	not impaired				
— 逾期3個月或以下	– Overdue 3 months or less	958,869	647,041	843,705	485,698
— 3至6個月	– 6 months or less but over 3 months	–	44,880	–	–
		958,869	691,921	843,705	485,698

於2011年12月31日，如果尚未重新商訂條款，已逾期或減值的貸款及墊款將為港幣688,562,000元(2010年：港幣194,270,000元)。

按行業及地區進一步分析減值貸款的詳細資料分別呈列於附註22(c)及未經審核補充財務資料附註(C)。

41 Financial Risk Management (cont'd)

(a) Credit risk management (cont'd)

(v) Credit quality of loans and advances (cont'd)

The ageing analysis of loans and advances to customers that are past due but not impaired is as follows:

Loans and advances that would have been past due or impaired had the terms not been rescheduled amounted to HK\$688,562,000 at 31 December 2011 (2010: HK\$194,270,000).

Further detailed analyses of the impaired loan by industry sector or by geographical location is provided in note 22(c) and note (C) of the unaudited supplementary information, respectively.

41 金融風險管理(續)

(a) 信貸風險管理(續)

(v) 貸款及墊款的信貸質量(續)

貸款及墊款以外金融資產的信貸質量財資交易信貸風險的管理方式，與本集團管理企業借貸風險的方式相同，並根據各債券發行人的風險評級，設定個別風險額度。本集團的信貸政策是不投資於評級低於Baa3的非上市債務證券。此外，若此情況發生，風險管理部將執行減值評估以便於結算日能正確地反映其公平價值。關於最近在歐洲國家出現的債務危機，本集團於2011年12月31日已完成對某些歐洲債務證券的信貸及風險評估。

下表呈列債務證券在結算日根據穆迪投資服務或同等機構之評級分析的信貸質量。債務證券的信貸評級代表證券或證券發行人的評級。如證券本身沒有評級，則採用證券發行人的評級。

41 Financial Risk Management (cont'd)

(a) Credit risk management (cont'd)

(v) Credit quality of loans and advances (cont'd)

Credit quality of financial assets other than loans and advances
The credit risk of treasury transactions is managed in the same way as the Group manages its corporate lending risk. Risk grading is applied to the debt issuers with individual credit limits set. It is the Group's credit policy not to invest in unlisted debt securities that are below the rating of Baa3; however, if that happens, the impairment assessment will be performed by the RMG in order to properly reflect their fair value as at the end of the reporting period. In response to the recent debt crisis in European countries, the Group performed credit and market risk assessment at 31 December 2011 for certain European debt securities.

The following table presents the credit quality of investments in debt securities analysed by the designated external credit assessment agency, Moody's Investors Service ratings (or their equivalent), at the end of the reporting period. Credit ratings for these debt securities are represented by either the issue or the issuer ratings. Ratings designated for the issuers are reported if there are no issue ratings.

		本集團 The Group		
		2011		
		指定為通過 損益以反映 公允價值的證券 Securities designated at fair value through profit or loss 港幣千元 HK\$'000	可供出售證券 Available- for-sale securities 港幣千元 HK\$'000	總額 Total 港幣千元 HK\$'000
Aaa	Aaa	–	142,378	142,378
Aa3至Aa1	Aa3 to Aa1	18,344	6,209,237	6,227,581
A3至A1	A3 to A1	291,731	7,836,115	8,127,846
低於A3	Lower than A3	–	1,719,958	1,719,958
		310,075	15,907,688	16,217,763
未評級	Unrated	45,602	6,950,331	6,995,933
總額	Total	355,677	22,858,019	23,213,696

41 金融風險管理(續)

(a) 信貸風險管理(續)

(v) 貸款及墊款的信貸質量(續)

貸款及墊款以外金融資產的信貸質量
(續)

41 Financial Risk Management (cont'd)

(a) Credit risk management (cont'd)

(v) Credit quality of loans and advances (cont'd)

Credit quality of financial assets other than loans and advances
(cont'd)

		本行 The Bank		
		2011		
		指定為通過 損益以反映 公允價值的證券 Securities designated at fair value through profit or loss 港幣千元 HK\$'000	可供出售證券 Available- for-sale securities 港幣千元 HK\$'000	總額 Total 港幣千元 HK\$'000
Aaa	Aaa	–	142,378	142,378
Aa3至Aa1	Aa3 to Aa1	18,344	6,209,237	6,227,581
A3至A1	A3 to A1	291,731	7,136,630	7,428,361
低於A3	Lower than A3	–	1,719,958	1,719,958
		310,075	15,208,203	15,518,278
未評級	Unrated	45,602	6,950,331	6,995,933
總額	Total	355,677	22,158,534	22,514,211

41 金融風險管理(續)**(a) 信貸風險管理(續)****(v) 貸款及墊款的信貸質量(續)**

貸款及墊款以外金融資產的信貸質量
(續)

41 Financial Risk Management (cont'd)**(a) Credit risk management (cont'd)****(v) Credit quality of loans and advances (cont'd)**

Credit quality of financial assets other than loans and advances
(cont'd)

		本集團 The Group		
		2010		
		指定為通過 損益以反映 公允價值的證券 Securities designated at fair value through profit or loss 港幣千元 HK\$'000	可供出售證券 Available- for-sale securities 港幣千元 HK\$'000	總額 Total 港幣千元 HK\$'000
Aaa	Aaa	–	488,130	488,130
Aa3至Aa1	Aa3 to Aa1	–	8,146,764	8,146,764
A3至A1	A3 to A1	596,902	7,017,307	7,614,209
低於A3	Lower than A3	–	2,203,040	2,203,040
		596,902	17,855,241	18,452,143
未評級	Unrated	49,606	2,963,062	3,012,668
總額	Total	646,508	20,818,303	21,464,811

41 金融風險管理(續)

(a) 信貸風險管理(續)

(v) 貸款及墊款的信貸質量(續)

貸款及墊款以外金融資產的信貸質量
(續)

41 Financial Risk Management (cont'd)

(a) Credit risk management (cont'd)

(v) Credit quality of loans and advances (cont'd)

Credit quality of financial assets other than loans and advances
(cont'd)

		本行 The Bank		
		2010		
		指定為通過 損益以反映 公允價值的證券 Securities designated at fair value through profit or loss 港幣千元 HK\$'000	可供出售證券 Available- for-sale securities 港幣千元 HK\$'000	總額 Total 港幣千元 HK\$'000
Aaa	Aaa	–	488,130	488,130
Aa3至Aa1	Aa3 to Aa1	–	8,146,764	8,146,764
A3至A1	A3 to A1	596,902	6,958,541	7,555,443
低於A3	Lower than A3	–	2,203,040	2,203,040
		596,902	17,796,475	18,393,377
未評級	Unrated	49,606	2,963,062	3,012,668
總額	Total	646,508	20,759,537	21,406,045

41 金融風險管理(續)

(b) 市場風險管理

市場風險源於所有對市場風險敏感的金融工具，包括證券，外匯合約，股票和衍生工具，以及可供出售證券或結構性持倉。本集團的市場風險主要分為交易用途組合及可供出售證券組合。交易用途組合包括自營交易持倉和其他按市值計的持倉。可供出售組合主要包括來自本集團於證券投資的持倉，但不屬於擬持有至到期日或用作交易用途的。交易組合由市場風險所產生的估值變化反映在收益表內，而可供出售證券組合由市場風險所產生的估值變化反映在投資重估儲備。本集團有必要確保來自市場風險的影響在收益表和儲備會受到適當而審慎的控制。市場風險管理的目標是：

- 通過風險的測量而鑑別，監測和控制市場風險；根據本集團的一級資本基礎而設定建立持倉的限額，敏感性及風險值(「風險值」)限額，以及與高級管理人員溝通以上相關的風險；
- 參考風險控制的框架以支援業務增長；及
- 確保風險與回報得到適當的平衡。

41 Financial Risk Management (cont'd)

(b) Market risk management

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

- identify, monitor and control market risk exposures through the measurement of the risks; establish position limits, sensitivity limits and value at risk ("VaR") limits based on the Group's Tier 1 capital base; and communicate of risks to senior management;
- support business growth with reference to a risk-controlled framework; and
- ensure a proper balance between risk and return.

41 金融風險管理(續)

(b) 市場風險管理(續)

市場風險的框架

透過建立限額結構，交易用途及可供出售證券組合的預警訊息和政策，本集團有明確的市場風險偏好。限額再界定為分層次的限額政策，業務範圍限額和交易限額。這個市場風險偏好已通過資產及負債委員會批准，並受到董事會內的信貸及風險管理委員會贊同。設立分層次的限額結構可以控制由組合水平以至個別交易員的持倉大小，損益和敏感度。所有業務單位涉及市場風險都必須嚴格遵守限額政策的限制。財資部是主要業務部門會涉及市場風險承擔。

市場風險部門是一個獨立的風險測量和控制單位，它是由負責監督市場風險的主管向首席信貸風險總裁作匯報。市場風險部門使用了一套量化技術來識別，測量和控制市場風險，並通過信貸及風險管理委員會定期向資產及負債委員會和董事會報告。這些技術包括敏感性分析，風險數值和壓力測試，用以衡量相對於本集團的資本基礎。

下表提供了一個概述以量化技術衡量的各種市場風險報告：

41 Financial Risk Management (cont'd)

(b) Market risk management (cont'd)

Market risk framework

The Group has a clear market risk appetite as set through the establishment of a limit structure, early warning alerts and policies for the trading and AFS portfolios. Limits are categorised into the hierarchy of policy limits, business limits and transaction limits. This market risk appetite has been approved by the Asset and Liability Committee ("ALCO") and is endorsed by the Board through the CRMC. The hierarchy of the limit structure is set up to control position size, profit and loss, and sensitivities from the portfolio level to the individual trader level. All business units with market risks are required to strictly comply with the policies and the limits. The Treasury is the primary business unit involved in market risk exposures.

The Market Risk Department is an independent risk measurement and control unit overseen by the Head of Market Risk, who reports to the Director of Risks. The Market Risk Department uses a set of quantitative techniques to identify, measure and control the market risks, which are regularly reported to ALCO and the Board through the CRMC. These techniques include sensitivity analyses, VaR and stress tests, which are measured relative to the Group's capital base.

The following table provides an overview of quantitative measures in various market risk reports:

風險類型	Risk type	交易用途組合 Trading Portfolios		可供出售證券組合 AFS Portfolios	
		風險測試	Risk measures	風險測試	Risk measures
外匯	Foreign exchange	風險值	VaR	不適用	Not applicable
利率	Interest rate	風險值及敏感度	VaR and sensitivity	風險值及敏感度	VaR and sensitivity
商品	Commodity	風險值	VaR	不適用	Not applicable
股權	Equity	風險值	VaR	敏感度	Sensitivity
信貸利差	Credit spread	不適用	Not applicable	風險值及敏感度	VaR and sensitivity
組合類型	Portfolio type	風險值，敏感度及壓力測試	VaR, sensitivity and stress test	風險值，敏感度及壓力測試	VaR, sensitivity and stress test

41 金融風險管理(續)

(b) 市場風險管理(續)

市場風險的框架(續)

本集團透過經信貸及風險管理委員會審批的「新產品評估及批核政策」，控制其對新產品批核之程序。根據該政策，新產品所涉及的風險必須經各功能小組，包括財務管理部、營運及科技管理部、風險管理部和法律及合規部，加以清算。在獲得各功能小組之清算後，建議新產品的業務主管需向風險管理總監及行政總裁／替任行政總裁提交產品評估提案及申請共同審批。

市場風險模型的方法和特點

以下說明本集團所採用的各種量化風險計量。

敏感性分析

敏感度測試是用於監測對各種類型風險承擔的市場風險狀況。例如，可利用利率和於信貸利差風險中的信貸利差因一個基點的變動所產生的現值作為監測目的。

風險值

風險值是一種技術用於估計因市場利率和價格在特定時段和指定信心水平下所引致的波動，在風險立場上會發生的潛在損失。該模型是為了捕捉不同的風險類型，包括利率風險，外匯風險，信貸利差風險，股權風險，商品風險和波動的風險。

本集團所用的風險值模型，主要是根據歷史模擬和蒙特卡洛模擬來作為參考。這些模型從過往市場利率及價格推斷出未來可能出現的情況並同時考慮到不同市場和比率之間的相關性，如利率和匯率。該模型亦包括了嵌入式期權的風險承擔影響。

41 Financial Risk Management (cont'd)

(b) Market risk management (cont'd)

Market risk framework (cont'd)

The Group's approval process for new products is controlled by the "New Product Evaluation and Approval Policy" approved by the CRMC. According to the Policy, new products are subject to risk clearances by various functional units, including Financial Management Department, Operations and Technology Management Department, the Risk Management Group, the Legal Department and the Compliance Department. After obtaining the functional clearances, the sponsoring Business Head shall submit the Product Evaluation Proposal for the joint approval of the Director of Risks and the Chief Executive Officer ("CEO")/Alternate Chief Executive Officer ("ACEO").

Methodology and characteristics of 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 for 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.

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 simulation is 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.

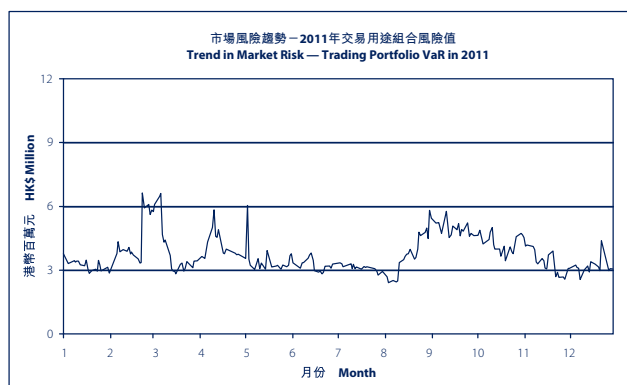
41 金融風險管理(續)

(b) 市場風險管理(續)

風險值(續)

本集團所採用的歷史模擬模型包括下列元素：

- 潛在的市場走勢計算參照上年度的持倉交易組合及過去兩年的可供出售證券投資組合的數據，包括歷史市場利率，價格和相關的波動；
- 對持倉交易組合，風險值是以99%的信心水平及以1天持有期為計算依據；



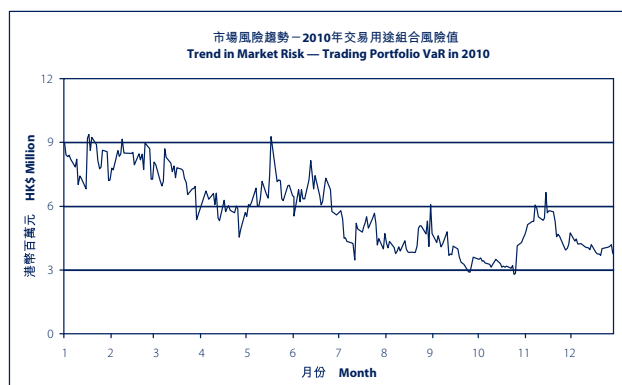
41 Financial Risk Management (cont'd)

(b) Market risk management (cont'd)

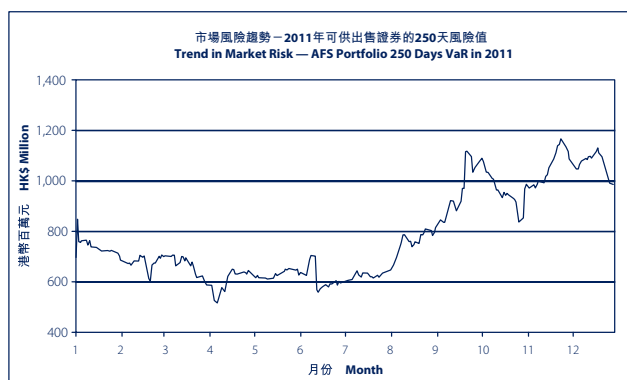
Value at risk (cont'd)

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

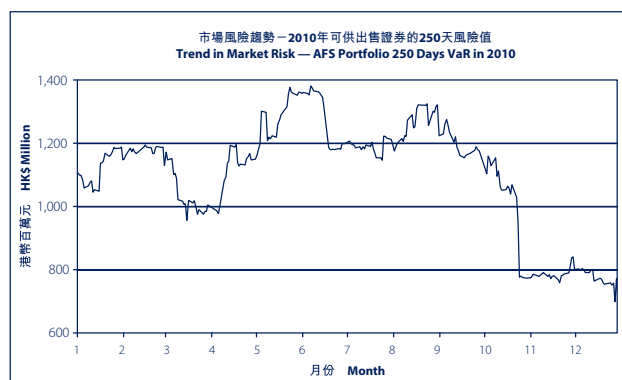
- potential market movements are calculated with reference to data from the prior year for the trading portfolios and from the last two years for the AFS portfolios, including historical market rates, prices and the associated volatilities;
- for the trading portfolio, VaR is calculated with a 99% confidence level and for a 1-day holding period;



- 對可供出售證券投資組合，風險值是以99%的信心水平及以250天的持有期為計算依據；及



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



41 金融風險管理(續)

(b) 市場風險管理(續)

風險值(續)

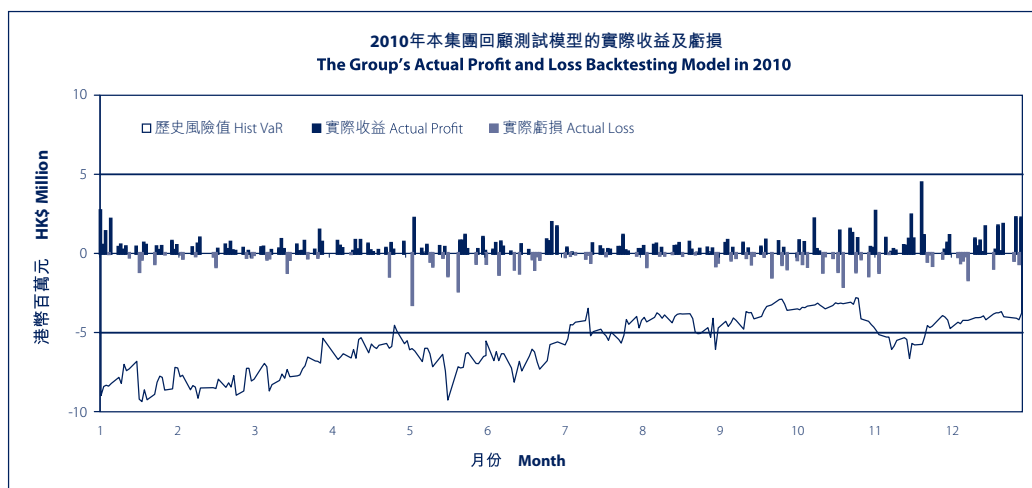
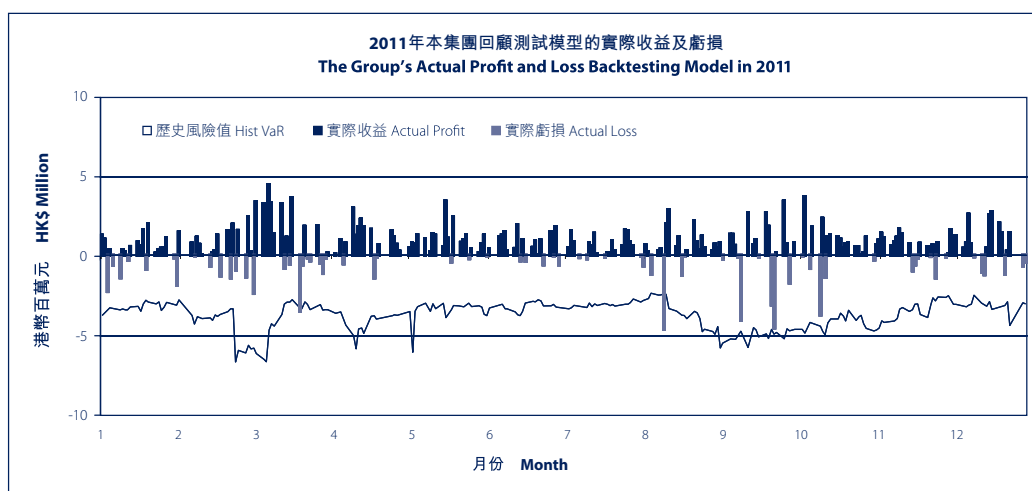
- 由2009年開始，本集團利用回顧測試比較經調整後的實際和假設每日損益結果，調整項目包括服務費和佣金，對照相應的風險值的數字，用以定期驗證持倉交易盤的風險值模型的準確性。根據統計，本集團只期望看到的是於一年時間內，超過風險值的損失只有百分之一的時間。在此期間實際超出的數字，可以用來衡量這模型的表現。於2011年，有二單例外發生在回顧測試中(2010年：無)，它相當於由香港金融管理局和國際巴塞爾原則所指定的綠色區域內。

41 Financial Risk Management (cont'd)

(b) Market risk management (cont'd)

Value at risk (cont'd)

- through backtesting started in 2009, the Group routinely validates the accuracy of its VaR model for its trading portfolios by comparing the actual and hypothetical daily profit and loss results, adjusted for items including fees and commissions, against the corresponding VaR numbers. Statistically, the Group only expects to see losses in excess of VaR only one per cent of the time over a one-year period. The actual number of excesses over this period can therefore be used to gauge how well the model is performing. In 2011, there were two exceptions in the backtesting results (2010: no exceptions), which corresponded to the green zone specified by the HKMA and the international Basel principles.



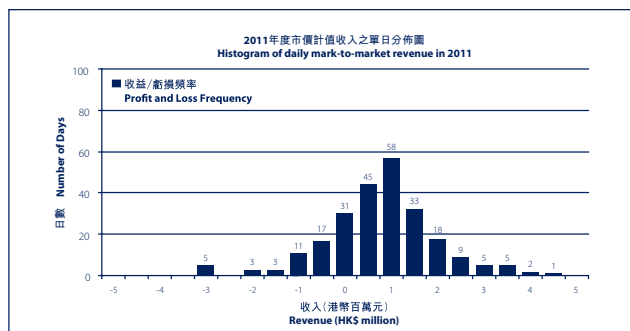
41 金融風險管理(續)

(b) 市場風險管理(續)

風險值(續)

雖然這種方法的風險值計算，在正常的市場條件下，可以作為一個很好的市場風險指導，但也有其局限性。例如，利用歷史數據作為一個代理可能無法涵蓋所有可能的潛在事件和未能考慮超出了99%的信心區間的事件。為了減輕這種限制，市場風險部門提供資產及負債委員會的壓力測試結果反映了交易用途組合和可供出售證券組合的風險情況可能出現的潛在的極端事件。

於截至2011年12月31日止的年度，本行持倉交易盤及基金投資(撇除結構性投資工具)之單日平均收益為港幣549,000元(2010年：港幣6,000元)，單日平均收入標準誤差為港幣1,306,000元(2010年：港幣1,046,000元)。下圖顯示於截至2011年及2010年12月31日止年度本集團按市價計值收入之單日分佈圖。



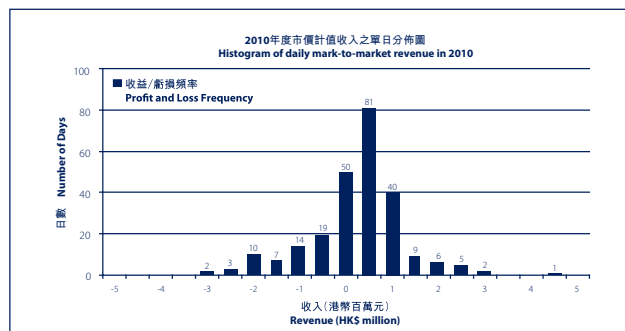
41 Financial Risk Management (cont'd)

(b) Market risk management (cont'd)

Value at risk (cont'd)

While VaR calculated using these approaches can serve as a good guide for market risk under normal market conditions, it has its limitations. For example, the use of historical data as a proxy may not encompass all possible potential events, and the events beyond the 99% confidence interval are not considered. In order to mitigate such limitations, the Market Risk Department provides ALCO with the stress test results reflecting potential extreme events on the market risk exposures for the trading and AFS portfolios.

For the year ended 31 December 2011, the average daily mark-to-market revenue from the Bank's trading portfolio and fund investments (excluding structured investment vehicles) was a gain of HK\$549,000 (2010: HK\$6,000). The standard deviation of the daily revenue was HK\$1,306,000 (2010: HK\$1,046,000). The graphs below show the histograms of the Group's daily mark-to-market revenue for the year ended 31 December 2011 and 2010 respectively.



41 金融風險管理(續)

(b) 市場風險管理(續)

風險值(續)

下表顯示了交易賬冊的風險值統計數字。

41 Financial Risk Management (cont'd)

(b) Market risk management (cont'd)

Value at risk (cont'd)

The tables below show the VaR statistics for the trading book.

持倉交易盤的市場風險——一天風險值99%

Market Risk for the Trading Portfolio – One-day VaR 99%

		2011				2010			
		最高	最低	平均	截至 12月31日 At 31	最高	最低	平均	截至 12月31日 At 31
		Maximum 港幣千元 HK\$'000	Minimum 港幣千元 HK\$'000	Mean 港幣千元 HK\$'000	December 港幣千元 HK\$'000	Maximum 港幣千元 HK\$'000	Minimum 港幣千元 HK\$'000	Mean 港幣千元 HK\$'000	December 港幣千元 HK\$'000
外匯風險	Foreign exchange risk	3,195	880	1,798	2,089	3,577	263	1,417	1,321
利率風險	Interest rate risk	6,055	646	1,588	975	10,712	1,777	5,304	2,450
風險值總額	Total VaR	6,662	2,368	3,691	3,008	9,368	2,791	5,697	3,776

可供出售證券組合的市場風險

Market Risk for the AFS Portfolio

		2011				2010			
		最高	最低	平均	截至 12月31日 At 31	最高	最低	平均	截至 12月31日 At 31
		Maximum 港幣千元 HK\$'000	Minimum 港幣千元 HK\$'000	Mean 港幣千元 HK\$'000	December 港幣千元 HK\$'000	Maximum 港幣千元 HK\$'000	Minimum 港幣千元 HK\$'000	Mean 港幣千元 HK\$'000	December 港幣千元 HK\$'000
利率風險	Interest rate risk	215,650	144,134	173,359	144,905	704,930	394,240	549,534	204,944
信貸利差風險	Credit spread risk	1,076,007	483,767	711,094	931,402	1,290,596	881,034	1,086,969	674,746
250天風險值總額	Total 250-day VaR	1,158,725	509,523	771,476	980,663	1,381,291	956,317	1,167,476	770,382

41 金融風險管理(續)

(b) 市場風險管理(續)

壓力測試

壓力測試的實施是為減輕風險值模型的弱點影響，以涵蓋遙遠但可能發生的事件。本集團對下列情況進行市場風險壓力測試：

- 敏感性分析情況，以考慮未能被風險值模型涵蓋的任何一個風險因素或一組因素的影響，如港幣與美元貨幣的脫鈎；及
- 歷史情況，其中包含以前壓力期間不能被風險值模型涵蓋的歷史觀察市場走勢，如近期信貸危機情況對估值的影響；

壓力測試結果提供了資產及負債委員會這類事件對本集團的損益表和儲備的財務影響。於2011年交易用途組合每天虧損及可供出售證券組合的年均負儲備影響已涵蓋在壓力測試虧損情況中，並已報告資產及負債委員會。

信貸利差風險

始於2007年中的金融危機，除了利率風險和極端的市場波動外，危機的另一個特點是信貸利差顯著擴闊，嚴重影響了對可供出售證券組合的估值。此外，極端的市場條件下，取得的某些非頻密交易的證券的市場價格，在一定程度上較不可靠，這也進一步增加了可供出售證券組合估值的挑戰和複雜性。

為了加強對可供出售組合的風險監控，市場風險部已建立了一個框架，將估計期權調整利差的公允價值，用於計算流動不足證券的公允價值，還有計算250天信貸利差的風險值，信貸利差的風險敏感度統計，壓力測試從而建立了有限額結構和早期預警指標。選擇250天信貸利差的風險統計，目的在於量度對本集團每年儲備潛在的負面影響。

41 Financial Risk Management (cont'd)

(b) Market risk management (cont'd)

Stress testing

Stress testing is implemented to mitigate the weaknesses in the VaR model in order to capture remote but plausible events. The Group uses the following scenarios for market risk stress testing:

- sensitivity scenarios, which consider the impact of any single risk factor or a set of factors that are unlikely to be captured by the VaR model, such as breaking the HK dollar and US dollar currency peg; and
- historical scenarios, which incorporate the historical observation of market moves during previous stress periods which would not be captured by the VaR model, such as the impact on valuation under the recent credit crisis scenario;

Stress testing results provide ALCO with 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 2011 were within the stress loss scenarios reported to ALCO.

Credit spread risk

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

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

41 金融風險管理(續)

(b) 市場風險管理(續)

外匯風險

本集團的外匯風險源自外匯買賣盤、商業交易、外匯證券投資、本集團及海外分行和附屬公司的營運。本集團的外匯買賣盤限額均須經由資產及負債委員會核准。用以量度外匯風險的指標包括個別貨幣和整體持倉金額以及敏感度如Greeks(適用於外匯期權)。於截至2011年12月31日止年度，本集團外匯買賣盤的平均單日交易損益為溢利港幣415,000元(2010年：溢利港幣115,000元)及其標準誤差為港幣978,000元(2010年：港幣571,000元)。

於結算日的重大外匯風險如下：

41 Financial Risk Management (cont'd)

(b) Market risk management (cont'd)

Currency risk

The Group's foreign exchange risk stems from taking foreign exchange positions from commercial dealings, investments in foreign currency securities, and operations of the Group and its overseas branches and subsidiaries. The Group's foreign exchange positions are subject to exposure limits approved by ALCO. Methods adopted to measure foreign currency risk exposure against corresponding limits include individual currency positions, overall foreign exchange positions and sensitivities such as Greeks (for foreign exchange options). For the year ended 31 December 2011, the Group's average daily trading profit and loss from foreign exchange positions was a profit of HK\$415,000 (2010: a profit of HK\$115,000) with a standard deviation of HK\$978,000 (2010: HK\$571,000).

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

		本集團 The Group							
		2011				2010			
相等於港幣千元	Equivalent in HK\$'000	美元 USD	人民幣 RMB	其他貨幣 Others	總額 Total	美元 USD	人民幣 RMB	其他貨幣 Others	總額 Total
現貨資產	Spot assets	56,453,603	30,482,056	4,089,798	91,025,457	52,053,543	13,545,912	3,866,923	69,466,378
現貨負債	Spot liabilities	(39,857,172)	(24,163,466)	(12,866,936)	(76,887,574)	(35,441,270)	(9,597,738)	(10,928,279)	(55,967,287)
遠期買入	Forward purchases	71,872,830	44,111,233	20,091,778	136,075,841	68,147,181	42,123,945	13,801,988	124,073,114
遠期賣出	Forward sales	(87,385,354)	(49,892,395)	(11,289,714)	(148,567,463)	(84,304,550)	(45,427,531)	(6,753,175)	(136,485,256)
期權盤淨額	Net options position	6,033	-	(780)	5,253	-	-	-	-
長/(短)盤淨額	Net long/(short) position	1,089,940	537,428	24,146	1,651,514	454,904	644,588	(12,543)	1,086,949
結構盤淨額	Net structural position	-	612,510	48,527	661,037	-	236,058	48,489	284,547

41 金融風險管理(續)

(b) 市場風險管理(續)

外匯風險(續)

41 Financial Risk Management (cont'd)

(b) Market risk management (cont'd)

Currency risk (cont'd)

		本行 The Bank							
		2011				2010			
相等於港幣千元	Equivalent in HK\$'000	美元 USD	人民幣 RMB	其他貨幣 Others	總額 Total	美元 USD	人民幣 RMB	其他貨幣 Others	總額 Total
現貨資產	Spot assets	55,006,564	22,322,680	4,090,701	81,419,945	51,039,705	9,863,569	3,865,508	64,768,782
現貨負債	Spot liabilities	(38,174,074)	(16,588,295)	(12,868,161)	(67,630,530)	(33,987,950)	(6,578,585)	(10,928,035)	(51,494,570)
遠期買入	Forward purchases	70,617,421	43,469,601	20,090,878	134,177,900	67,019,514	41,496,095	13,801,988	122,317,597
遠期賣出	Forward sales	(86,400,100)	(48,625,393)	(11,289,714)	(146,315,207)	(83,645,885)	(44,292,640)	(6,753,175)	(134,691,700)
期權盤淨額	Net options position	6,033	-	(780)	5,253	-	-	-	-
長/(短)盤淨額	Net long/(short) position	1,055,844	578,593	22,924	1,657,361	425,384	488,439	(13,714)	900,109
結構盤淨額	Net structural position	-	-	48,527	48,527	-	-	48,489	48,489

期權盤淨額是按照金管局所核准的模式使用者法計算。

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

外匯風險敏感度分析

- (i) 於2011年12月31日，如港幣兌美元以外的其他貨幣貶值10%並假設其他所有參數不變，本年度本集團及本行的除稅前溢利將分別增加港幣56,157,000元及港幣60,151,000元(2010年：分別增加港幣63,200,000元及港幣47,400,000元)，主要由於非港幣計值的金融資產的匯兌收益抵銷非港幣計值的金融負債之匯兌虧損所致。

相反地，如港幣兌美元以外的其他貨幣升值10%並假設所有其他參數不變，本年度本集團及本行之除稅前溢利將分別減少港幣56,157,000元及港幣60,151,000元(2010年：分別減少港幣63,200,000元及港幣47,400,000元)。

Sensitivity analysis on foreign exchange exposures

- (i) At 31 December 2011, if the HKD had weakened by 10% against other currencies (other than the USD) with all other variables held constant, the profit before tax for the year of the Group and the Bank would have been higher by HK\$56,157,000 and HK\$60,151,000, respectively (2010: higher by HK\$63,200,000 and HK\$47,400,000, respectively), mainly as a result of foreign exchange gains on the translation of non-HKD denominated financial assets compensated by foreign exchange losses on translation of non-HKD denominated financial liabilities.

Conversely, if the HKD had strengthened by 10% against other currencies (other than the USD) with all other variables held constant, the profit before tax for the year of the Group and the Bank would have been lower by HK\$56,157,000 and HK\$60,151,000, respectively (2010: lower by HK\$63,200,000 and HK\$47,400,000, respectively).

41 金融風險管理(續)**(b) 市場風險管理(續)****外匯風險敏感度分析(續)**

- (ii) 本集團及本行所承受之貨幣風險主要源自以美元計值的財務工具(不包括人民幣500,000,000元及澳門幣50,000,000元的結構性外匯持倉)。由於美元與港幣掛鈎，本集團及本行認為美元與港幣匯率變動而引致的貨幣風險對本集團及本行沒有重大的影響。

利率風險

本集團的資產及負債委員會負責監控所有由其資產及負債利率組合產生的利率風險。本集團的利率風險承擔主要來自銀行賬冊及自營買賣賬冊。銀行賬冊之利率風險是由於到期日差距、息率基點風險、收益率曲線變動、重訂息率風險和內含期權風險(如有)而產生的。本集團對銀行賬冊之利率風險管理是根據利率風險管理政策—銀行賬冊「政策」的指引。財資及市場部根據此政策來管理銀行賬冊之利率風險。

為減低利率風險，本集團使用了利率衍生工具(主要是利率掉期)來對可供出售證券及非交易用途負債等資產及負債進行對沖。本集團亦採納了對沖會計原則，以便將可供出售證券／非交易用途負債的公允價值變動，與相應對沖衍生工具互相抵銷。

本集團對自營買賣賬冊之利率風險管理是根據「利率風險管理政策—自營買賣賬冊」的指引。本集團主要以基點現值變動計量其持倉交易盤之利率風險。於截至2011年12月31日止的年度，本集團涉及利率風險的買賣之平均單日損益為收益港幣131,000元(2010年：收益港幣64,000元)及其標準誤差為港幣883,000元(2010年：港幣623,000元)。

41 Financial Risk Management (cont'd)**(b) Market risk management (cont'd)*****Sensitivity analysis on foreign exchange exposures (cont'd)***

- (ii) The Group or the Bank is exposed to currency risks primarily arising from financial instruments that are denominated in USD, excluding structural foreign exchange positions of RMB500,000,000 and MOP50,000,000. As the USD is pegged to the HKD, the Group or the Bank considers the risk of movements in exchange rates between the HKD and the USD to be insignificant.

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 of its banking and trading books. The interest rate risk in the banking book is caused by maturity gaps, basis risks among different interest rate benchmarks, yield curve movements, interest rate repricing risks and risks from embedded options, if any. The Group's management of the interest rate risk in the banking book is governed by the Interest Rate Risk Management Policy ("the Policy") for the banking book. Moreover, the Treasury and Markets Department manages the interest rate risk in the banking book according to the policy.

To mitigate interest rate risk, the Group has used interest rate derivatives mainly interest rate swaps to hedge both assets and liabilities such as AFS and non-trading liabilities ("NTL"). The Group has also adopted hedge accounting principles, under which the fair value changes of the AFS/NTL and the corresponding fair value changes of the hedging derivative instruments offset each other.

The Group's management of the interest rate risk in the trading book is guided by the Interest Rate Risk Management Policy for the Trading Book. The Group mainly uses the present value of a basis point movement to measure its interest rate risk exposure in the trading book. For the year ended 31 December 2011, the Group's average daily trading profit and loss from interest rate positions was a gain of HK\$131,000 (2010: a gain of HK\$64,000), with a standard deviation of HK\$883,000 (2010: HK\$623,000).

41 金融風險管理(續)

(b) 市場風險管理(續)

利率風險敏感度分析

本集團每季均採用利率風險承擔敏感度分析來量度銀行賬冊之利率風險。在這敏感度分析中，利率變動對本集團盈利之潛在影響是根據以下假設而作出：對於所有資產和負債，兩種主要貨幣(港幣及美元)之利率將於下次利率重訂日(相對應時間的中間點)上調200個基點。因應現時利率處於低水平，本集團因而並不預期該兩種貨幣將會與利率重訂日會下調200個基點。此評估已包括財務狀況表內與表外項目的影響。

41 Financial Risk Management (cont'd)

(b) Market risk management (cont'd)

Sensitivity analysis on interest rate exposures

The Group measures the interest rate risk of the banking book by conducting a sensitivity analysis on the interest rate exposure on a quarterly basis. In the sensitivity analysis, the potential impacts of movements in interest rates on the Group's earning are assessed assuming that the interest rates of two major currencies (HKD and USD) will rise by 200 basis points on the repricing dates (the midpoint of the corresponding time bands) of each asset and liability. Nevertheless, the Group does not expect the interest rates of these two major currencies to decrease by 200 basis points in the repricing dates because of the current low level of interest rates. The impacts on both the on- and off-statement of the financial position items are included in the assessment.

		本集團 The Group			
		2011		2010	
		港幣 HKD	美元 USD	港幣 HKD	美元 USD
相等於港幣千元	Equivalent in HK\$'000				
倘利率上調200個基點對未來12個月的盈利影響	Impact on earnings over the next 12 months if interest rates rise by 200 basis points	264,803	(184,196)	66,751	(218,541)
倘利率上調200個基點對經濟價值的影響	Impact on economic value if interest rates rise by 200 basis points	66,734	63,713	56,280	103,070

		本行 The Bank			
		2011		2010	
		港幣 HKD	美元 USD	港幣 HKD	美元 USD
相等於港幣千元	Equivalent in HK\$'000				
倘利率上調200個基點對未來12個月的盈利影響	Impact on earnings over the next 12 months if interest rates rise by 200 basis points	206,722	(181,961)	12,185	(214,471)
倘利率上調200個基點對經濟價值的影響	Impact on economic value if interest rates rise by 200 basis points	97,107	66,631	80,507	109,146

41 金融風險管理(續)**(b) 市場風險管理(續)***利率風險敏感度分析(續)*

該敏感度分析僅用於風險管理目的，依據資產及負債的利率風險資料作出。有關分析乃根據以下假設進行：

- (i) 收益率曲線及利率出現平行移動；
- (ii) 組合並無其他變動；
- (iii) 假設沒有提早償還貸款，因大部份貸款屬於浮息貸款；及
- (iv) 假設沒有固定到期日的存款於翌日再定息。

利率上調而導致本集團淨利息收入及經濟價值的實際變動與該敏感度分析的結果可能有所不同。

41 Financial Risk Management (cont'd)**(b) Market risk management (cont'd)***Sensitivity analysis on interest rate exposures (cont'd)*

This sensitivity analysis, which is based on an interest rate risk profile of assets and liabilities, is used for risk management purposes only. The analysis is based on the following assumptions:

- (i) there is a parallel shift in the yield curve and in interest rates;
- (ii) there are no other changes to the portfolio;
- (iii) no loan prepayment is assumed as the majority of loans are on a floating rate base; and
- (iv) deposits without fixed maturity dates are assumed to be repriced on the next day.

Actual changes in the Group's net interest income and the economic value resulting from the increase in interest rates may differ from the results of this sensitivity analysis.

41 金融風險管理(續)

(b) 市場風險管理(續)

利率風險

下表顯示於結算日的計息資產及負債的預期下個重訂息率日期(或到期日,以較早者為準)之錯配。

41 Financial Risk Management (cont'd)

(b) Market risk management (cont'd)

Interest rate risk

The following tables indicate the mismatches of the expected next repricing dates (or maturity dates, whichever are earlier) for the interest bearing assets and liabilities at the end of the reporting period.

		本集團 The Group				
		2011				
		3個月內 (包括逾期) 3 months or less 總額 Total 港幣千元 HK'000	3個月以上 至1年 Over 3 months to 1 year 港幣千元 HK'000	1年以上 至5年 Over 1 year to 5 years 港幣千元 HK'000	5年以上 Over 5 years 港幣千元 HK'000	非計息 Non- interest bearing 港幣千元 HK'000
資產	Assets					
現金及在銀行、中央銀行及其他金融機構的結存	Cash and balances with banks, central banks and other financial institutions	12,944,105	12,741,831	-	-	202,274
在銀行、中央銀行及其他金融機構的存款及墊款	Placements with and advances to banks, central banks and other financial institutions	35,838,843	28,486,324	7,352,519	-	-
交易用途資產	Trading assets	2,079,683	-	-	-	2,079,683
指定為通過損益以反映公允價值的證券	Securities designated at fair value through profit or loss	355,677	96,630	170,584	42,861	45,602
客戶貸款及墊款及其他賬項	Loans and advances to customers and other accounts	96,365,280	78,844,384	13,825,403	290,376	8,074
可供出售證券	Available-for-sale securities	22,904,954	12,641,161	4,917,341	5,295,517	-
非計息資產	Non-interest bearing assets	937,583	-	-	-	937,583
資產總額	Total assets	171,426,125	132,810,330	26,265,847	5,628,754	8,074
負債	Liabilities					
銀行及其他金融機構的存款及結存	Deposits and balances of banks and other financial institutions	5,121,298	4,599,671	155,353	-	-
客戶存款	Deposits from customers	127,040,396	107,493,558	12,500,759	2,662,951	-
交易用途負債	Trading liabilities	1,331,198	-	-	-	-
已發行存款證	Certificates of deposit issued	12,123,896	5,294,947	4,854,136	1,782,971	191,842
已發行債務證券	Debt securities issued	397,436	388,383	9,053	-	-
債務資本	Loan capital	8,192,926	1,941,913	1,950,007	-	4,301,006
非計息負債	Non-interest bearing liabilities	4,113,778	-	-	-	-
負債總額	Total liabilities	158,320,928	119,718,472	19,469,308	4,445,922	4,492,848
利率敏感度差距	Interest rate sensitivity gap		13,091,858	6,796,539	1,182,832	(4,484,774)

41 金融風險管理(續)

(b) 市場風險管理(續)

利率風險(續)

41 Financial Risk Management (cont'd)

(b) Market risk management (cont'd)

Interest rate risk (cont'd)

		本集團 The Group					
		2010					
		3個月內 (包括逾期) 3 months or less 總額 Total 港幣千元 HK\$'000	3個月以上 至1年 Over 3 months to 1 year 港幣千元 HK\$'000	1年以上 至5年 Over 1 year to 5 years 港幣千元 HK\$'000	5年以上 Over 5 years 港幣千元 HK\$'000	非計息 Non- interest bearing 港幣千元 HK\$'000	
資產	Assets						
現金及在銀行、中央銀行及其他金融機構的結存	Cash and balances with banks, central banks and other financial institutions	21,225,122	21,039,640	–	–	–	185,482
在銀行、中央銀行及其他金融機構的存款及墊款	Placements with and advances to banks, central banks and other financial institutions	12,229,126	11,274,071	955,055	–	–	–
交易用途資產	Trading assets	1,633,657	–	–	–	–	1,633,657
指定為通過損益以反映公允價值的證券	Securities designated at fair value through profit or loss	646,508	226,296	276,766	99,816	–	43,630
客戶貸款及墊款及其他賬項	Loans and advances to customers and other accounts	90,714,680	79,622,454	7,543,675	197,244	3,740	3,347,567
可供出售證券	Available-for-sale securities	20,857,745	12,911,421	5,018,125	2,878,538	–	49,661
非計息資產	Non-interest bearing assets	902,063	–	–	–	–	902,063
資產總額	Total assets	148,208,901	125,073,882	13,793,621	3,175,598	3,740	6,162,060
負債	Liabilities						
銀行及其他金融機構的存款及結存	Deposits and balances of banks and other financial institutions	1,850,372	1,011,880	469,003	–	–	369,489
客戶存款	Deposits from customers	113,466,113	100,940,217	6,919,346	1,876,249	–	3,730,301
交易用途負債	Trading liabilities	1,477,528	–	–	–	–	1,477,528
已發行存款證	Certificates of deposit issued	6,985,054	2,950,715	2,057,104	1,796,949	180,286	–
已發行債務證券	Debt securities issued	231,900	15,000	216,900	–	–	–
債務資本	Loan capital	7,763,729	1,943,529	–	1,972,153	3,848,047	–
非計息負債	Non-interest bearing liabilities	3,082,402	–	–	–	–	3,082,402
負債總額	Total liabilities	134,857,098	106,861,341	9,662,353	5,645,351	4,028,333	8,659,720
利率敏感度差距	Interest rate sensitivity gap		18,212,541	4,131,268	(2,469,753)	(4,024,593)	

41 金融風險管理(續)

(b) 市場風險管理(續)

利率風險(續)

41 Financial Risk Management (cont'd)

(b) Market risk management (cont'd)

Interest rate risk (cont'd)

		本行 The Bank					
		2011					
		3個月內 (包括逾期) 3 months or less (including overdue) 總額 Total 港幣千元 HK\$'000	3個月以上 至1年 Over 3 months to 1 year 港幣千元 HK\$'000	1年以上 至5年 Over 1 year to 5 years 港幣千元 HK\$'000	5年以上 Over 5 years 港幣千元 HK\$'000	非計息 Non- interest bearing 港幣千元 HK\$'000	
資產	Assets						
現金及在銀行、中央銀行及其他金融機構的結存	Cash and balances with banks, central banks and other financial institutions	11,725,857	11,524,130	-	-	-	201,727
在銀行、中央銀行及其他金融機構的存款及墊款	Placements with and advances to banks, central banks and other financial institutions	28,400,867	22,249,514	6,151,353	-	-	-
交易用途資產	Trading assets	2,075,004	-	-	-	-	2,075,004
指定為通過損益以反映公允價值的證券	Securities designated at fair value through profit or loss	355,677	96,630	170,584	42,861	-	45,602
客戶貸款及墊款及其他賬項	Loans and advances to customers and other accounts	86,666,715	69,527,297	13,617,150	290,376	8,074	3,223,818
可供出售證券	Available-for-sale securities	22,205,469	12,492,248	4,490,877	5,171,409	-	50,935
應收附屬公司款項	Amount due from subsidiaries	8,201,586	1,938,251	5,791,452	-	-	471,883
非計息資產	Non-interest bearing assets	2,156,198	-	-	-	-	2,156,198
資產總額	Total assets	161,787,373	117,828,070	30,221,416	5,504,646	8,074	8,225,167
負債	Liabilities						
銀行及其他金融機構的存款及結存	Deposits and balances of banks and other financial institutions	4,360,231	3,838,604	155,353	-	-	366,274
客戶存款	Deposits from customers	119,175,347	102,324,292	10,633,113	1,834,814	-	4,383,128
交易用途負債	Trading liabilities	1,321,019	-	-	-	-	1,321,019
已發行存款證	Certificates of deposit issued	12,123,896	5,294,947	4,854,136	1,782,971	191,842	-
債務證券	Debt securities	388,383	388,383	-	-	-	-
債務資本	Loan capital	6,242,919	1,941,913	-	-	4,301,006	-
應付附屬公司款項	Amount due to subsidiaries	2,273,113	62,054	2,045,772	-	-	165,287
非計息負債	Non-interest bearing liabilities	3,746,476	-	-	-	-	3,746,476
負債總額	Total liabilities	149,631,384	113,850,193	17,688,374	3,617,785	4,492,848	9,982,184
利率敏感度差距	Interest rate sensitivity gap		3,977,877	12,533,042	1,886,861	(4,484,774)	

41 金融風險管理(續)

(b) 市場風險管理(續)

利率風險(續)

41 Financial Risk Management (cont'd)

(b) Market risk management (cont'd)

Interest rate risk (cont'd)

		本行 The Bank					
		2010					
		3個月內 (包括逾期) 3 months or less 總額 Total 港幣千元 HK\$'000	3個月以上 至1年 Over 3 months to 1 year 港幣千元 HK\$'000	1年以上 至5年 Over 1 year to 5 years 港幣千元 HK\$'000	5年以上 Over 5 years 港幣千元 HK\$'000	非計息 Non- interest bearing 港幣千元 HK\$'000	
資產	Assets						
現金及在銀行、中央銀行及其他金融機構的結存	Cash and balances with banks, central banks and other financial institutions	20,686,359	20,501,209	–	–	–	185,150
在銀行、中央銀行及其他金融機構的存款及墊款	Placements with and advances to banks, central banks and other financial institutions	9,000,325	8,198,708	801,617	–	–	–
交易用途資產	Trading assets	1,620,822	–	–	–	–	1,620,822
指定為通過損益以反映公允價值的證券	Securities designated at fair value through profit or loss	646,508	226,296	276,766	99,816	–	43,630
客戶貸款及墊款及其他賬項	Loans and advances to customers and other accounts	81,362,775	70,840,759	7,082,423	197,244	3,740	3,238,609
可供出售證券	Available-for-sale securities	20,798,979	12,911,421	4,959,359	2,878,538	–	49,661
應收附屬公司款項	Amount due from subsidiaries	7,261,783	4,201,449	2,642,160	–	–	418,174
非計息資產	Non-interest bearing assets	2,121,889	–	–	–	–	2,121,889
資產總額	Total assets	143,499,440	116,879,842	15,762,325	3,175,598	3,740	7,677,935
負債	Liabilities						
銀行及其他金融機構的存款及結存	Deposits and balances of banks and other financial institutions	727,892	358,403	–	–	–	369,489
客戶存款	Deposits from customers	110,601,692	98,992,717	6,081,270	1,797,404	–	3,730,301
交易用途負債	Trading liabilities	1,464,497	–	–	–	–	1,464,497
已發行存款證	Certificates of deposit issued	6,985,054	2,950,716	2,057,104	1,796,949	180,285	–
債務資本	Loan capital	5,791,576	1,943,529	–	–	3,848,047	–
應付附屬公司款項	Amount due to subsidiaries	2,511,132	2,615	1,666	2,047,474	–	459,377
非計息負債	Non-interest bearing liabilities	2,711,263	–	–	–	–	2,711,263
負債總額	Total liabilities	130,793,106	104,247,980	8,140,040	5,641,827	4,028,332	8,734,927
利率敏感度差距	Interest rate sensitivity gap		12,631,862	7,622,285	(2,466,229)	(4,024,592)	

41 金融風險管理(續)

(c) 流動資金風險管理

流動資金風險乃指本集團不可能在提供資金以應付資產增加或履行到期債務時而不須承受不可接受之損失的風險。

流動資金風險管理框架包括：

- 本集團的流動資金風險管理，乃受財務管理部認可並經信貸及風險管理委員會核准的流動資金風險管理政策監管。
- 信貸及風險管理委員會獲董事會授權，負責監察本集團的流動資金風險管理，其主要責任在於檢討及批核政策，制定策略，界定風險取向及可接受的風險水平限額。
- 資產及負債委員會獲信貸及風險管理委員會授權，負責制定及執行政策，策略，指引及限額架構。此外，亦負責識別、計量及監管流動資金狀況，以確保能應付現在及將來之資金需求。財務管理部會定期進行情景分析及壓力測試，並由資產及負債委員會審閱。另外，中央財資部亦建立了一套資金應變計劃，並由資產及負債委員會定期審閱及批核。
- 日常流動資金管理由財資部負責，並按批核的限額範圍監控資金需求。內部稽核部會定期作出檢討，確保流動資金風險管理功能得以有效執行。

41 Financial Risk Management (cont'd)

(c) Liquidity risk management

Liquidity risk is the risk that the Group may not be able to fund an increase in assets or meet obligations as they fall due without incurring unacceptable losses.

The liquidity risk management framework comprises the following:

- The management of the Group's liquidity risk is governed by the Liquidity Management Policy, endorsed by the Financial Management Department and approved 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, delegated by the CRMC, is the governing body responsible for formulating and implementing policies, strategies, guidelines and limit structure. It also identifies, measures and monitors the liquidity profile to ensure current and future funding requirements are met. The scenario analysis and stress testing will be worked out by the Financial Management Department and reviewed by ALCO on a regular basis. A Contingency Funding Plan, which is also developed by the Central Treasury, is reviewed and approved by ALCO on a regular basis.
- Daily liquidity management is managed by the Central Treasury, within the limit approved, to monitor funding requirements. The Internal Audit Department performs periodic reviews to ensure liquidity risk management functions are carried out effectively.

41 金融風險管理(續)

(c) 流動資金風險管理(續)

流動資金管理於本集團層面、銀行層面、各海外分行及附屬公司中進行，財務附屬公司及海外分行會按照資產及負債委員會訂立之框架及當地監管機構之要求，執行其流動資金管理政策。資產及負債委員會亦會一併監控其流動資金情況。對於提供資金予海外分行及附屬公司，本集團亦設立交易對手限額。通過跟存款人、客戶、銀行同業、關聯公司及金管局建立並維持良好的關係，本集團期待各部門同心協力使銀行無論在何種情況下都能夠成功、有效地管理流動資金。

流動資金管理之目標為履行於正常及緊急情況下到期之債務，提供資金以應付資產增長與及符合法定之流動資金比率。為此，本集團有以下之流動資金管理程序：

- 在正常及壓力情景下估算現金流，利用資產負債錯配淨缺口評估資金需求；
- 按照內部及監管機構的規定，監控財務狀況表的流動資金比率及貸存比率；
- 藉監控存款組合之結構、穩定性及核心水平，以確保穩健及多元化之資金來源；
- 預測短期至中期之流動資金比率，以至能及早察覺流動資金問題，並確保比率在法定要求及內部預警之內；
- 於每年預算過程中，預測資金需求及資金結構，以確保充足資金及適當資金組合；
- 在新產品業務推出前，須先進行風險評估程序，包括評估其潛在的流動資金風險；

41 Financial Risk Management (cont'd)

(c) Liquidity risk management (cont'd)

Liquidity management is conducted at Group level and bank level, and in individual overseas branches and subsidiaries. Financial subsidiaries and overseas branches are responsible for implementing their own liquidity management policies under the framework established by ALCO and local regulatory requirements. Their liquidity situation is also monitored as a whole by the ALCO. Counterparty limits are set for overseas branches and subsidiaries in respect of the funding support extended to them. The Group expects all business units to contribute to the success of managing liquidity under normal and contingency situations by maintaining a rapport with depositors, customers, interbank counterparties, related companies and the HKMA.

The objective of liquidity management is to meet the obligations payable under normal and emergency circumstances, to fund asset growth and to comply with statutory liquidity ratio. To achieve this, the following liquidity management processes are in place:

- Projecting cash flows under normal and various stress scenarios, using the net mismatch gap between assets and liabilities to estimate the prospective net funding requirement;
- Monitoring the statement of financial position liquidity and advances to deposit ratios against internal and regulatory requirements;
- Ensuring there is a sound and diversified range of funding sources, through monitoring the structure, the stability and the core level of the deposit portfolio;
- Projecting the liquidity ratio for the short to medium term to 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 risk assessment, which includes liquidity risk before launching new business initiatives;

41 金融風險管理(續)

(c) 流動資金風險管理(續)

- 為應付無法預測之資金需求，本集團持有高素質流動資產，包括現金及具投資評級之證券。另外，本集團維持充足的備用信貸，以應付任何未能預料的大量資金需求；
- 持續使用同業拆借市場；
- 維持各項債務融資計劃；及
- 維持適當應變計劃，包括設定預警指標(包括內部及市場指標)，並且描述若出現危機時應採取之相應行動，以致將業務所受的任何長遠負面影響減至最低。

集團業務所需的資金來自多元化資金來源，主要來自其零售及企業客戶的核心存款。與此同時，本集團亦積極從事批發銀行業務，透過發行港幣及美元存款證來取得穩定的資金來源。截至2011年12月31日止，本集團多次成功發行存款證，合共等值港幣9,770,000,000元的資金(2010年：港幣6,560,000,000元)。本集團並定期監察存款之期限組合及債務到期日，以確保一個適當之資金到期組合。

本集團時常維持適當流動資金比率，以確保本集團有能力應付不利或無法預計的經濟情況下所引致市場流動資金突然流失的情況。在2011年本集團的平均流動資金比率為43.6%(2010年：44.7%)。本集團持有高素質的短期證券投資組合，必要時可透過購回安排或在二手市場上出售而獲得流動資金。

本集團經常持有充足現金、流動資產及高素質資產作為於緊急情況下可獲得之緩衝資金。

41 Financial Risk Management (cont'd)

(c) Liquidity risk management (cont'd)

- Maintaining high quality liquid assets comprising cash and investment grade securities, as a cushion against unexpected funding needs; standby facilities are also arranged to provide for unexpected and material outflows;
- Maintaining access to the interbank money market to activate facilities;
- Maintaining a debt financing plan; and
- Maintaining a proper contingency plan, which includes setting early warning signals (including internal and market indicators) and describing actions to be taken in the event of a stress crisis to minimise adverse long-term implications for business.

The Group funds its operations through a diversified funding source, primarily from our core retail and corporate customer deposits. At the same time, it also participates in wholesale funding through the issuance of HKD and USD certificates of deposit ("CDs") so as to secure a stable source of term funding. At 31 December 2011, a total of HK\$9.77 billion equivalent (2010: HK\$6.56 billion) was raised through several successful CD issuances. Deposit tenor mix and debt maturities are regularly monitored to ensure there is an appropriate funding maturity mix.

An appropriate level of liquidity ratio was always maintained to ensure that the Group could handle sudden drains in market liquidity due to adverse or unexpected economic events. In 2011, the Group's average liquidity ratio was 43.6% (2010: 44.7%). The Group holds a portfolio of high-grade securities with short maturities which can generate liquidity if necessary, either through the repurchase arrangements or outright selling in the secondary market.

The Group has always maintained sufficient cash and a liquid position, as well as a pool of high quality assets as a liquidity cushion that can be liquidated in the event of emergency.

41 金融風險管理(續)

(c) 流動資金風險管理(續)

(i) 根據餘下期間作出的資產及負債分析

以下到期日分析是以結算日至合約到期日的餘下期間為準。

由於交易用途資產組合可能在到期前出售，而客戶存款則可能在沒有提取的情況下到期，因此，合約到期日並不代表預計獲得未來現金流量的日期。

41 Financial Risk Management (cont'd)

(c) Liquidity risk management (cont'd)

(i) Analysis of assets and liabilities by remaining maturity

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

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

		本集團 The Group							
		2011							
			即時償還	1個月內	1個月以上	3個月以上	1年以上		
	總額	Repayable	Within	but over	but over	but over	5 years	無註明日期	
	Total	on demand	1 month	1 month	3 months	1 year	Over	Undated	
	港幣千元	港幣千元	港幣千元	港幣千元	港幣千元	港幣千元	港幣千元	港幣千元	港幣千元
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
資產	Assets								
現金及在銀行、中央 銀行及其他金融 機構的結存	Cash and balances with banks, central banks and other financial institutions	12,944,105	12,026,003	-	-	-	-	-	918,102
在銀行、中央銀行及 其他金融機構的 存款及墊款	Placements with and advances to banks, central banks and other financial institutions	35,838,843	-	13,245,092	11,877,583	10,716,168	-	-	-
交易用途資產	Trading assets	2,079,683	2,076,718	-	-	-	-	-	2,965
指定為通過損益以反 映公允價值的證券	Securities designated at fair value through profit or loss	355,677	-	-	96,630	170,584	42,861	-	45,602
客戶貸款及墊款 及其他賬項	Loans and advances to customers and other accounts	96,365,280	2,414,957	5,448,740	12,146,163	24,045,261	27,280,975	21,205,144	3,824,040
可供出售證券	Available-for-sale securities	22,904,954	-	4,197,723	3,927,346	5,705,534	8,341,722	685,694	46,935
可回收稅項	Tax recoverable	3,038	-	-	-	3,038	-	-	-
無註明日期資產	Undated assets	934,545	-	-	-	-	-	-	934,545
資產總額	Total assets	171,426,125	16,517,678	22,891,555	28,047,722	40,640,585	35,665,558	21,890,838	5,772,189
負債	Liabilities								
銀行及其他金融機構 的存款及結存	Deposits and balances of banks and other financial institutions	5,121,298	320,441	2,992,293	1,046,519	762,045	-	-	-
客戶存款	Deposits from customers	127,040,396	35,372,297	48,238,341	28,066,287	10,577,830	4,663,139	122,502	-
交易用途負債	Trading liabilities	1,331,198	1,331,198	-	-	-	-	-	-
已發行存款證	Certificates of deposit issued	12,123,896	-	588,256	2,005,557	6,454,117	2,882,193	193,773	-
已發行債務證券	Debt securities issued	397,436	-	-	3,000	394,436	-	-	-
債務資本	Loan capital	8,192,926	-	-	-	3,891,920	-	4,301,006	-
本期稅項	Current taxation	122,264	-	-	-	122,264	-	-	-
其他負債	Other liabilities	3,990,018	-	-	-	-	-	-	3,990,018
無註明日期負債	Undated liabilities	1,496	-	-	-	-	-	-	1,496
負債總額	Total liabilities	158,320,928	37,023,936	51,818,890	31,121,363	22,202,612	7,545,332	4,617,281	3,991,514
資產－負債差距	Asset-liability gap		(20,506,258)	(28,927,335)	(3,073,641)	18,437,973	28,120,226	17,273,557	

41 金融風險管理(續)

41 Financial Risk Management (cont'd)

(c) 流動資金風險管理(續)

(c) Liquidity risk management (cont'd)

(i) 根據餘下期間作出的資產及負債分析(續)

(i) Analysis of assets and liabilities by remaining maturity (cont'd)

本集團								
The Group								
2011								
			1個月以上 至3個月 3 months	3個月以上 至1年 1 year	1年以上 至5年 5 years	5年以上	無註明日期	
	即時償還	1個月內	or less	or less	or less	Over	Undated	
	Repayable	Within	but over	but over	but over	5 years		
	on demand	1 month	1 month	3 months	1 year	5 years		
	港幣千元	港幣千元	港幣千元	港幣千元	港幣千元	港幣千元	港幣千元	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
其中：	Of which:							
持有的存款證	Certificates of deposit held							
—已計入指定為通過 損益以反映公允 價值的證券	— included in securities designated at fair value through profit or loss	200,613	—	18,344	152,195	30,074	—	
—已計入可供出售證券	— included in available-for-sale securities	2,176,591	300,071	294,805	634,581	947,134	—	
		2,377,204	300,071	313,149	786,776	977,208	—	
債務證券	Debt securities							
—已計入指定為通過 損益以反映公允 價值的證券	— included in securities designated at fair value through profit or loss	155,064	—	78,286	18,389	12,787	45,602	
—已計入可供出售證券	— included in available-for-sale securities	14,020,172	190,276	856,926	4,892,688	7,394,588	685,694	
		14,175,236	190,276	935,212	4,911,077	7,407,375	685,694	
已發行存款證	Certificates of deposit issued							
—已計入非交易用途 已發行債務證券	— included in non-trading debt securities issued	12,123,896	588,256	2,005,557	6,454,117	2,882,193	193,773	

41 金融風險管理(續)

41 Financial Risk Management (cont'd)

(c) 流動資金風險管理(續)

(c) Liquidity risk management (cont'd)

(i) 根據餘下期間作出的資產及負債分析(續)

(i) Analysis of assets and liabilities by remaining maturity (cont'd)

		本集團 The Group							
		2010							
		總額 Total 港幣千元 HK\$ '000	即時償還 Repayable on demand 港幣千元 HK\$ '000	1個月內 Within 1 month 港幣千元 HK\$ '000	1個月以上 至3個月 3 months or less but over 1 month 港幣千元 HK\$ '000	3個月以上 至1年 1 year or less but over 3 months 港幣千元 HK\$ '000	1年以上 至5年 5 years or less but over 1 year 港幣千元 HK\$ '000	5年以上 Over 5 years 港幣千元 HK\$ '000	無註明日期 Undated 港幣千元 HK\$ '000
資產	Assets								
現金及在銀行、 中央銀行及其他 金融機構的結存	Cash and balances with banks, central banks and other financial institutions	21,225,122	20,367,767	—	—	—	—	—	857,355
在銀行、中央銀行 及其他金融機構 的存款及墊款	Placements with and advances to banks, central banks and other financial institutions	12,229,126	—	6,879,447	1,891,304	2,128,586	542,144	787,645	—
交易用途資產	Trading assets	1,633,657	1,626,466	—	—	—	—	—	7,191
指定為通過損益以反 映公允價值的證券	Securities designated at fair value through profit or loss	646,508	—	—	—	503,062	100,015	—	43,431
客戶貸款及墊款 及其他賬項	Loans and advances to customers and other accounts	90,714,680	1,744,503	3,723,930	9,863,830	20,473,993	31,099,247	20,828,444	2,980,733
可供出售證券	Available-for-sale securities	20,857,745	—	1,035,522	6,152,194	5,957,813	6,162,270	1,510,379	39,567
可回收稅項	Tax recoverable	59,744	—	—	—	59,744	—	—	—
無註明日期資產	Undated assets	842,319	—	—	—	—	—	—	842,319
資產總額	Total assets	148,208,901	23,738,736	11,638,899	17,907,328	29,123,198	37,903,676	23,126,468	4,770,596
負債	Liabilities								
銀行及其他金融機構 的存款及結存	Deposits and balances of banks and other financial institutions	1,850,372	369,489	438,061	272,094	301,725	469,003	—	—
客戶存款	Deposits from customers	113,466,113	39,291,199	44,577,905	19,039,528	7,031,421	3,526,060	—	—
交易用途負債	Trading liabilities	1,477,528	1,477,528	—	—	—	—	—	—
已發行存款證	Certificates of deposit issued	6,985,054	—	—	227,550	3,766,852	2,808,437	182,215	—
已發行債務證券	Debt securities issued	231,900	—	—	12,500	219,400	—	—	—
債務資本	Loan capital	7,763,729	—	—	—	—	3,915,682	3,848,047	—
本期稅項	Current taxation	18,972	—	—	—	18,972	—	—	—
其他負債	Other liabilities	3,061,233	253,436	725	—	—	—	—	2,807,072
無註明日期負債	Undated liabilities	2,197	—	—	—	—	—	—	2,197
負債總額	Total liabilities	134,857,098	41,391,652	45,016,691	19,551,672	11,338,370	10,719,182	4,030,262	2,809,269
資產－負債差距	Asset-liability gap		(17,652,916)	(33,377,792)	(1,644,344)	17,784,828	27,184,494	19,096,206	

41 金融風險管理(續)

41 Financial Risk Management (cont'd)

(c) 流動資金風險管理(續)

(c) Liquidity risk management (cont'd)

(i) 根據餘下期間作出的資產及負債分析(續)

(i) Analysis of assets and liabilities by remaining maturity (cont'd)

		本集團 The Group							
		2010							
				1個月以上 至3個月 3 months or less	3個月以上 至1年 1 year or less	1年以上 至5年 5 years or less	5年以上 Over 5 years	無註明日期 Undated	
總額	即時償還	1個月內							
Total	Repayable	Within							
港幣千元	港幣千元	港幣千元	港幣千元	港幣千元	港幣千元	港幣千元	港幣千元	港幣千元	港幣千元
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
其中：									
持有的存款證		Of which: Certificates of deposit held							
— 已計入可供出售證券		— included in available-for-sale securities							
		1,480,621	—	149,972	434,740	436,090	459,819	—	—
債務證券									
已計入指定為通過損益以反映公允價值的證券		Debt securities							
— 已計入指定為通過損益以反映公允價值的證券		— included in securities designated at fair value through profit or loss							
		646,508	—	—	—	503,062	100,015	—	43,431
— 已計入可供出售證券		— included in available-for-sale securities							
		16,727,106	—	822,531	3,211,617	5,480,004	5,702,451	1,510,379	124
		17,373,614	—	822,531	3,211,617	5,983,066	5,802,466	1,510,379	43,555
已發行存款證									
已計入指定為通過損益以反映公允價值的已發行債務證券		Certificates of deposit issued							
— 已計入指定為通過損益以反映公允價值的已發行債務證券		— included in designated at fair value through profit or loss debt securities issued							
		775,217	—	—	—	775,217	—	—	—
— 已計入非交易用途已發行債務證券		— included in non-trading debt securities issued							
		6,209,837	—	—	227,550	2,991,635	2,808,437	182,215	—
		6,985,054	—	—	227,550	3,766,852	2,808,437	182,215	—

41 金融風險管理(續)

41 Financial Risk Management (cont'd)

(c) 流動資金風險管理(續)

(c) Liquidity risk management (cont'd)

(i) 根據餘下期間作出的資產及負債分析(續)

(i) Analysis of assets and liabilities by remaining maturity (cont'd)

		本行 The Bank							
		2011							
					1個月以上 至3個月 3 months or less but over 1 month 港幣千元 HK\$'000	3個月以上 至1年 1 year or less but over 3 months 港幣千元 HK\$'000	1年以上 至5年 5 years or less but over 1 year 港幣千元 HK\$'000	5年以上 Over 5 years 港幣千元 HK\$'000	無註明日期 Undated 港幣千元 HK\$'000
資產	Assets								
現金及在銀行、中央銀行及其他金融機構的結存	Cash and balances with banks, central banks and other financial institutions	11,725,857	11,703,085	-	-	-	-	-	22,772
在銀行、中央銀行及其他金融機構的存款及墊款	Placements with and advances to banks, central banks and other financial institutions	28,400,867	-	8,952,045	10,126,789	9,322,033	-	-	-
交易用途資產	Trading assets	2,075,004	2,072,039	-	-	-	-	-	2,965
指定為通過損益以反映公允價值的證券	Securities designated at fair value through profit or loss	355,677	-	-	96,630	170,584	42,861	-	45,602
客戶貸款及墊款及其他賬項	Loans and advances to customers and other accounts	86,666,715	2,414,421	5,322,258	11,716,960	22,322,139	24,589,089	16,657,988	3,643,860
可供出售證券	Available-for-sale securities	22,205,469	-	4,197,723	3,927,346	5,339,832	8,007,939	685,694	46,935
應收附屬公司款項	Amount due from subsidiaries	8,201,586	887,744	186,130	1,483,949	4,500,420	1,033,098	-	110,245
無註明日期資產	Undated assets	2,156,198	-	-	-	-	-	-	2,156,198
資產總額	Total assets	161,787,373	17,077,289	18,658,156	27,351,674	41,655,008	33,672,987	17,343,682	6,028,577
負債	Liabilities								
銀行及其他金融機構的存款及結存	Deposits and balances of banks and other financial institutions	4,360,231	320,441	2,837,918	1,046,519	155,353	-	-	-
客戶存款	Deposits from customers	119,175,347	31,498,428	47,427,224	27,827,011	8,710,184	3,712,500	-	-
交易用途負債	Trading liabilities	1,321,019	1,321,019	-	-	-	-	-	-
已發行存款證	Certificates of deposit issued	12,123,896	-	588,256	2,005,557	6,454,117	2,882,193	193,773	-
債務證券	Debt securities	388,383	-	-	-	388,383	-	-	-
債務資本	Loan capital	6,242,919	-	-	-	1,941,913	-	4,301,006	-
應付附屬公司款項	Amount due to subsidiaries	2,273,113	128,428	55,616	3,000	1,949,638	-	-	136,431
本期稅項	Current taxation	112,299	-	-	-	112,299	-	-	-
其他負債	Other liabilities	3,634,159	-	-	-	-	-	-	3,634,159
無註明日期負債	Undated liabilities	18	-	-	-	-	-	-	18
負債總額	Total liabilities	149,631,384	33,268,316	50,909,014	30,882,087	19,711,887	6,594,693	4,494,779	3,770,608
資產－負債差距	Asset-liability gap		(16,191,027)	(32,250,858)	(3,530,413)	21,943,121	27,078,294	12,848,903	

41 金融風險管理(續)

(c) 流動資金風險管理(續)

(i) 根據餘下期間作出的資產及負債分析(續)

41 Financial Risk Management (cont'd)

(c) Liquidity risk management (cont'd)

(i) Analysis of assets and liabilities by remaining maturity (cont'd)

		本行 The Bank							
		2011							
		總額	即時償還	1個月內	1個月以上 至3個月	3個月以上 至1年	1年以上 至5年	5年以上	無註明日期
		Total	Repayable	Within	3 months	1 year	5 years	Over	Undated
		港幣千元	on demand	1 month	but over 1 month	but over 3 months	but over 1 year	5 years	港幣千元
		HK\$'000	港幣千元	港幣千元	港幣千元	港幣千元	港幣千元	港幣千元	港幣千元
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
其中：	Of which:								
持有的存款證	Certificates of deposit held								
—已計入指定為通過損益以反映公允價值的證券	— included in securities designated at fair value through profit or loss	200,613	—	—	18,344	152,195	30,074	—	—
—已計入可供出售證券	— included in available-for-sale securities	2,176,591	—	300,071	294,805	634,581	947,134	—	—
		2,377,204	—	300,071	313,149	786,776	977,208	—	—
債務證券	Debt securities								
—已計入指定為通過損益以反映公允價值的證券	— included in securities designated at fair value through profit or loss	155,064	—	—	78,286	18,389	12,787	—	45,602
—已計入可供出售證券	— included in available-for-sale securities	13,439,276	—	190,276	856,926	4,645,576	7,060,804	685,694	—
		13,594,340	—	190,276	935,212	4,663,965	7,073,591	685,694	45,602
已發行存款證	Certificates of deposit issued								
—已計入非交易用途已發行債務證券	— included in non-trading debt securities issued	12,123,896	—	588,256	2,005,557	6,454,117	2,882,193	193,773	—

41 金融風險管理(續)

41 Financial Risk Management (cont'd)

(c) 流動資金風險管理(續)

(c) Liquidity risk management (cont'd)

(i) 根據餘下期間作出的資產及負債分析(續)

(i) Analysis of assets and liabilities by remaining maturity (cont'd)

		本行 The Bank							
		2010							
			即時償還	1個月內	1個月以上 至3個月	3個月以上 至1年	1年以上 至5年		
		總額	Repayable	Within	3 months or less but over	1 year or less but over	5 years or less but over	5年以上 Over	無註明日期
		Total	on demand	1 month	1 month	3 months	1 year	5 years	Undated
		港幣千元	港幣千元	港幣千元	港幣千元	港幣千元	港幣千元	港幣千元	港幣千元
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
資產	Assets								
現金及在銀行、 中央銀行及其他 金融機構的結存	Cash and balances with banks, central banks and other financial institutions	20,686,359	20,284,940	-	-	-	-	-	401,419
在銀行、中央銀行 及其他金融機構 的存款及墊款	Placements with and advances to banks, central banks and other financial institutions	9,000,325	-	4,988,526	1,145,860	1,689,588	388,706	787,645	-
交易用途資產	Trading assets	1,620,822	1,613,631	-	-	-	-	-	7,191
指定為通過損益以反 映公允價值的證券	Securities designated at fair value through profit or loss	646,508	-	-	-	503,062	100,015	-	43,431
客戶貸款及墊款 及其他賬項	Loans and advances to customers and other accounts	81,362,775	1,744,026	3,653,952	9,469,330	18,837,285	28,451,129	16,381,990	2,825,063
可供出售證券	Available-for-sale securities	20,798,979	-	1,035,522	6,152,194	5,957,813	6,103,504	1,510,379	39,567
應收附屬公司款項	Amount due from subsidiaries	7,261,783	-	584,577	2,136,957	3,341,958	1,107,811	-	90,480
可回收稅項	Tax recoverable	57,771	-	-	-	57,771	-	-	-
無註明日期資產	Undated assets	2,064,118	-	-	-	-	-	-	2,064,118
資產總額	Total assets	143,499,440	23,642,597	10,262,577	18,904,341	30,387,477	36,151,165	18,680,014	5,471,269
負債	Liabilities								
銀行及其他金融機構 的存款及結存	Deposits and balances of banks and other financial institutions	727,892	369,489	86,309	272,094	-	-	-	-
客戶存款	Deposits from customers	110,601,692	39,004,516	43,355,801	18,743,827	6,050,332	3,447,216	-	-
交易用途負債	Trading liabilities	1,464,497	1,464,497	-	-	-	-	-	-
已發行存款證	Certificates of deposit issued	6,985,054	-	-	227,550	3,766,852	2,808,437	182,215	-
債務資本	Loan capital	5,791,576	-	-	-	-	1,943,529	3,848,047	-
應付附屬公司款項	Amount due to subsidiaries	2,511,132	119,748	101,215	207,300	1,667	1,943,529	-	137,673
本期稅項	Current taxation	3,268	-	-	-	3,268	-	-	-
其他負債	Other liabilities	2,707,508	253,436	725	-	-	-	-	2,453,347
無註明日期負債	Undated liabilities	487	-	-	-	-	-	-	487
負債總額	Total liabilities	130,793,106	41,211,686	43,544,050	19,450,771	9,822,119	10,142,711	4,030,262	2,591,507
資產－負債差距	Asset-liability gap		(17,569,089)	(33,281,473)	(546,430)	20,565,358	26,008,454	14,649,752	

41 金融風險管理(續)

41 Financial Risk Management (cont'd)

(c) 流動資金風險管理(續)

(c) Liquidity risk management (cont'd)

(i) 根據餘下期間作出的資產及負債分析(續)

(i) Analysis of assets and liabilities by remaining maturity (cont'd)

		本行 The Bank							
		2010							
		總額	即時償還	1個月內	1個月以上 至3個月	3個月以上 至1年	1年以上 至5年	5年以上	無註明日期
		Total	Repayable on demand	Within 1 month	but over 1 month	but over 3 months	but over 1 year	Over 5 years	Undated
		港幣千元 HK\$'000	港幣千元 HK\$'000	港幣千元 HK\$'000	港幣千元 HK\$'000	港幣千元 HK\$'000	港幣千元 HK\$'000	港幣千元 HK\$'000	港幣千元 HK\$'000
其中：	Of which:								
持有的存款證	Certificates of deposit held								
—已計入可供出售證券	— included in available-for-sale securities	1,480,621	—	149,972	434,740	436,090	459,819	—	—
債務證券	Debt securities								
—已計入指定為通過損益以反映公允價值的證券	— included in securities designated at fair value through profit or loss	646,508	—	—	—	503,062	100,015	—	43,431
—已計入可供出售證券	— included in available-for-sale securities	16,668,340	—	822,531	3,211,617	5,480,004	5,643,685	1,510,379	124
		17,314,848	—	822,531	3,211,617	5,983,066	5,743,700	1,510,379	43,555
已發行存款證	Certificates of deposit issued								
—已計入指定為通過損益以反映公允價值的債務證券	— included in designated at fair value through profit or loss debt securities issued	775,217	—	—	—	775,217	—	—	—
—已計入非交易用途已發行債務證券	— included in non-trading debt securities issued	6,209,837	—	—	227,550	2,991,635	2,808,437	182,215	—
		6,985,054	—	—	227,550	3,766,852	2,808,437	182,215	—

41 金融風險管理(續)

(c) 流動資金風險管理(續)

(ii) 金融負債剩餘期限分析

以下的剩餘期限分析顯示本集團及本行的金融負債的最早可能的合約到期日之餘下期間為準的未折現現金流量。

41 Financial Risk Management (cont'd)

(c) Liquidity risk management (cont'd)

(ii) Analysis of the residual contractual maturities of financial liabilities

The following maturity profile shows the undiscounted cash flows on the Group's or the Bank's financial liabilities on the basis of their earliest possible contractual maturity.

		本集團 The Group						
		2011						
					1個月以上 至3個月 3 months or less	3個月以上 至1年 1 year or less	1年以上 至5年 5 years or less	5年以上 Over 5 years
		現金流量總額 Gross cash flows 港幣千元 HK\$'000	即時償還 Repayable on demand 港幣千元 HK\$'000	1個月內 Within 1 month 港幣千元 HK\$'000	or less 1 month 港幣千元 HK\$'000	or less 3 months 港幣千元 HK\$'000	or less 1 year 港幣千元 HK\$'000	or less 5 years 港幣千元 HK\$'000
銀行及其他金融機構的存款及結存	Deposits and balances of banks and other financial institutions	5,137,226	320,441	3,003,309	1,048,876	764,600	–	–
客戶存款	Deposits from customers	127,576,328	35,372,297	48,361,811	28,239,333	10,744,732	4,735,653	122,502
已發行存款證	Certificates of deposit issued	12,420,552	–	611,135	2,083,410	6,556,874	2,984,001	185,132
已發行債務證券	Debt securities issued	402,249	–	–	4,207	398,042	–	–
債務資本	Loan capital	10,258,934	–	–	11,117	4,361,392	1,068,052	4,818,373
衍生金融工具	Derivative financial instruments	820,357	–	46,243	118,500	360,803	294,811	–
		156,615,646	35,692,738	52,022,498	31,505,443	23,186,443	9,082,517	5,126,007

41 金融風險管理(續)

(c) 流動資金風險管理(續)

(ii) 金融負債剩餘期限分析(續)

41 Financial Risk Management (cont'd)

(c) Liquidity risk management (cont'd)

(ii) Analysis of the residual contractual maturities of financial liabilities (cont'd)

		本集團 The Group						
		2010						
		現金流量總額 Gross cash flows 港幣千元 HK\$'000	即時償還 Repayable on demand 港幣千元 HK\$'000	1個月內 Within 1 month 港幣千元 HK\$'000	1個月以上 至3個月 3 months or less but over 1 month 港幣千元 HK\$'000	3個月以上 至1年 1 year or less but over 3 months 港幣千元 HK\$'000	1年以上 至5年 5 years or less but over 1 year 港幣千元 HK\$'000	5年以上 Over 5 years 港幣千元 HK\$'000
銀行及其他金融機構的存款及結存	Deposits and balances of banks and other financial institutions	1,851,878	369,489	438,860	272,698	301,814	469,017	–
客戶存款	Deposits from customers	113,813,017	39,291,199	44,618,224	19,074,587	7,229,418	3,599,589	–
已發行存款證	Certificates of deposit issued	7,229,627	–	69,939	195,335	3,832,198	2,940,768	191,387
已發行債務證券	Debt securities issued	232,169	–	41	12,592	219,536	–	–
債務資本	Loan capital	10,747,313	–	–	9,971	474,496	5,173,230	5,089,616
衍生金融工具	Derivative financial instruments	966,801	–	40,893	69,677	428,855	427,376	–
		134,840,805	39,660,688	45,167,957	19,634,860	12,486,317	12,609,980	5,281,003

		本行 The Bank						
		2011						
		現金流量總額 Gross cash flows 港幣千元 HK\$'000	即時償還 Repayable on demand 港幣千元 HK\$'000	1個月內 Within 1 month 港幣千元 HK\$'000	1個月以上 至3個月 3 months or less but over 1 month 港幣千元 HK\$'000	3個月以上 至1年 1 year or less but over 3 months 港幣千元 HK\$'000	1年以上 至5年 5 years or less but over 1 year 港幣千元 HK\$'000	5年以上 Over 5 years 港幣千元 HK\$'000
銀行及其他金融機構的存款及結存	Deposits and balances of banks and other financial institutions	4,368,763	320,441	2,843,703	1,048,876	155,743	–	–
客戶存款	Deposits from customers	119,664,985	31,498,428	47,543,495	27,996,495	8,851,298	3,775,269	–
已發行存款證	Certificates of deposit issued	12,420,552	–	611,135	2,083,410	6,556,874	2,984,001	185,132
已發行債務證券	Debt securities issued	393,184	–	–	1,201	391,983	–	–
債務資本	Loan capital	8,139,821	–	–	11,117	2,242,279	1,068,052	4,818,373
衍生金融工具	Derivative financial instruments	820,357	–	46,243	118,500	360,803	294,811	–
應付附屬公司款項	Amount due to subsidiaries	2,314,140	128,428	55,654	3,129	2,126,925	4	–
		148,121,802	31,947,297	51,100,230	31,262,728	20,685,905	8,122,137	5,003,505

41 金融風險管理(續)

(c) 流動資金風險管理(續)

(ii) 金融負債剩餘期限分析(續)

		本行 The Bank					
		2010					
				1個月以上 至3個月 3 months or less but over 1 month	3個月以上 至1年 1 year or less but over 3 months	1年以上 至5年 5 years or less but over 1 year	5年以上 Over 5 years
現金流量總額	即時償還	1個月內					
Gross	Repayable	Within					
cash flows	on demand	1 month					
港幣千元	港幣千元	港幣千元		港幣千元	港幣千元	港幣千元	港幣千元
HK\$'000	HK\$'000	HK\$'000		HK\$'000	HK\$'000	HK\$'000	HK\$'000
銀行及其他金融機構的存款及結存	Deposits and balances of banks and other financial institutions	728,520	369,489	86,333	272,698	–	–
客戶存款	Deposits from customers	110,932,744	39,004,515	43,392,054	18,775,434	6,240,816	3,519,925
已發行存款證	Certificates of deposit issued	7,229,627	–	69,939	195,335	3,832,198	2,940,768
債務資本	Loan capital	8,449,091	–	–	9,971	297,149	3,052,355
衍生金融工具	Derivative financial instruments	966,801	–	40,893	69,677	428,855	427,376
應付附屬公司款項	Amount due to subsidiaries	2,624,976	119,748	101,235	207,344	179,226	2,017,423
		130,931,759	39,493,752	43,690,454	19,530,459	10,978,244	11,957,847
							5,281,003

(d) 業務操作風險管理

業務操作風險是因內部流程，人員及系統的不當與失誤，或其他外部作業相關事件，所造成損失的風險。這些風險隱藏在本集團所有的業務和活動中。業務操作風險管理的目的是確保本集團能一致及全面地確定、評估、減輕、監察和匯報業務操作風險。

業務操作風險管理架構涵蓋本集團中的所有成員。業務操作風險管理小組隸屬首席風險管理總監，並由董事會授權的信貸及風險管理委員會和營運委員會所規管。本集團的業務操作風險管理架構、計劃及評估工具已獲上述的兩個委員會核准，並由業務操作風險管理小組及高級管理層負責執行。

(d) Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It is present in virtually all the Group's transactions and activities. The objective of operational risk management is to ensure that operational risks are consistently and comprehensively identified, assessed, mitigated, monitored and reported.

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

41 金融風險管理(續)

(d) 業務操作風險管理(續)

業務操作風險管理小組協助管理層認識及管理業務操作風險，並確保本集團的業務操作風險政策、流程及程序能一致地應用於集團各部門。業務操作風險管理小組監察本集團的整體業務操作風險水平及確保所有相關的重大風險都能及時並準確地向高級管理層匯報。內部審計部基於持續發展的基礎對業務操作風險管理架構作出檢討以確保管理架構恰當有效。

本集團透過以下不同的銀行政策、守則及程序管理業務操作風險：

- 集團業務操作風險管理架構勾劃出本集團的相關管治架構、各崗位的角色及責任、業務操作風險的評估方法及工具。
- 業務操作風險事件匯報機制規定業務操作風險事件分類和匯報的要求、損失入帳和校對，以及匯報事件中各單位的角色及責任。
- 新產品批核程序釐訂新產品的定義、批核要求和程序、各審批單位的角色及責任、新產品推出前的風險評估及推出後的強制性檢討要求。
- 其他政策、守則及程序包括外判政策、災難應變計劃、業務持續發展計劃、銀行擠提演練、人力資源相關政策、資訊科技數據安全政策及終端用戶試算政策等均已各相關業務及支援部門實施，並由該部門負責監察相關的業務操作風險。

41 Financial Risk Management (cont'd)

(d) Operational risk management (cont'd)

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

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

- Group Operational Risk Management encompasses the Group's ORGF, which depicts the governance framework, roles and responsibilities, tools, and methodologies for the management of operational risk.
- Incident Reporting Framework stipulates the risk classification, reporting requirements, loss posting and reconciliation, and roles and responsibilities of reporting operational risk incidents.
- New Product Approval Process stipulates the new product definition, approval requirements, processes, and roles and responsibilities of the approval and reviewing parties; the necessary risk assessments before the launch of the new product; and the compulsory post-launch review requirements.
- Other policies, procedures and processes comprises ensuring outsourcing, disaster recovery, a business continuity plan, bank run drills, human resources-related policies, IT data security and End User Computing are in place in the respective business and functional units, which are also accountable for monitoring the relevant operational risk under their expertise.

41 金融風險管理(續)

(d) 業務操作風險管理(續)

本集團透過以下不同的工具和系統測量及監察業務操作風險：

- 業務操作風險自我評估正分階段，由業務操作風險管理小組指引下，於各業務及支援部門推出。各部門由管理層所委任的負責人領導進行自我評估，從日常業務運作中識辨潛在的主要業務操作風險。自我評估時會對各風險因素進行分析並估計其單次損失金額及每年發生次數，從而量化該因素帶來的損失。業務操作風險自我評估工具會自動根據所輸入的風險因素單次損失及每年發生次數，計算出年度的財務損失。相關部門會根據評估結果決定繼續監察該風險因素或訂立風險緩減計劃。當風險緩減計劃訂立後，相關部門需定期提交計劃進度予業務操作風險管理小組作監察及匯報之用。
- 事件報告系統的實施建立了業務操作風險損失數據資料庫。此系統紀錄了所有業務操作風險事件，包括沒有財務損失的事件。透過此系統，業務操作風險管理小組確保所有事件均已作出合理調查，並確保相關的改進措施及預防措施按照既定時間表執行。作為一個中央數據資料庫，系統數據會用於編制定期報告，向高級管理層、營運委員會、信貸及風險管理委員會匯報重大的業務操作風險事件，及監察業務操作風險趨勢。匯報機制的設立確保相關的內部部門能及時得悉重大事件，並迅速提交報告予監管機構。在監管機構的要求下，本集團亦會透過事件報告系統提取相關資料給予監管機構作定期審閱。

41 Financial Risk Management (cont'd)

(d) Operational risk management (cont'd)

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

- Operational Risk Self-Assessment (ORSA) has been rolled out across the business and functional units in phases under the guidance of the ORM unit. The ORSA leaders are nominated by the management of each business and functional unit to conduct self-assessments and identify Key Risk Factors in their daily business and support processes. Each Risk Factor is assessed and quantified for its impact, in terms of each individual occurrence ("Unit Impact") and number of occurrences in a year ("Annual Frequency"). The ORSA tool is automated, based on Unit Impact and Annual Frequency, to calculate the dollar impact in a year ("Annualised Risk"). Based on the assessment results, the relevant unit will decide whether to adopt ongoing monitoring or establish mitigation plans to lower the risk. Once a mitigation plan is established, the relevant unit will track the progress and regularly update the ORM unit for monitoring and management reporting purposes.
- Operational Risk Loss Database is established through the implementation of the Incident Reporting System (IRS), which collects all operational risk incidents with or without financial impact. Through the IRS, the ORM unit ensures all incidents are properly investigated, with corrective and preventive actions timely executed according to the planned timeline. It serves as a centralised database to produce regular reports for senior management, OC and CRMC review on the significant impact and monitoring of the operational risk trend. An escalation protocol is in place to ensure that incidents with significant impact are reported to the respective internal units as well as promptly reported to the regulatory authorities. At the request of regulatory authorities, the incident data in the IRS is also submitted for their periodic review.

41 金融風險管理(續)

(d) 業務操作風險管理(續)

- 主要風險指標是一項透過分析不同的風險因素，提供一個具前瞻性的風險預警訊號予管理層監察及作出相關行動的統計工具。透過定期的風險指標監察，本集團能及早識辨及應對潛在的業務監控弱點。在過去的一年，本集團積極改良主要風險指標工具，務求全面覆蓋本集團各部門；並採取更科學化的方法，將指標以強度等級量化。新的主要風險指標包括6個主要風險類別涵蓋16個風險指標，為每一個風險類別、業務及功能部門計算個別風險分數，並計算出一個銀行整體分數以了解銀行的業務操作風險狀況及趨勢。

業務操作風險報告每月呈交營運委員會，並作為集團風險報告的其中一部份每季呈交信貸及風險管理委員會，為管理層就重大操作風險事件和分析提供概覽。報告包括業務操作風險管理工具的實施進度概況、業務操作風險事件及其損失的走勢分析、並扼要論述重大業務操作風險事件及簡報當月發生風險事故列表。

於2011年，本集團投放大量資源推動業務操作風險文化。2011年第一季本集團舉行一連串培訓課程，並於第四季推出網上學習課程。兩次培訓的目的為提高員工的風險認知，使他們更了解業務操作風險管理架構及其角色和責任，課程亦會簡述事件報告系統的運作。網上學習課程會每年推行一次，所有銀行職員，包括新入職的職員，均必須完成。此網上學習課程預計將於2012年推廣至海外分行及子公司。管理層具體的支持進一步加強了業務操作風險的認受性和推動員工達致卓越的營運水平。

41 Financial Risk Management (cont'd)

(d) Operational risk management (cont'd)

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

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

Substantial efforts were made in 2011 to cultivate a strong ORM culture achieved through a series of training sessions held throughout the Bank in the first quarter of 2011, followed by the launch of a web-based learning program rolled out in the fourth quarter of 2011. The continual objectives are to raise risk awareness, and enrich employees' understanding of the ORGF, their roles and responsibilities, accountability and the Incident Reporting System. The web-based learning is required for all newly joined staff, and will be launched annually in Hong Kong, with targeted roll-out to overseas branches and subsidiaries in 2012. This is further reinforced by strong, visible management support which encourages staff to embrace and promote operational excellence.

41 金融風險管理(續)

(d) 業務操作風險管理(續)

本集團的長遠業務操作風險管理計劃及相關工具已於2011年由營運委員會、管理委員會和信貸及風險管理委員會認可核實。本集團會不斷優化及提升業務操作風險管理架構以配合市場發展，並與集團的策略伙伴緊密合作。於未來一年，本集團將集中投放資源於：(a)分階段推行業務操作風險自我評估至集團各部門；(b)加強對海外分行及子公司的業務操作風險監管；及(c)繼續改良損失事件報告系統及相關業務操作風險報告。

本集團的長遠目標為推動一個具前瞻性、有承擔和負責任的業務操作風險管理文化，並透過識辨、評估、緩減風險及匯報，持續穩健地管理業務操作風險，以達致卓越營運的目的。

(e) 資本管理

本集團管理資本有以下主要目的：

- 為符合市場上銀行監管機構對在本集團營運的實體的資本要求；
- 保持一個強大的資本基礎以支持其業務的發展；及
- 維護本集團持續發展的能力，從而能夠繼續為股東提供回報，並為其他利益相關者提供利益。

金管局制定及監察本集團銀行整體的資本規定，而各銀行子公司則直接受其當地銀行監管機構所監管。為了實行當前的資本規定，金管局要求本集團須維持一個總資本對總風險加權資產的設定比率。本集團採用標準計算法以計算其在持倉交易盤及信貸風險加權的市場風險，而業務操作風險則採用基本指標法。銀行業務被歸類為交易賬項或銀行賬項，而風險加權資產是按照嘗試反映資產所附帶的不同風險程度和財務狀況表外風險承擔的指明規定加以釐定。

41 Financial Risk Management (cont'd)

(d) Operational risk management (cont'd)

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

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

(e) Capital management

The Group's primary objectives when managing capital are as follows:

- To comply with the capital requirements set by the banking regulators in the markets where the entities within the Group operate;
- To maintain a strong capital base to support the development of its business; and
- To safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The HKMA sets and monitors capital requirements for the Group as a whole. An individual banking subsidiary is directly regulated by its local banking supervisor. In implementing current capital requirements, the HKMA requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets. The Group adopts 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.

41 金融風險管理(續)

(e) 資本管理(續)

本集團積極及定期檢討和管理其資本架構，以在維持較高槓桿比率可能帶來的高股東回報與穩健資本狀況的優點和保證之間取得平衡，並因應不同的經濟狀況為資本架構作出調整。

按照行業慣常做法，本集團以資本充足比率監管其資本架構，而於年內，本集團的資本管理政策並無重大變動。

於2011年12月31日的資本充足比率是本集團及其若干附屬公司根據金管局為監管而要求的綜合基準計算，並已遵照《銀行業(資本)規則》。

截至2011年及2010年12月31日止年度，本集團及其個別受監管的業務均一直遵守所有外部施加的資本規定，且有關資本水平一直遠高於金管局要求的最低比率。

(f) 法律風險管理

本集團緊貼所有適用於其管治及營運的最新法律和監管規定，不斷致力培育員工，以及提升系統和程序，以建立警覺意識和推行必要的變動。本集團亦經常根據有關法律和監管規定制定政策和程序，並不時進行檢討，並以內部溝通及培訓的形式傳遞這些政策。本集團亦設立了一項有力的程序以確保有效地識別、監管及緩減法律和監管風險，如有任何重大未合規事件發生，法律及合規職能部門會向本行的審核委員會，信貸及風險管理委員會和高級管理層作出匯報。

41 Financial Risk Management (cont'd)

(e) Capital management (cont'd)

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might otherwise be possible with greater gearing, and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

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

The capital adequacy ratios at 31 December 2011 are computed on the consolidated basis of the Group and certain subsidiaries as specified by the HKMA for its regulatory purposes, and are in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the year ended 31 December 2011 and 2010, and well above the minimum required ratio set by the HKMA.

(f) Legal risk management

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

41 金融風險管理(續)**(f) 法律風險管理(續)**

法律部及合規部在本行的運作扮演著極為重要的角色，並為各部門提供法律與合規的意見及支援。在2011年，法律部及合規部積極參與新產品的推出及新業務的創立，重要的策略性交易及商業合約、外匯合約、以及為本行處理其遍及不同地域及範疇的銀行商業活動的日常事務。合規部亦積極參與監測和確保符合急速變化的投資者及客戶數據保障監管規定。於2012年，法律部及合規部將繼續就本行的需要提供意見及支援以盡力克服現時環境轉變所帶來的挑戰。

(g) 策略性及聲譽風險管理

策略性風險管理是源自本集團為建立、支持及推行有關長期增長及發展的策略性決定所付出的努力。聲譽風險管理則源自本集團致力保護其品牌及業務經營權免除由有關本行經營慣例、行為或財務狀況的負面公眾消息所導致的潛在損害。

本集團的信貸及風險管理委員會定期開會，監察和管理本集團的策略性及聲譽風險。本集團高級管理層認為當前要務是確保能妥善制定及執行業務和營運策略，並以專業手法及按合適時機進行。此等策略會定時作出檢討以使本集團能與不斷變化的營運及監管環境同步並進。本集團以銀行整體基礎為業務重點，連同一些能清楚配合支持本集團策略的個別業務及職能單位，可計量的目標會分配到不同單位以確保能完善執行。本集團亦非常關注保護本集團的聲譽及加強其品牌效應達至最大效益，此需要持續致力監管及確保客戶的滿意度、營運的效率、法律與監管的合規性、與公眾的溝通及發佈的管理等方面能維持高水平。

41 Financial Risk Management (cont'd)**(f) Legal risk management (cont'd)**

The Legal Department ("LD") and Compliance Department ("CD") have been key partners in the business, providing legal and compliance advice and support to all parts of the Bank. In 2011, the LD and CD were actively involved in new product launches and new business initiatives, strategically important transactions and commercial agreements, outsourcing arrangements as well as day-to-day matters arising from the Bank business that is diverse both geographically and in scope. CD has also been heavily involved in monitoring and ensuring compliance with fast changing regulatory requirements in the area of investor and customer data protection. LD and CD in 2012 will continue to provide the advice and support that the Bank will require as it strives to meet the challenges these changes will present.

(g) Strategic and reputational risks management

Strategic risk management refers to the Group's efforts to develop, uphold and implement strategic decisions related to its long-term growth and development. Reputational risk management refers to the Group's efforts to protect its brand name and business franchise from any potential damages arising from negative publicity about its business practices, conduct or financial condition.

The CRMC of the Group meets regularly to monitor and oversee the Group's strategic and reputational risks. High priority is placed by senior management to ensure that the Group's business and operational strategies are appropriately defined and executed in a professional and time-relevant manner. Such strategies are reviewed on a regular basis to enable the Group to make timely response 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 standard in customer satisfaction, operational efficiency, legal and regulatory compliance, public communication, and issues management, etc.

42 公允價值資料

(a) 以公允價值列賬的金融工具

公允價值估計是根據金融工具的特性和相關市場資料於某一特定時間作出，因此一般是主觀的。本集團以下列的層級計算公允價值以反映輸入參數對量度公允價值的重要性：

第1級－參考同一工具在活躍市場取得的市場報價（未經調整）。

第2級－根據可觀察的輸入參數之估值模式。輸入的參數是直接或間接可從市場觀察所得的數據。此層級估值的工具，包括金融工具：就相若工具在活躍市場取得的市場報價或就相同或相若工具在非活躍市場取得的市場報價。

第3級－根據重要但非可觀察得到的輸入參數之估值模式。其估值模式包括一個或多個重要的輸入參數是非可觀察的數據。此層級估值的工具，也包括在活躍市場取得相若金融工具的市場報價，惟當中需要作出非可觀察之調整或假設，以反映不同金融工具之間的差別。

42 Fair Value Information

(a) Financial instruments carried at fair value

Fair value estimates are generally subjective in nature, and are made as at a specific point in time based on the characteristics of the financial instruments and relevant market information. 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 that 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.

42 公允價值資料(續)

(a) 以公允價值列賬的金融工具(續)

下表對以公允價值計量的金融工具按其身處公允價值層級作出分析：

42 Fair Value Information (cont'd)

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

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy into which the fair value treatment is categorised:

		2011							
		本集團 The Group				本行 The Bank			
		第1級 Level 1 港幣千元 HK\$'000	第2級 Level 2 港幣千元 HK\$'000	第3級 Level 3 港幣千元 HK\$'000	總額 Total 港幣千元 HK\$'000	第1級 Level 1 港幣千元 HK\$'000	第2級 Level 2 港幣千元 HK\$'000	第3級 Level 3 港幣千元 HK\$'000	總額 Total 港幣千元 HK\$'000
資產	Assets								
交易用途資產	Trading assets								
— 投資基金	— Investment funds	—	—	2,965	2,965	—	—	2,965	2,965
— 衍生工具的 正公允價值	— Positive fair values of derivatives	15,215	2,061,503	—	2,076,718	15,215	2,056,824	—	2,072,039
		15,215	2,061,503	2,965	2,079,683	15,215	2,056,824	2,965	2,075,004
指定為通過損益以反映 公允價值的證券	Securities designated at fair value through profit or loss								
— 持有的存款證	— Certificates of deposit held	30,075	170,538	—	200,613	30,075	170,538	—	200,613
— 債務證券	— Debt securities	109,462	—	45,602	155,064	109,462	—	45,602	155,064
		139,537	170,538	45,602	355,677	139,537	170,538	45,602	355,677
可供出售證券	Available-for-sale securities								
— 持有的存款證	— Certificates of deposit held	34,373	2,142,218	—	2,176,591	34,373	2,142,218	—	2,176,591
— 國庫券(包括外匯 基金票據)	— Treasury bills (including Exchange Fund Bills)	6,661,256	—	—	6,661,256	6,542,667	—	—	6,542,667
— 債務證券	— Debt securities	6,041,329	7,974,843	4,000	14,020,172	5,460,433	7,974,843	4,000	13,439,276
— 權益證券	— Equity securities	23,757	—	23,178	46,935	23,757	—	23,178	46,935
		12,760,715	10,117,061	27,178	22,904,954	12,061,230	10,117,061	27,178	22,205,469
		12,915,467	12,349,102	75,745	25,340,314	12,215,982	12,344,423	75,745	24,636,150
負債	Liabilities								
交易用途負債	Trading liabilities								
— 衍生工具的 負公允價值	— Negative fair value of derivatives	580	1,330,618	—	1,331,198	580	1,320,439	—	1,321,019

42 公允價值資料(續)

42 Fair Value Information (cont'd)

(a) 以公允價值列賬的金融工具(續)

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

		2010							
		本集團 The Group				本行 The Bank			
		第1級 Level 1 港幣千元 HK\$'000	第2級 Level 2 港幣千元 HK\$'000	第3級 Level 3 港幣千元 HK\$'000	總額 Total 港幣千元 HK\$'000	第1級 Level 1 港幣千元 HK\$'000	第2級 Level 2 港幣千元 HK\$'000	第3級 Level 3 港幣千元 HK\$'000	總額 Total 港幣千元 HK\$'000
資產	Assets								
交易用途資產	Trading assets								
— 權益證券	— Equity securities	3,029	—	—	3,029	3,029	—	—	3,029
— 投資基金	— Investment funds	—	—	4,162	4,162	—	—	4,162	4,162
— 衍生工具的 正公允價值	— Positive fair values of derivatives	30,994	1,595,472	—	1,626,466	30,994	1,582,637	—	1,613,631
		34,023	1,595,472	4,162	1,633,657	34,023	1,582,637	4,162	1,620,822
指定為通過損益以反 映公允價值的證券	Securities designated at fair value through profit or loss								
— 債務證券	— Debt securities	602,878	—	43,630	646,508	602,878	—	43,630	646,508
可供出售證券	Available-for-sale securities								
— 持有的存款證	— Certificates of deposit held	33,329	1,447,292	—	1,480,621	33,329	1,447,292	—	1,480,621
— 國庫券(包括外匯 基金票據)	— Treasury bills (including Exchange Fund Bills)	2,610,576	—	—	2,610,576	2,610,576	—	—	2,610,576
— 債務證券	— Debt securities	6,030,868	10,686,019	10,219	16,727,106	5,972,102	10,686,019	10,219	16,668,340
— 權益證券	— Equity securities	16,258	—	23,184	39,442	16,258	—	23,184	39,442
		8,691,031	12,133,311	33,403	20,857,745	8,632,265	12,133,311	33,403	20,798,979
		9,327,932	13,728,783	81,195	23,137,910	9,269,166	13,715,948	81,195	23,066,309
負債	Liabilities								
交易用途負債	Trading liabilities								
— 衍生工具的 負公允價值	— Negative fair value of derivatives	719	1,476,809	—	1,477,528	719	1,463,778	—	1,464,497
已發行存款證	Certificate of deposit issued								
— 指定為通過損益以 反映公允價值	— Designated at fair value through profit or loss	—	775,217	—	775,217	—	775,217	—	775,217
		719	2,252,026	—	2,252,745	719	2,238,995	—	2,239,714

於2011年及2010年內，公允價值級次第1級和第2級之間並沒有重大的金融工具的轉移。

In 2011 and 2010, there were no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy.

42 公允價值資料(續)

(a) 以公允價值列賬的金融工具(續)

公允價值的釐定

於活躍市場上進行交易的金融資產及金融負債根據市場報價或經銷商報價以釐定其公允價值。而對於所有其他金融工具的公允價值本集團則採用估值模式。估值模式包括淨現值和現金流量折現模型和其他估值模型。用於估值模式的假設和輸入參數包括無風險利率及基準利率，信貸利差和其他變數用以估計折現率，債券價格和外匯匯率。

本集團就釐定金融工具的公允價值採用最常見的估值方法如利率和貨幣掉期，這是可靠性高的可觀察市場數據，並不需要管理層耗時判斷與估計。觀察價格和模型的輸入參數通常可在市場內上市的債券及股份證券，外匯買賣的衍生工具和簡單的場外交易(OTC)衍生工具如利率掉期獲取。然而，可否取得可觀察市場價格和輸入參數取決於不同的產品和市場，並會因金融市場個別事件和一般情況而有不同變化。

某些金融工具的估值模式需要一個或多個非可觀察的重要輸入參數，這些金融工具包括結構性投資，例如投資Farmington，場外交易結構性衍生工具及一些沒有活躍市場的證券。該等需利用重要而非可觀察的輸入參數的估值模式，需要管理層深入判斷或估計始能揀選適當的估值模式，為估值的金融工具決定其預期的未來現金流量，決定交易對手違約和還款的或然率，以及選擇適當的折現率等。

42 Fair Value Information (cont'd)

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

Determination of fair value

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 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 such as the Farmington 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.

42 公允價值資料(續)

(a) 以公允價值列賬的金融工具(續)

(i) 使用重要而非可觀察的輸入參數的金融工具估值

下表顯示第三層級的公允價值層級餘額和本年度的變動情況：

42 Fair Value Information (cont'd)

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

(i) Valuation of financial instruments with significant unobservable inputs

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

		2011 本集團及本行 The Group and the Bank					
		交易用途資產 Trading assets		指定為通過損益以反映公允價值的證券 Securities designated at fair value through profit or loss	可供出售證券 Available-for-sale securities		總額 Total
		投資基金 Investment funds	衍生工具的正公允價值 Positive fair value of derivatives	債務證券 Debt securities	債務證券 Debt securities	權益證券 Equity securities	投資基金 Investment funds
資產	Assets	港幣千元 HK\$'000	港幣千元 HK\$'000	港幣千元 HK\$'000	港幣千元 HK\$'000	港幣千元 HK\$'000	港幣千元 HK\$'000
於2011年1月1日	At 1 January 2011	4,162	-	43,630	10,219	23,184	-
買入	Purchases	24	-	-	-	-	-
賣出	Sales	(2,268)	-	-	-	-	-
結算	Settlements	-	-	(199)	(6,231)	-	-
於損益表確認的公允價值變動	Changes in fair value recognised in the income statement						
- 買賣外幣收益減虧損	- Gains less losses dealing in foreign currencies	-	-	-	12	(6)	-
- 買賣交易用途證券收益減虧損	- Gains less losses from trading securities	1,047	-	-	-	-	-
- 指定為通過損益以反映公允價值之金融工具淨收益	- Net gain from financial instruments designated at fair value through profit or loss	-	-	2,171	-	-	-
於2011年12月31日	At 31 December 2011	2,965	-	45,602	4,000	23,178	-
於結算日仍持有的資產於年內於損益表內確認的損益總額：	Total gains or losses for the year included in the income statement for assets held at the end of the reporting period recorded in:						
- 買賣外幣收益減虧損	- Gains less losses from dealing in foreign currencies	-	-	-	12	(6)	-
- 買賣交易用途證券收益減虧損	- Gains less losses from trading securities	1,047	-	-	-	-	-
- 指定為通過損益以反映公允價值之金融工具淨收益	- Net gain from financial instruments designated at fair value through profit or loss	-	-	2,171	-	-	-

42 公允價值資料(續)

(a) 以公允價值列賬的金融工具(續)

(i) 使用重要而非可觀察的輸入參數的金融工具估值(續)

42 Fair Value Information (cont'd)

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

(i) Valuation of financial instruments with significant unobservable inputs (cont'd)

2010 本集團及本行 The Group and the Bank								
		交易用途資產 Trading assets	指定為通過 損益以反映 公允價值的證券 Securities designated at fair value through profit or loss	可供出售證券 Available-for-sale securities			總額 Total	
		投資基金 Investment funds 港幣千元 HK\$'000	衍生工具的 正公允價值 Positive fair value of derivatives 港幣千元 HK\$'000	債務證券 Debt securities 港幣千元 HK\$'000	債務證券 Debt securities 港幣千元 HK\$'000	權益證券 Equity securities 港幣千元 HK\$'000	投資基金 Investment funds 港幣千元 HK\$'000	港幣千元 HK\$'000
資產	Assets							
於2010年1月1日	At 1 January 2010	3,606	338	41,562	614,418	23,197	56,333	739,454
買入	Purchases	209	-	-	-	-	-	209
賣出	Sales	(940)	-	-	(2,438)	-	-	(3,378)
結算	Settlements	-	-	-	(2,313)	-	-	(2,313)
於損益表確認的 公允價值變動	Changes in fair value recognised in the income statement							
- 買賣外幣收益 減虧損	- Gains less losses dealing in foreign currencies	-	-	-	1,729	(13)	243	1,959
- 買賣交易用途證券 收益減虧損	- Gains less losses from trading securities	1,287	-	-	-	-	-	1,287
- 其他買賣活動收益 減虧損	- Gains less losses from other dealing activities	-	(338)	-	-	-	-	(338)
- 指定為通過損益以 反映公允價值之 金融工具淨收益	- Net gain from financial instruments designated at fair value through profit or loss	-	-	2,068	-	-	-	2,068
- 重新分類其他應收款 至持作出售資產	- Reclassification to other account receivable as a held-for-sale asset	-	-	-	-	-	(56,576)	(56,576)
- 資本票據投資減值 及撇值	- Impairment and write-down on capital notes investments	-	-	-	(481,983)	-	-	(481,983)
於其他綜合全面收益表 內確認的公允價值變動	Changes in fair value recognised in other comprehensive income	-	-	-	(119,194)	-	-	(119,194)
於2010年12月31日	At 31 December 2010	4,162	-	43,630	10,219	23,184	-	81,195
於結算日仍持有的資產 於年內於損益表內 確認的損益總額：	Total gains or losses for the year included in the income statement for assets held at the end of the reporting period recorded in:							
- 買賣外幣收益 減虧損	- Gains less losses from dealing in foreign currencies	-	-	-	52	(13)	-	39
- 買賣交易用途證券 收益減虧損	- Gains less losses from trading securities	1,228	-	-	-	-	-	1,228
- 指定為通過損益以 反映公允價值之 金融工具淨收益	- Net gain from financial instruments designated at fair value through profit or loss	-	-	2,068	-	-	-	2,068

42 公允價值資料(續)

(a) 以公允價值列賬的金融工具(續)

- (i) 使用重要而非可觀察的輸入參數的金融工具估值(續)

42 Fair Value Information (cont'd)

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

- (i) Valuation of financial instruments with significant unobservable inputs (cont'd)

		本集團及本行 The Group and the Bank
		交易用途負債 Trading liabilities
		衍生工具的 負公允價值 Negative fair value of derivatives
		港幣千元 HK\$'000
負債	Liabilities	
於2010年1月1日	At 1 January 2010	338
於損益表確認的公允價值變動	Changes in fair value recognised in the income statement	
— 其他買賣活動淨收益	— Net gain from other dealing activities	(338)
於2010年12月31日	At 31 December 2010	—
於結算日仍持有的負債	Total gains or losses for the year included in the income	
於年內於損益表內確認的損益	statement for liabilities held at the end of the reporting	
總額：	period record in:	
— 其他買賣活動淨收益	— Net gain from other dealing activities	—

42 公允價值資料(續)

(a) 以公允價值列賬的金融工具(續)

(ii) 由重要而非可觀察的假設改變為合理可行的另類假設所產生的影響

第3層級的金融工具計量公允價值所使用的估值模式中包含假設，並非依據可觀察的市場數據。下表顯示出因轉用至合理可行的另類假設所產生的公允價值正、負10%的並行變動。下表顯示出第三層級公允價值計量的敏感度。

42 Fair Value Information (cont'd)

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

(ii) 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.

		本集團及本行 The Group and the Bank			
		2011			
		於收益表中反映 Effect on income statement		於其他全面收益反映 Effect on other comprehensive income	
		有利 Favourable 港幣千元 HK\$'000	(不利) (Unfavourable) 港幣千元 HK\$'000	有利 Favourable 港幣千元 HK\$'000	(不利) (Unfavourable) 港幣千元 HK\$'000
資產	Assets				
交易用途資產	Trading assets				
— 投資基金	— Investment funds	297	(297)	—	—
指定為通過損益以反映公允價值的金融資產	Financial assets designated at fair value through profit or loss				
— 債務證券	— Debt securities	4,560	(4,560)	—	—
可供出售證券	Available-for-sale securities				
— 債務證券	— Debt securities				
— 其他	— Others	—	—	400	(400)
— 權益證券	— Equity securities	—	—	2,318	(2,318)

42 公允價值資料(續)

(a) 以公允價值列賬的金融工具(續)

- (ii) 由重要而非可觀察的假設改變為合理可行的另類假設所產生的影響(續)

42 Fair Value Information (cont'd)

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

- (ii) Effects of changes in significant unobservable assumptions to reasonable possible alternative assumptions (cont'd)

		本集團及本行 The Group and the Bank			
		2010			
		於收益表中反映 Effect on income statement		於其他全面收益反映 Effect on other comprehensive income	
		有利 Favourable 港幣千元 HK\$'000	(不利) (Unfavourable) 港幣千元 HK\$'000	有利 Favourable 港幣千元 HK\$'000	(不利) (Unfavourable) 港幣千元 HK\$'000
資產	Assets				
交易用途資產	Trading assets				
— 投資基金	— Investment funds	416	(416)	—	—
指定為通過損益以反映 公允價值的金融資產	Financial assets designated at fair value through profit or loss				
— 債務證券	— Debt securities	4,363	(4,363)	—	—
可供出售證券	Available-for-sale securities				
— 債務證券	— Debt securities				
— 其他	— Others	—	—	1,022	(1,022)
— 權益證券	— Equity securities	—	—	2,318	(2,318)

雖然本行相信上述金融工具的公允價值估計是適當的，但不同的方式或假設可能導致不同的公允價值計量。

The Bank 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.

42 公允價值資料(續)**(b) 以公允價值以外列賬的金融工具公允價值**

除另有說明外，所有金融工具均以公允價值列賬，或以於2011年及2010年12月31日的公允價值差別不大的賬面值列賬。

(i) 金融資產

本集團的金融資產主要包括現金、銀行、中央銀行及其他金融機構存款、客戶貸款及墊款、投資及金融衍生工具。

銀行、中央銀行及其他金融機構存款的公允價值主要按照市場利率定價，並於一年內到期。因此，賬面值與公允價值相若。

客戶貸款及墊款的公允價值經考慮有關市場利率及通常按照接近市場利率的浮動利率定價，並主要於三個月內重新定價，故相等於其賬面值。

交易用途資產、指定為通過損益以反映公允價值的證券及可供出售證券在財務報表內以公允價值列賬。

42 Fair Value Information (cont'd)**(b) Fair values of financial instruments carried at other than fair value**

All financial instruments are stated at fair value or carried at amounts not materially different from their fair values as at 31 December 2011 and 2010 unless otherwise stated.

(i) Financial assets

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

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

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

Trading assets, securities designated at fair value through profit or loss and available-for-sale securities are stated at fair value in the financial statements.

42 公允價值資料(續)

(b) 以公允價值以外列賬的金融工具公允價值(續)

(ii) 金融負債

除下述者外，所有金融負債均以公允價值呈列或按照與其於2011年及2010年12月31日的公允價值分別不大的賬面值入賬：

42 Fair Value Information (cont'd)

(b) Fair values of financial instruments carried at other than fair value (cont'd)

(ii) Financial liabilities

All financial liabilities are stated at fair value or carried at amounts not materially different from their fair values as at 31 December 2011 and 2010, except as follows:

		本集團 The Group			
		2011		2010	
		賬面金額 Carrying amount 港幣千元 HK\$'000	公允價值 Fair value 港幣千元 HK\$'000	賬面金額 Carrying amount 港幣千元 HK\$'000	公允價值 Fair value 港幣千元 HK\$'000
已發行存款証	Certificates of deposit issued				
— 非交易用途	– Non-trading	12,123,896	12,125,246	6,209,837	6,216,242
已發行債務證券	Debt securities issued	397,436	396,869	231,900	231,900
債務資本	Loan capital	8,192,926	7,785,451	7,763,729	8,062,040
		20,714,258	20,307,566	14,205,466	14,510,182

		本行 The Bank			
		2011		2010	
		賬面金額 Carrying amount 港幣千元 HK\$'000	公允價值 Fair value 港幣千元 HK\$'000	賬面金額 Carrying amount 港幣千元 HK\$'000	公允價值 Fair value 港幣千元 HK\$'000
已發行存款証	Certificates of deposit issued				
— 非交易用途	– Non-trading	12,123,896	12,125,246	6,209,837	6,216,242
已發行債務證券	Debt securities issued	388,383	387,824	–	–
債務資本	Loan capital	6,242,919	5,810,447	5,791,576	5,993,639
		18,755,198	18,323,517	12,001,413	12,209,881

43 衍生工具

使用衍生工具作自營買賣和出售予客戶作為風險管理產品是本集團經營業務的一個重要部份。作為資產與負債管理流程的一環，這些工具也會用作管理本集團本身所承擔的市場風險。本集團所用的主要衍生工具為與利率和匯率相關的合約，主要為場外交易的衍生工具。本集團也會簽訂場內買賣的衍生工具合約。本集團大多為符合客戶的要求和作對沖及買賣用途而持有衍生工具倉盤。就會計目的而言，衍生工具均劃歸為持作買賣或持作對沖。

(a) 衍生工具的名義金額

衍生工具是指根據一項或多項相關資產或指數的價值來釐定其價值的財務合約。這些工具的名義數額代表未完成的交易額，並不代表風險數額。

43 Derivatives

The use of derivatives for proprietary trading and sales to customers as risk management products is an integral part of the Group's business activities. These instruments are also used to manage the Group's own exposures to market risk as part of its asset and liability management process. The principal derivatives instruments used by the Group are interest and foreign exchange rate related contracts, which are primarily OTC derivatives. The Group also participates in exchange-traded derivatives. Most of the Group's derivatives positions have been entered into to meet customer demand and to hedge these and other trading positions. For accounting purposes, derivatives are classified as either held for trading or held for hedging.

(a) Notional amounts of derivatives

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices. The notional amounts of these investments indicate the volume of outstanding transactions and do not represent amounts at risk.

43 衍生工具(續)

(a) 衍生工具的名義金額(續)

以下是本集團及本行各種主要衍生工具的名義金額概要：

43 Derivatives (cont'd)

(a) Notional amounts of derivatives (cont'd)

The following is a summary of the notional amounts of each significant type of derivative entered into by the Group and the Bank:

		本集團 The Group							
		2011				2010			
		與指定為通過 損益以反映公允 價值的金融工具 一併進行管理 Managed in conjunction with financial instruments				與指定為通過 損益以反映公允 價值的金融工具 一併進行管理 Managed in conjunction with financial instruments			
		為對沖持有 Held for hedging	designated at fair value through profit or loss	其他(包括 持作買賣) Others (including held for trading)	總額 Total	為對沖持有 Held for hedging	designated at fair value through profit or loss	其他(包括 持作買賣) Others (including held for trading)	總額 Total
		港幣千元 HK\$'000	港幣千元 HK\$'000	港幣千元 HK\$'000	港幣千元 HK\$'000	港幣千元 HK\$'000	港幣千元 HK\$'000	港幣千元 HK\$'000	港幣千元 HK\$'000
匯率衍生工具	Currency derivatives								
遠期交易	Forwards	-	-	89,378,346	89,378,346	-	-	109,088,547	109,088,547
掉期交易	Swaps	-	287,193	61,223,831	61,511,024	-	78,000	48,492,288	48,570,288
買入期權	Options purchased	-	-	21,705,045	21,705,045	-	-	5,526,754	5,526,754
賣出期權	Options written	-	-	21,719,773	21,719,773	-	-	5,580,800	5,580,800
利率衍生工具	Interest rate derivatives								
遠期及期貨交易	Forwards and futures	-	-	-	-	-	-	-	-
掉期交易	Swaps	6,126,210	-	45,763,399	51,889,609	6,898,787	775,000	47,412,028	55,085,815
買入期權	Options purchased	-	-	271,221	271,221	-	-	277,147	277,147
賣出期權	Options written	-	-	271,221	271,221	-	-	277,147	277,147
股權衍生工具	Equity derivatives								
掉期交易	Swaps	-	-	18,108	18,108	-	-	463,800	463,800
		6,126,210	287,193	240,350,944	246,764,347	6,898,787	853,000	217,118,511	224,870,298

43 衍生工具(續)

(a) 衍生工具的名義金額(續)

43 Derivatives (cont'd)

(a) Notional amounts of derivatives (cont'd)

					本行 The Bank				
2011					2010				
與指定為通過 損益以反映公允 價值的金融工具 一併進行管理 Managed in conjunction with financial instruments					與指定為通過 損益以反映公允 價值的金融工具 一併進行管理 Managed in conjunction with financial instruments				
為對沖持有 Held for hedging 港幣千元 HK\$'000	designated at fair value through profit or loss 港幣千元 HK\$'000	其他(包括 持作買賣) Others (including held for trading) 港幣千元 HK\$'000	總額 Total 港幣千元 HK\$'000		為對沖持有 Held for hedging 港幣千元 HK\$'000	designated at fair value through profit or loss 港幣千元 HK\$'000	其他(包括 持作買賣) Others (including held for trading) 港幣千元 HK\$'000	總額 Total 港幣千元 HK\$'000	
匯率衍生工具 Currency derivatives									
遠期交易 Forwards	-	-	88,640,531	88,640,531	-	-	107,841,116	107,841,116	
掉期交易 Swaps	-	287,193	60,415,053	60,702,246	-	78,000	48,023,073	48,101,073	
買入期權 Options purchased	-	-	21,705,045	21,705,045	-	-	5,526,754	5,526,754	
賣出期權 Options written	-	-	21,719,773	21,719,773	-	-	5,580,800	5,580,800	
利率衍生工具 Interest rate derivatives									
遠期及期貨交易 Forwards and futures	-	-	-	-	-	-	-	-	
掉期交易 Swaps	6,126,210	-	45,768,437	51,894,647	6,898,787	775,000	47,565,333	55,239,120	
買入期權 Options purchased	-	-	271,221	271,221	-	-	277,147	277,147	
賣出期權 Options written	-	-	271,221	271,221	-	-	277,147	277,147	
股權衍生工具 Equity derivatives									
掉期交易 Swaps	-	-	18,108	18,108	-	-	463,800	463,800	
	6,126,210	287,193	238,809,389	245,222,792	6,898,787	853,000	215,555,170	223,306,957	

交易包括本集團及本行的金融工具自營買賣倉盤、由執行客戶的交易指令或從事莊家活動而產生的倉盤，以及為對沖其他交易元素而持有的倉盤。

Trading includes the Group's and the Bank'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.

43 衍生工具(續)

43 Derivatives (cont'd)

(b) 衍生工具的公允價值及信貸風險加權數額

(b) Fair values and credit risk-weighted amounts of derivatives

		本集團 The Group					
		2011			2010		
		公允價值 資產 Fair value assets 港幣千元 HK\$'000	公允價值 負債 Fair value liabilities 港幣千元 HK\$'000	信貸風險 加權數額 Credit risk- weighted amount 港幣千元 HK\$'000	公允價值 資產 Fair value assets 港幣千元 HK\$'000	公允價值 負債 Fair value liabilities 港幣千元 HK\$'000	信貸風險 加權數額 Credit risk- weighted amount 港幣千元 HK\$'000
利率衍生工具	Interest rate derivatives	825,661	388,314	447,456	700,257	657,502	627,776
匯率衍生工具	Currency derivatives	1,249,484	941,311	3,873,547	919,819	813,636	2,303,093
股權衍生工具	Equity derivatives	1,573	1,573	109	6,390	6,390	22,037
		2,076,718	1,331,198	4,321,112	1,626,466	1,477,528	2,952,906
		(附註note 20)	(附註note 29)		(附註note 20)	(附註note 29)	

		本行 The Bank					
		2011			2010		
		公允價值 資產 Fair value assets 港幣千元 HK\$'000	公允價值 負債 Fair value liabilities 港幣千元 HK\$'000	信貸風險 加權數額 Credit risk- weighted amount 港幣千元 HK\$'000	公允價值 資產 Fair value assets 港幣千元 HK\$'000	公允價值 負債 Fair value liabilities 港幣千元 HK\$'000	信貸風險 加權數額 Credit risk- weighted amount 港幣千元 HK\$'000
利率衍生工具	Interest rate derivatives	824,200	388,896	445,227	699,608	657,528	625,352
匯率衍生工具	Currency derivatives	1,246,266	930,550	3,867,326	907,633	800,579	2,289,722
股權衍生工具	Equity derivatives	1,573	1,573	109	6,390	6,390	22,037
		2,072,039	1,321,019	4,312,662	1,613,631	1,464,497	2,937,111
		(附註note 20)	(附註note 29)		(附註note 20)	(附註note 29)	

43 衍生工具(續)**(b) 衍生工具的公允價值及信貸風險加權數額(續)**

信貸風險加權數額是指按照《銀行業(資本)規則》有關資本充足的要求，並取決於交易對手的財政狀況及到期的情況下計算。或有負債及承擔的風險加權由0%至150%不等(2010年：0%至150%)，而匯率、利率及其他衍生工具合約則由0%至150%不等(2010年：0%至150%)。

本集團沒有在年內訂立任何雙邊淨額結算安排，因此，上述數額是以總額列示。

(c) 指定為對沖工具的衍生工具的公允價值

以下是本集團及本行持作對沖用途的衍生工具按產品類別劃分的公允價值概要：

43 Derivatives (cont'd)**(b) Fair values and credit risk-weighted amounts of derivatives (cont'd)**

The credit risk-weighted amount is the amount which has been calculated in accordance with the Banking (Capital) Rules on capital adequacy and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 150% (2010: 0% to 150%) for contingent liabilities and commitments, and from 0% to 150% (2010: 0% to 150%) for exchange rate, interest rate and other derivatives contracts.

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

(c) Fair value of derivatives designated as hedging instruments

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

本集團及本行 The Group and the Bank				
		2011		2010
		公允價值資產 Fair value assets 港幣千元 HK\$'000	公允價值負債 Fair value liabilities 港幣千元 HK\$'000	公允價值資產 Fair value assets 港幣千元 HK\$'000
				公允價值負債 Fair value liabilities 港幣千元 HK\$'000
利率合約	Interest rate contracts	487,969	—	56,119
				46,342

公允價值對沖主要包括用作保障若干固定利率資產或負債的公允價值因市場利率變動而出現變化的利率掉期。

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.

43 衍生工具(續)

(d) 衍生工具的餘下年期

下表提供本集團根據有關到期類別(按於結算日的餘下結算期間計算)劃分的衍生工具名義金額分析。

43 Derivatives (cont'd)

(d) Remaining life of derivatives

The following tables provide an analysis of the notional amounts of derivatives of the Group by relevant maturity grouping, based on the remaining periods to settlement at the end of the reporting period.

		本集團 The Group							
		2011 餘下年期的名義金額 Notional amounts with remaining life of				2010 餘下年期的名義金額 Notional amounts with remaining life of			
		1年以上 至5年				1年以上 至5年			
		總額	1年或以下	Over 1 year	5年以上	總額	1年或以下	Over 1 year	5年以上
		Total	1 year or less	to 5 years	Over 5 years	Total	1 year or less	to 5 years	Over 5 years
		港幣千元	港幣千元	港幣千元	港幣千元	港幣千元	港幣千元	港幣千元	港幣千元
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
利率衍生工具	Interest rate derivatives	52,432,051	23,252,214	25,116,010	4,063,827	55,640,109	18,496,864	33,076,187	4,067,058
匯率衍生工具	Currency derivatives	194,314,188	116,352,458	77,961,730	–	168,766,389	134,565,724	34,200,665	–
股權衍生工具	Equity derivatives	18,108	18,108	–	–	463,800	463,800	–	–
		246,764,347	139,622,780	103,077,740	4,063,827	224,870,298	153,526,388	67,276,852	4,067,058

		本行 The Bank							
		2011 餘下年期的名義金額 Notional amounts with remaining life of				2010 餘下年期的名義金額 Notional amounts with remaining life of			
		1年以上 至5年				1年以上 至5年			
		總額	1年或以下	Over 1 year	5年以上	總額	1年或以下	Over 1 year	5年以上
		Total	1 year or less	to 5 years	Over 5 years	Total	1 year or less	to 5 years	Over 5 years
		港幣千元	港幣千元	港幣千元	港幣千元	港幣千元	港幣千元	港幣千元	港幣千元
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
利率衍生工具	Interest rate derivatives	52,437,089	23,255,784	25,117,478	4,063,827	55,793,414	18,650,737	33,075,619	4,067,058
匯率衍生工具	Currency derivatives	192,767,595	114,805,865	77,961,730	–	167,049,743	132,849,078	34,200,665	–
股權衍生工具	Equity derivatives	18,108	18,108	–	–	463,800	463,800	–	–
		245,222,792	138,079,757	103,079,208	4,063,827	223,306,957	151,963,615	67,276,284	4,067,058

44 或有資產、負債及承擔

(a) 提供信貸的或有負債及承擔

以下是每類主要或有負債及承擔的合約金額概要：

		本集團 The Group		本行 The Bank	
		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000	2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
直接信貸代替品	Direct credit substitutes	2,007,355	5,514,355	1,956,183	5,514,355
與交易有關的或有項目	Transaction-related contingencies	951,660	394,540	952,891	396,982
與貿易有關的或有項目	Trade-related contingencies	4,241,352	1,840,502	3,094,826	1,540,341
遠期有期存款	Forward forward deposits placed	—	—	—	2,500
其他承擔：	Other commitments:				
— 銀行可無條件取消或在 借款人的信貸狀況 轉壞時可自動取消	— which are unconditionally cancellable or automatically cancellable due to deterioration in the creditworthiness of the borrower	33,822,786	21,470,921	33,768,709	21,470,921
— 原到期日在1年或以以下	— with an original maturity of not more than 1 year	3,959,572	9,295,373	3,959,572	9,102,709
— 原到期日在1年以上	— with an original maturity of more than 1 year	3,657,934	5,984,814	3,591,209	5,751,818
		48,640,659	44,500,505	47,323,390	43,779,626
信貸風險加權數額	Credit risk-weighted amounts	5,488,054	9,130,072	5,174,523	8,918,119

或有負債及承擔是與信貸相關的工具，包括遠期存款、信用證和提供信貸的擔保及承擔。涉及的風險基本上與向客戶提供貸款融資額涉及的信貸風險相同。合約金額是指在合約全數提取後發生客戶拖欠而需承擔風險的金額。由於融資額可能在到期時仍未動用，故合約金額並非預期未來現金流量。

用於計算信貸風險加權數額的風險加權由0%至150%(2010年：0%至150%)不等。

44 Contingent Assets, Liabilities and Commitments

(a) Contingent liabilities and commitments to extend credit

The following is a summary of the contract amounts of each significant class of contingent liabilities and commitments:

Contingent liabilities and commitments are credit-related instruments which include forward deposits placed, letters of credit, guarantees and commitments to extend credit. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. As the facilities may expire without being drawn upon, the contract 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% (2010: 0% to 150%).

44 或有資產、負債及承擔(續)**(a) 提供信貸的或有負債及承擔(續)**

於2010年12月31日，本集團及本行擁有的或有資產為美元114,400,000元（等值港幣889,400,000元），根據附註40(a)(2)提到的協議條款，直接控股母公司中信國金將償還本集團及本行承擔的由信用違約掉期合約產生的任何潛在損失。本集團已於2011年9月完成此項信用違約掉期合約的結算，應由中信國金償還的信用違約掉期合約再承保金額為港幣1,624,609,207.59元（等值美元208,648,560.66元）。2011年11月，中信國金已清付了對本集團的所有信用違約掉期合約再承保債務；故於截至2011年12月31日止年度本集團再無持有此類或有資產。

(b) 資本承擔

於2011年12月31日，因購入物業及設備未償付而又未在財務報表內提撥準備的資本承擔如下：

44 Contingent Assets, Liabilities and Commitments (cont'd)**(a) Contingent liabilities and commitments to extend credit (cont'd)**

As at 31 December 2010, the Group and the Bank had contingent assets of US\$114.4 million (equivalent to HK\$889.4 million) for any potential CDS loss to be borne by the Group and the Bank which could be reimbursed from its immediate parent, CIFIH, in accordance with the terms of the Agreement as disclosed in note 40(a) (2) to the financial statements. As the Group has completed the CDS settlement in September 2011, the CDS sub-writing amount was HK\$1,624,609,207.59 (equivalent to US\$208,648,560.66), which should be reimbursed from CIFIH. In November 2011, CIFIH settled all the CDS sub-writing obligations with the Group; therefore there was no such contingent assets for the year ended 31 December 2011.

(b) Capital commitments

Capital commitments for purchase of properties and equipment outstanding at 31 December 2011 not provided for in the financial statements are as follows:

		本集團 The Group		本行 The Bank	
		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000	2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
已授權及訂約	Authorised and contracted for	26,973	43,885	26,761	42,521
已授權但未訂約	Authorised but not contracted for	735	19,519	–	19,519
		27,708	63,404	26,761	62,040

44 或有資產、負債及承擔(續)**(c) 租賃承擔**

於2011年12月31日，根據不可解除經營租賃應付的未來最低租金總額如下：

		本集團 The Group		本行 The Bank	
		2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000	2011 港幣千元 HK\$'000	2010 港幣千元 HK\$'000
物業租賃於以下期間期滿： Property leases expiring:					
1年內	Within 1 year	171,046	148,928	156,142	134,479
1年至5年	After 1 year but within 5 years	514,546	434,533	480,450	431,012
5年後	After 5 years	175,940	252,187	175,940	252,187
		861,532	835,648	812,532	817,678
設備租賃於以下期間期滿： Equipment leases expiring:					
1年內	Within 1 year	2,729	1,175	1,210	605
1年至5年	After 1 year but within 5 years	4,789	439	4,142	439
		7,518	1,614	5,352	1,044

本集團及本行通過經營租賃的方式租借多項物業及設備。有關物業及設備的最初租賃期一般為一至九年，可於續期時重新商定所有條款。以上租賃均不涉及或有租金。

The Group and the Bank lease a number of properties and items of equipment under operating leases. The leases typically run for an initial period of one to nine years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

(d) 有關法律申索的或有負債

於2011年及2010年12月31日，本集團及其附屬公司並沒有牽涉任何可能對其財政狀況構成重大影響的法律行動。

(d) Contingent liability in respect of legal claim

The Group and its subsidiaries are not involved in any legal actions that would be significant to the financial position of the Group as at 31 December 2011 and 2010.

45 信託活動

本集團通常擔任受託人及以其他受信人身份，代表個別人士、信託、退休福利計劃及其他機構持有或存放資產。由於這些資產並非本集團的資產，故這些資產及其產生的收入不包括在本財務報表內。

45 Trust Activities

The Group commonly acts as a trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements as they are not assets of the Group.

46 直接母公司及最終控權方

董事會認為，本集團於2011年12月31日的直接母公司為在香港註冊成立的中信國際金融控股有限公司，而本集團最終控權方為在中華人民共和國註冊成立的中國中信集團有限公司。

47 會計估計及判斷

管理層編製財務報表時，需要就財務報表日的資產及負債的匯報數額及或有資產及負債的披露，以及呈報年度收入及支出的匯報數額等作出估計及假設。假設變更可能會對更改假設期間的財務報表構成重大影響。應用假設及估計表示選擇任何不同的假設均可導致本集團的匯報有差異。本集團相信所作假設屬適當，故財務報表在各重大方面均公允地呈報財政狀況及業績。

管理層曾與審核委員會討論本集團主要會計政策及估計的制定、選擇及披露原則，以及這些政策及估計的應用。

46 Immediate parent and ultimate controlling party

At 31 December 2011, the directors consider the immediate parent of the Group to be CITIC International Financial Holdings Limited, which is incorporated in Hong Kong, and the ultimate controlling party of the Group to be CITIC Group Corporation, which is incorporated in the Mainland China.

47 Accounting Estimates and Judgements

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities; the disclosures of contingent assets and liabilities at the date of these financial statements; and the reported amounts of revenues and expenses for the years presented. Changes in assumptions may have a significant impact on the financial statements in the periods when the assumptions are changed. The application of assumptions and estimates means that any selection of different assumptions would cause the Group's reporting to differ. The Group believes that the assumptions that have been made are appropriate and that the financial statements therefore present the financial position and results fairly, in all material respects.

Management held a discussion with the Audit Committee about the development, selection and disclosure of the Group's significant accounting policies and estimates, and the application of these policies and estimates.

47 會計估計及判斷(續)

估計不可確定因素的主要來源

附註26(c)和附註42載有關於投資物業評估和金融工具公允價值的假設及風險因素。其他估計不可確定因素的主要來源如下：

(i) 減值虧損

貸款及墊款

貸款組合會定期檢討，以評估減值虧損是否存在。本集團會判斷貸款組合是否存在任何減值的客觀證據(即估計未來現金流量是否減少)。減值的客觀證據詳述於會計政策附註2(l)。如管理層根據其判斷確定減值的客觀證據存在，則預期未來現金流量會根據本集團內具有類似的信貸風險特質的資產的過往損失經驗來作出估計。過往損失經驗是以目前的可觀察數據為基礎作出調整。管理層會定期檢討估計未來現金流量所採用的方法及假設，以減少損失估計及實際損失經驗之間的任何差異。

可供出售證券

當可供出售證券的公允價值大幅或持續下跌至低於其成本，本集團便會確定這些投資出現減值。確定公允價值下跌至低於成本而不能在合理時限內收回屬判斷性質，故損益可受此判斷的差異而有所影響。

47 Accounting Estimates and Judgements (cont'd)

Key sources of estimation uncertainty

Notes 26(c) and 42 contain information about the assumptions and their risk factors relating to the valuation of investment property and the fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(i) Impairment losses

Loans and advances

Loan portfolios are reviewed periodically to assess whether impairment losses exist. The Group makes judgements as to whether there is any objective evidence that a loan portfolio is impaired, i.e. whether there is a decrease in estimated future cash flows. Objective evidence for impairment is described in the accounting policy note 2(l). If management has determined, based on their judgement, that objective evidence of impairment exists, expected future cash flows are estimated based on historical loss experience for assets with credit risk characteristics similar to those of the Group. Historical loss experience is adjusted on the basis of the current observable data. Management regularly reviews the methodology and assumptions used in estimating future cash flows to reduce any difference between loss estimates and actual loss experience.

Available-for-sale securities

The Group determines that available-for-sale equity securities are impaired when there has been a significant or prolonged decline in the fair value below cost. The determination of when a decline in fair value below cost is not recoverable within a reasonable time period is judgement-based by nature, so profit and loss could be affected by differences in this judgement.

47 會計估計及判斷(續)

估計不可確定因素的主要來源(續)

(ii) 金融工具公允價值

公允價值估計一般屬主觀性質，是根據在某一特定時間中金融工具的特質及有關市場資料而作出。如情況許可，便會使用市場報價。如未能從認可證券交易所獲得市場報價，或從經紀或交易商獲得屬於非通過交易所買賣的金融工具市場報價或最新公開成交價，則公允價值以現值或使用現時市場參數的其他估值法估計。結構性投資工具的公允價值是根據由投資經理所提供其淨資產價值，並考慮其他風險因素而估計。

所有估值模式均在用作財務匯報基準前被核實。本集團盡可能將模式所得估值與類似金融工具的報價作比較，及在實現後與實際價值作比較，以進一步核實及調整模式。

這些技術涉及不確定性，並會大受有關各種金融工具的風險特質、折現率、未來現金流量估計、未來預期損失經驗及其他因素所用的假設及所作的判斷影響。假設變動可嚴重影響這些估計及所產生的公允價值。所得公允價值估計未必可用獨立市場的比較來證明，而在許多情況下，可在立即出售工具時實現。

47 Accounting Estimates and Judgements (cont'd)

Key sources of estimation uncertainty (cont'd)

(ii) Fair value of financial instruments

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. Where available, quoted market prices are used. If a quoted price is not available on a recognised stock exchange, is not from a broker or dealer for non-exchange traded financial instruments or from a readily available latest trading price, the fair value is estimated using the present value or other valuation techniques using current market parameters. The fair value of structured investment vehicles is based on their net asset value provided by investment managers, having taken into consideration other risk factors.

All valuation models are validated before they are used as a basis for financial reporting. Wherever possible, the Group compares valuations derived from models with quoted prices of similar financial instruments, and with actual values when realised, in order to further validate and calibrate the models.

These techniques involve uncertainties and are materially affected by the assumptions used and judgements made regarding the risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in assumptions could materially affect these estimates and the resulting fair values. Derived fair value estimates cannot necessarily be substantiated by comparison to independent markets and, in many cases, could be realised in an immediate sale of the instruments.

48 已頒佈但於截至2011年12月31日止的年度尚未實施的修訂、新準則及詮釋的可能影響

截至本財務報表刊發日，香港會計師公會已頒佈多項修訂及五項新準則，但這些修訂及新準則於截至2011年12月31日止年度尚未實施，亦沒有於本財務報表內採納。這些修訂包括下列可能與本集團有關的項目：

48 Possible Impact of Amendments, New Standards and Interpretations Issued but not yet Effective for the year ended 31 December 2011

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

		由會計期開始 或以後起生效 Effective for accounting periods beginning on or after
– 經修訂《香港財務報告準則》第7號—「金融工具：披露—金融資產轉移」	– Amendments to HKFRS 7, Financial instruments: Disclosures – Transfers of financial assets	2011年7月1日 1 July 2011
– 經修訂《香港會計準則》第12號—「所得稅：遞延稅項—相關資產的收回」	– Amendments to HKAS 12, Income taxes – Deferred tax: Recovery of underlying assets	2012年1月1日 1 January 2012
– 經修訂《香港會計準則》第1號—「財務報表之呈報：其他全面收益項目之列報」	– Amendments to HKAS 1, Presentation of financial statements – Presentation of items of other comprehensive income	2012年7月1日 1 July 2012
– 《香港財務報告準則》第9號—「金融工具」	– HKFRS 9, Financial instruments	2015年1月1日 1 January 2015
– 《香港財務報告準則》第10號—「綜合財務報表」	– HKFRS 10, Consolidated financial statements	2013年1月1日 1 January 2013
– 《香港財務報告準則》第11號—「合營安排」	– HKFRS 11, Joint arrangements	2013年1月1日 1 January 2013
– 《香港財務報告準則》第12號—「所佔其他實體權益的披露」	– HKFRS 12, Disclosure of interests in other entities	2013年1月1日 1 January 2013
– 《香港財務報告準則》第13號—「公允價值之計量」	– HKFRS 13, Fair value measurement	2013年1月1日 1 January 2013
– 《香港財務報告準則》第27號—「獨立財務報表」(2011)	– HKFRS 27, Separate financial statements (2011)	2013年1月1日 1 January 2013
– 《香港財務報告準則》第28號—「聯營及合營企業之投資」	– HKFRS 28, Investments in associates and joint ventures	2013年1月1日 1 January 2013
– 經修訂《香港會計準則》第19號—「員福利」	– Revised HKAS 19, Employee benefits	2013年1月1日 1 January 2013

48 已頒佈但於截至2011年12月31日止年度尚未實施的修訂、新準則及詮釋的可能影響(續)

本集團正在評估這些修訂對首次採納期間的影響。到目前為止，除《香港會計準則》第12號—「所得稅」及《香港財務報告準則》第9號—「金融工具」外，本集團相信採納這些修訂對本集團的經營業績和財政狀況應該不會有重大的影響。

由於經修訂《香港會計準則》第12號將於2012年被採納於財務報表內，故本集團將被要求對截至2011年12月31日止年度所匯報的數字作出追溯性調整，在某程度上，物業按其賬面值出售的稅務後果將會與現存政策下計提的遞延稅項數額有所不同，特別對於那些物業並非由商業模式持有，而其目的是要隨着時間消耗絕大部份嵌入於物業的經濟利益。本集團對此項新會計政策對集團的業績及財務狀況所產生的影響尚未完成其評估。

《香港財務報告準則》第9號將由2015年1月1日起生效，並允許提早應用。於2011年12月，由香港會計師公會頒佈的經修訂《香港財務報告準則》第9號和第7號解除了重述過往期間比較數字的要求，同時要求增加從《香港會計準則》第39號向《香港財務報告準則》第9號過渡的披露。本集團目前正在研究應用《香港財務報告準則》第9號之影響，但無法於此財務報表刊發之日量化其影響。

49 財務報表核准

本財務報表已於2012年3月29日獲董事會核准並授權發佈。

48 Possible Impact of Amendments, New Standards and Interpretations Issued but not yet Effective for the year ended 31 December 2011 (cont'd)

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position except for the amendments to HKAS 12, Income taxes and HKFRS 9, Financial Instruments.

The amendments to HKAS 12 will be adopted in the 2012 financial statements and the Group will be required to make retrospective adjustments at that time to the amounts reported in respect of the year ended 31 December 2011, to the extent that the tax consequences that would apply on the sale of the properties at their carrying amount would differ from the amounts accrued for deferred tax under the current policy, in respect of those properties which are not held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time. The Group has not yet completed its assessment of the impact of this new accounting policy on the Group's results and financial position.

HKFRS 9 is mandatory for annual periods beginning on or after 1 January 2015 with earlier application permitted. In December 2011, the amendment to HKFRS 9 and HKFRS 7 issued by HKICPA provided relief from the requirement to restate prior period comparative information and required additional disclosures on transition from HKAS 39 to HKFRS 9. The Group is presently studying the implications of applying HKFRS 9 but it is impracticable to quantify its effect as at the date of publication of these consolidated financial statements.

49 Approval of Financial Statements

The financial statements were approved and authorised for issue by the Board of Directors on 29 March 2012.

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