



**INDUSTRIAL AND COMMERCIAL BANK OF CHINA (ASIA) LIMITED**

**中國工商銀行（亞洲）有限公司**

*(Incorporated in Hong Kong with limited liability)*

**INTERIM FINANCIAL DISCLOSURE STATEMENTS  
FOR THE SIX MONTHS ENDED  
30 JUNE 2011**

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## INTERIM RESULTS AND FINANCIAL REVIEW

The Board of Directors (the “Board”) of Industrial and Commercial Bank of China (Asia) Limited (the “Bank” or “ICBC (Asia)”) is pleased to present the interim financial disclosure statements of the Bank and its subsidiaries (the “Group”) for the six months ended 30 June 2011. The consolidated income statement, consolidated statement of comprehensive income, condensed consolidated statement of cash flows and consolidated statement of changes in equity of the Group for the six months ended 30 June 2011, and the consolidated statement of financial position as at 30 June 2011 of the Group, all of which are unaudited, along with selected explanatory notes are set out on pages 4 to 50 of these interim financial disclosure statements.

### Interim Results

The Board of Directors is pleased to announce that the unaudited consolidated profit attributable to the equity holders of the Bank for the six months ended 30 June 2011 was HK\$1,539 million. This represents a 25% increase over the same period last year (first half of 2010: HK\$1,229 million). Basic earnings per share for the six months ended 30 June 2011 were HK\$1.14 (first half of 2010: HK\$0.93). Return on average assets and return on average equity were 1.0% and 14.8% respectively (first half of 2010: 1.0% and 13.7% respectively).

### Interim Dividend

The Board has not recommended the payment of interim dividend for the six months ended 30 June 2011 (2010 interim dividend: HK\$0.37 per share).

### Financial Review

In the first half of 2011, the Group achieved satisfactory results. Consolidated profit attributable to equity holders was HK\$1,539 million, representing an increase of HK\$310 million or 25% over HK\$1,229 million achieved for the corresponding period in 2010.

Net interest income increased HK\$505 million or 29% to HK\$2,230 million. The growth was mainly attributable to a 35% increase in average interest-earning assets.

Non-interest income increased HK\$137 million or 25% to HK\$690 million from HK\$553 million for the corresponding period in 2010. The increase was mainly attributable to increase of fee and commission income as well as gains from foreign exchange trading. The ratio of non-interest income to total operating income was 24%, the same as the corresponding period in 2010.

Operating expenses increased by HK\$92 million or 14% to HK\$772 million, as compared to HK\$680 million for the corresponding period in 2010. The cost to income ratio decreased from 29.8% in 2010 to 26.4% in 2011.

The impairment losses on loans and advances for the period were HK\$245 million, out of which HK\$80 million was made as additional provision for individual assessment and HK\$165 million was made as additional provision for collective assessment.

### Statement of Financial Position

The total assets of the Group amounted to HK\$363,094 million as at 30 June 2011, representing an increase of HK\$96,156 million or 36% over the financial position as at 31 December 2010.

**INTERIM RESULTS AND FINANCIAL REVIEW**

Customer deposits amounted to HK\$219,675 million as at 30 June 2011, representing an increase of HK\$26,131 million or 14%, as compared to HK\$193,544 million as at 31 December 2010. Loans and advances also increased by HK\$36,961 million or 20% to HK\$222,019 million as at 30 June 2011, as compared to HK\$185,058 million as at 31 December 2010.

Total securities investment amounted to HK\$41,374 million as at 30 June 2011, which represents an increase of HK\$3,409 million or 9% as compared to HK\$37,965 million as at 31 December 2010.

Total certificates of deposit issued increased HK\$16,709 million or 157% to HK\$27,347 million as at 30 June 2011, as compared to HK\$10,638 million as at 31 December 2010.

**Capital and Liquidity Management**

The Group's capital adequacy ratio decreased to 13.4% as at 30 June 2011 from 14.9% as at 31 December 2010. The average liquidity ratio amounted to 40.8% (average for the first half of 2010: 41.5%).

**Asset Quality**

Impaired loans and advances decreased by HK\$12 million to HK\$996 million as at 30 June 2011, as compared to HK\$1,008 million as at 31 December 2010. The impaired loan ratio was 0.45% as at 30 June 2011 (31 December 2010: 0.54%).

As at 30 June 2011, the cumulative loan impairment allowances amounted to HK\$1,171 million (31 December 2010: HK\$1,020 million), which included HK\$454 million (31 December 2010: HK\$472 million) of individual impairment allowance and HK\$717 million (31 December 2010: HK\$548 million) of collective impairment allowance.

Hong Kong, 24 August 2011

**CONSOLIDATED INCOME STATEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2011  
(UNAUDITED)**

	Notes	Six months ended		Change %
		30 Jun 2011 HK\$'000	30 Jun 2010 HK\$'000	
Interest income	(6)	<b>3,657,003</b>	2,513,851	45%
Interest expense	(6)	<b>(1,426,939)</b>	(788,979)	81%
<b>Net interest income</b>	(6)	<b>2,230,064</b>	1,724,872	29%
Fee and commission income	(7)	<b>561,344</b>	421,997	33%
Fee and commission expense	(7)	<b>(93,570)</b>	(64,156)	46%
<b>Net fee and commission income</b>	(7)	<b>467,774</b>	357,841	31%
Net trading income	(8)	<b>230,387</b>	163,299	41%
Net (loss)/gain on financial assets and liabilities designated at fair value through profit or loss	(9)	<b>(21,696)</b>	18,037	-220%
Dividend income from financial investments	(10)	<b>4,204</b>	3,591	17%
Other operating income	(11)	<b>9,615</b>	10,650	-10%
<b>Operating income</b>		<b>2,920,348</b>	2,278,290	28%
Operating expenses	(12)	<b>(771,742)</b>	(679,802)	14%
<b>Operating profit before impairment losses</b>		<b>2,148,606</b>	1,598,488	34%
Charge for impairment losses on loans and advances	(13)	<b>(244,835)</b>	(210,328)	16%
Write-back of impairment losses on held-to-maturity financial investments		—	80	-100%
<b>Operating profit after impairment losses</b>		<b>1,903,771</b>	1,388,240	37%
Revaluation gain on investment properties		<b>1,500</b>	1,275	18%
Net (loss)/gain from disposal/reversal of revaluation deficits of property, plant and equipment		<b>(281)</b>	2,271	-112%
Net gain on disposal of available-for-sale financial investments		<b>12,158</b>	58,529	-79%
Gain on disposal of loans and advances		—	21,291	-100%
<b>Operating profit</b>		<b>1,917,148</b>	1,471,606	30%
Share of profit of an associate		<b>10,381</b>	7,174	45%
<b>Profit before tax</b>		<b>1,927,529</b>	1,478,780	30%
Income tax expense	(14)	<b>(388,034)</b>	(249,622)	55%
<b>Profit for the period and attributable to equity holders of the Bank</b>		<b>1,539,495</b>	1,229,158	25%
<b>Earnings per share — Basic and diluted</b>	(16)	<b>HK\$1.14</b>	HK\$0.93	23%

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE SIX MONTHS ENDED 30 JUNE 2011  
(UNAUDITED)**

	<u>Six months ended</u>		Change %
	<u>30 Jun 2011</u> HK\$'000	<u>30 Jun 2010</u> HK\$'000	
Profit for the period	<u><b>1,539,495</b></u>	<u>1,229,158</u>	25%
Revaluation surplus on bank premises	<b>15,866</b>	12,896	23%
Income tax effect	<u>(2,618)</u>	<u>2,273</u>	215%
	<b>13,248</b>	15,169	-13%
Change of fair value of hedging instruments under cash flow hedges	<b>110,193</b>	(42,191)	361%
Income tax effect	<u>(18,182)</u>	<u>6,962</u>	361%
	<b>92,011</b>	(35,229)	361%
Change in fair value reserve of available-for-sale financial investments	<b>(134,031)</b>	(18,159)	-638%
Income tax effect	<u>21,578</u>	<u>(2,622)</u>	923%
	<b>(112,453)</b>	(20,781)	-441%
Exchange differences arising from translation of results of a foreign subsidiary	<u><b>59,090</b></u>	<u>20,781</u>	184%
Other comprehensive income for the period, net of tax	<u><b>51,896</b></u>	<u>(20,060)</u>	359%
Total comprehensive income for the period, net of tax	<u><b>1,591,391</b></u>	<u>1,209,098</u>	32%
Attributable to:			
Equity holders of the Bank	<u><b>1,591,391</b></u>	<u>1,209,098</u>	32%

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2011**

	Notes	Unaudited 30 Jun 2011 HK\$'000	Audited 31 Dec 2010 HK\$'000	Change %	Unaudited 30 Jun 2010 HK\$'000	Change %
<b>Assets</b>						
Cash and balances with banks and other financial institutions	(17)	<b>85,010,160</b>	33,921,821	151%	27,424,822	210%
Placements with and advances to banks and other financial institutions	(18)	<b>8,765,629</b>	3,900,683	125%	1,549,249	466%
Financial assets held for trading	(19)	<b>246,898</b>	205,666	20%	197,876	25%
Financial assets designated at fair value through profit or loss	(20)	<b>725,555</b>	951,345	-24%	944,553	-23%
Derivative financial instruments	(21)	<b>1,480,488</b>	1,884,841	-21%	2,006,609	-26%
Loans and advances to customers, banks and other financial institutions	(22)	<b>222,018,503</b>	185,058,428	20%	184,592,521	20%
Financial investments:		<b>40,401,343</b>	36,808,071	10%	35,801,360	13%
- Available-for-sale	(23)	<b>39,238,330</b>	35,644,015	10%	34,596,813	13%
- Held-to-maturity	(24)	<b>1,163,013</b>	1,164,056	0%	1,204,547	-3%
Investment in an associate		<b>203,368</b>	192,987	5%	182,351	12%
Goodwill and other intangible assets		<b>1,016,918</b>	1,016,647	0%	1,018,718	0%
Investment properties	(25)	<b>55,265</b>	53,765	3%	47,488	16%
Property, plant and equipment	(26)	<b>518,887</b>	501,851	3%	486,775	7%
Deferred income tax assets	(29)	<b>6,040</b>	—	—	—	—
Other assets	(27)	<b>2,645,200</b>	2,442,348	8%	1,554,306	70%
<b>Total assets</b>		<b><u>363,094,254</u></b>	<u>266,938,453</u>	36%	<u>255,806,628</u>	42%
<b>Liabilities</b>						
Deposits from banks and other financial institutions		<b>77,880,389</b>	27,878,692	179%	33,477,605	133%
Derivative financial instruments	(21)	<b>1,897,650</b>	2,429,252	-22%	2,427,258	-22%
Deposits from customers at amortised cost	(28)	<b>219,674,719</b>	193,543,551	14%	180,678,728	22%
Certificates of deposit issued		<b>27,347,031</b>	10,637,832	157%	7,289,223	275%
- Designated at fair value through profit or loss		<b>880,047</b>	884,795	-1%	1,086,547	-19%
- At amortised cost		<b>26,466,984</b>	9,753,037	171%	6,202,676	327%
Debt securities in issue		<b>1,444,417</b>	217,393	564%	202,351	614%
- Designated at fair value through profit or loss		<b>—</b>	108,799	-100%	101,175	-100%
- At amortised cost		<b>1,444,417</b>	108,594	1230%	101,176	1328%
Current income tax liabilities		<b>531,955</b>	249,108	114%	1,752,548	-70%
Deferred income tax liabilities	(29)	<b>91,708</b>	114,831	-20%	206,317	-56%
Subordinated debts measured at amortised cost	(30)	<b>9,530,883</b>	9,519,448	0%	8,589,790	11%
Other liabilities	(31)	<b>2,955,280</b>	2,199,515	34%	1,842,906	60%
<b>Total liabilities</b>		<b><u>341,354,032</u></b>	<u>246,789,622</u>	38%	<u>236,466,726</u>	44%
<b>Equity</b>						
Share capital	(32)	<b>2,704,123</b>	2,704,123	0%	2,704,123	0%
Retained earnings		<b>8,217,757</b>	6,823,447	20%	5,610,900	46%
Other reserves		<b>10,818,342</b>	10,621,261	2%	11,024,879	-2%
<b>Total equity</b>		<b><u>21,740,222</u></b>	<u>20,148,831</u>	8%	<u>19,339,902</u>	12%
<b>Total equity and liabilities</b>		<b><u>363,094,254</u></b>	<u>266,938,453</u>	36%	<u>255,806,628</u>	42%

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED 30 JUNE 2011  
(UNAUDITED)**

Note	Share capital	Ordinary share premium	Bank premises revaluation reserve	Investment Revaluation Reserve	Cash flow hedge reserve	Exchange reserve	General reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2011	2,704,123	9,187,768	239,881	658,045	(193,151)	215,548	513,170	6,823,447	20,148,831
Profit for the period	—	—	—	—	—	—	—	1,539,495	1,539,495
Other comprehensive income for the period:									
Change in fair value of available-for-sale financial investments	—	—	—	(125,932)	—	—	—	—	(125,932)
Reserve realised on disposal of available-for-sale financial investments	—	—	—	(8,099)	—	—	—	—	(8,099)
Changes in fair value of cash flow hedge	—	—	—	—	110,193	—	—	—	110,193
Revaluation surplus on bank premises	—	—	15,866	—	—	—	—	—	15,866
Change in deferred tax (29)	—	—	(2,618)	21,578	(18,182)	—	—	—	778
Exchange differences	—	—	—	(2)	—	59,090	2	—	59,090
Partial transfer of retained earnings to general reserve	—	—	—	—	—	—	145,185	(145,185)	—
Total comprehensive income for the period	—	—	13,248	(112,455)	92,011	59,090	145,187	1,394,310	1,591,391
At 30 June 2011	<u>2,704,123</u>	<u>9,187,768</u>	<u>253,129</u>	<u>545,590</u>	<u>(101,140)</u>	<u>274,638</u>	<u>658,357</u>	<u>8,217,757</u>	<u>21,740,222</u>



**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED 30 JUNE 2010  
(UNAUDITED)**

	Share capital	Ordinary share premium	Bank premises revaluation reserve	Investment revaluation reserve	Cash flow hedge reserve	Exchange reserve	General reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2010	2,636,681	8,640,575	56,198	1,060,977	—	142,029	386,222	5,181,915	18,104,597
Adopting HKAS 17:									
Land	—	—	206,811	—	—	—	—	(9,690)	197,121
Deferred tax	—	—	(34,124)	—	—	—	—	—	(34,124)
Effect of adopting HKAS 17	—	—	172,687	—	—	—	—	(9,690)	162,997
At 1 January 2010, as restated	2,636,681	8,640,575	228,885	1,060,977	—	142,029	386,222	5,172,225	18,267,594
Profit for the period	—	—	—	—	—	—	—	1,229,158	1,229,158
Other comprehensive income for the period:									
Change in fair value of available-for-sale financial investments	—	—	—	26,011	—	—	—	—	26,011
Reserve realised on disposal of available-for-sale financial investments	—	—	—	(44,170)	—	—	—	—	(44,170)
Changes in fair value of cash flow hedge	—	—	—	—	(42,191)	—	—	—	(42,191)
Disposal of bank premises	—	—	(26,671)	—	—	—	—	26,671	—
Revaluation surplus on bank premises	—	—	12,896	—	—	—	—	—	12,896
Change in deferred tax	—	—	2,273	(2,622)	6,962	—	—	—	6,613
Exchange differences	—	—	—	(1)	—	20,783	(1)	—	20,781
Partial transfer of retained earnings to general reserve	—	—	—	—	—	—	65,700	(65,700)	—
Total comprehensive income for the period	—	—	(11,502)	(20,782)	(35,229)	20,783	65,699	1,190,129	1,209,098
Issue of shares	67,442	547,222	—	—	—	—	—	—	614,664
2009 final dividend paid	—	—	—	—	—	—	—	(751,454)	(751,454)
At 30 June 2010	<u>2,704,123</u>	<u>9,187,797</u>	<u>217,383</u>	<u>1,040,195</u>	<u>(35,229)</u>	<u>162,812</u>	<u>451,921</u>	<u>5,610,900</u>	<u>19,339,902</u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED 30 JUNE 2011  
(UNAUDITED)**

	<b>Six months ended</b>	
	<b>30 Jun 2011</b>	<b>30 Jun 2010</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Net cash flows from/(used in) operating activities	<b>49,273,882</b>	(779,352)
Net cash flows (used in)/from investing activities	<b>(29,417)</b>	17,745
Net cash flows from/(used in) financing activities	<b>1,243,986</b>	(176,591)
Effects of foreign exchange differences	<u>74,477</u>	<u>38,851</u>
Net increase/(decrease) in cash and cash equivalents	<b>50,562,928</b>	(899,347)
Cash and cash equivalents at 1 January	<b>36,084,706</b>	<u>28,708,709</u>
Cash and cash equivalents at 30 June	<b><u>86,647,634</u></b>	<b><u>27,809,362</u></b>

Components of cash and cash equivalents in the condensed consolidated statement of cash flows:

For the purposes of the condensed consolidated statement of cash flows, cash and cash equivalents comprise the following balances with an original maturity of three months or less:

	<b>30 Jun 2011</b>		<b>30 Jun 2010</b>	
	<b>HK\$'000</b>		<b>HK\$'000</b>	
Cash and balances with banks and other financial institutions	<b>29,261,361</b>		10,929,251	
Placements with banks and other financial institutions	<b>57,386,273</b>		<u>16,880,111</u>	
	<b>86,647,634</b>		<b><u>27,809,362</u></b>	

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 1 Principal activities

The principal activities of the Bank are the provision of banking, financial and other financial related services.

#### 2.1 Basis of preparation

The unaudited interim financial disclosure statements of the Group have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and fully comply with the requirements set out in the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority (the “HKMA”).

The unaudited interim financial disclosure statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at 31 December 2010.

The preparation of unaudited interim financial disclosure statements requires management to exercise its judgement and make estimates and assumptions in the process of applying the Group’s accounting policies and reporting amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. The significant judgements made by management were the same as those applied to the annual financial statements for the year ended 31 December 2010.

#### 2.2 Basis of consolidation

The unaudited interim financial disclosure statements include the accounts of the Bank and all its subsidiaries, a controlled unit trust and attributable share of results and reserves of its associate. For regulatory reporting, the basis of consolidation is set out in Note 1 of the “Supplementary Financial Information” section.

List of subsidiaries, which are all 100% held by the Bank, include in the consolidation are:

- Chinese Mercantile Bank
- ICBC (Asia) Asset Management Company Limited
- ICBC (Asia) Bullion Company Limited
- ICBC (Asia) Investment Holdings Limited
- ICBC (Asia) Investment Management Company Limited
- ICBC (Asia) Nominee Limited
- ICBC (Asia) Securities Limited
- ICBC (Asia) Trustee Company Limited
- ICBC (Asia) Wa Pei Nominees Limited
- ICBCA (C.I.) Limited
- UB China Business Management Co. Ltd.

**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS****3.1 Impact of new/revised Hong Kong Financial Reporting Standards (“HKFRSs”)**

The accounting policies adopted in the preparation of the interim financial disclosure statements are consistent with those used in the preparation of the Group’s audited financial statements for the year ended 31 December 2010 except for the adoption of the following HKFRSs and HKASs issued up to 30 June 2011 which are pertinent to the Group’s operations and relevant to these interim financial disclosure statements.

HKAS 24 (Revised)

*Related Party Disclosures*

HKAS 24 (Revised) simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Government-related entities are now defined as entities that are controlled, jointly-controlled or significantly influenced by the government. The revised standard still requires disclosures that are important to users of financial statements but eliminates requirements to disclose information that is costly to gather and of less value to users of financial statements. It achieves this balance by requiring disclosure about these transactions only if they are significant. The amendments are unlikely to have any financial impact on the Group. The Group reevaluates the related party disclosures, both qualitatively and quantitatively, for transactions entered into between government related entities that are individually significant and collectively, but not individually, significant. Please refer to note 34 for related party disclosures.

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Amendments to HKFRS 1, HKFRS 3, HKFRS7, HKAS 1, HKAS 27, HKAS 34 and HK(IFRIC)-Int 13 are effective for the reporting period. None of these amendments have a material financial impact on the Group.

**3.2 Issued but not yet effective HKFRSs**

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 4 Analysis of assets and liabilities by remaining maturity

The table below summarises the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date.

At 30 June 2011	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Assets</b>								
Cash and balances with banks and other financial institutions	24,982,363	55,748,799	—	—	—	—	4,278,998	85,010,160
Placements with and advances to banks and other financial institutions	—	—	5,276,831	3,488,798	—	—	—	8,765,629
Financial assets held for trading	—	14,016	36	—	26,193	6,506	200,147	246,898
Financial assets designated at fair value through profit or loss	—	—	—	186,605	538,950	—	—	725,555
Derivative financial instruments	19,855	348,961	251,445	450,059	322,754	87,414	—	1,480,488
Loans and advances to customers, banks and other financial institutions	27,395,121	6,445,670	22,042,898	63,292,343	71,166,290	31,676,181	—	222,018,503
Available-for-sale financial investments	—	130,427	352,534	7,954,012	28,816,935	1,297,896	686,526	39,238,330
Held-to-maturity financial investments	—	—	—	1,163,013	—	—	—	1,163,013
Investment in an associate	—	—	—	—	—	—	203,368	203,368
Goodwill and other intangible assets	—	—	—	—	—	—	1,016,918	1,016,918
Investment properties	—	—	—	—	—	—	55,265	55,265
Property, plant and equipment	—	—	—	—	—	—	518,887	518,887
Other assets, including deferred tax assets	16,065	521,633	164,076	600,197	163,425	—	1,185,844	2,651,240
<b>Total assets</b>	<b>52,413,404</b>	<b>63,209,506</b>	<b>28,087,820</b>	<b>77,135,027</b>	<b>101,034,547</b>	<b>33,067,997</b>	<b>8,145,953</b>	<b>363,094,254</b>
<b>Liabilities</b>								
Deposits from banks and other financial institutions	17,418,338	24,117,788	22,241,528	14,102,735	—	—	—	77,880,389
Derivative financial instruments	19,447	132,241	240,240	449,115	837,296	219,311	—	1,897,650
Deposits from customers	55,668,160	72,228,756	47,837,110	39,219,270	4,721,423	—	—	219,674,719
Certificates of deposit issued	—	1,778,702	5,716,386	11,986,632	7,865,311	—	—	27,347,031
Debt securities in issue	—	17,989	48,014	—	1,378,414	—	—	1,444,417
Subordinated debts measured at amortised cost	—	—	—	—	5,669,500	3,861,383	—	9,530,883
Other liabilities, including current and deferred tax liabilities	153,720	984,377	535,249	1,613,807	130,351	23,258	138,181	3,578,943
<b>Total liabilities</b>	<b>73,259,665</b>	<b>99,259,853</b>	<b>76,618,527</b>	<b>67,371,559</b>	<b>20,602,295</b>	<b>4,103,952</b>	<b>138,181</b>	<b>341,354,032</b>
<b>Net liquidity gap</b>	<b>(20,846,261)</b>	<b>(36,050,347)</b>	<b>(48,530,707)</b>	<b>9,763,468</b>	<b>80,432,252</b>	<b>28,964,045</b>	<b>8,007,772</b>	<b>21,740,222</b>

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 4 Analysis of assets and liabilities by remaining maturity (continued)

At 31 December 2010	Repayable on demand HK\$'000	Up to 1 month HK\$'000	1-3 months HK\$'000	3-12 months HK\$'000	1-5 years HK\$'000	Over 5 years HK\$'000	Indefinite HK\$'000	Total HK\$'000
<b>Assets</b>								
Cash and balances with banks and other financial institutions	10,830,668	20,971,719	—	—	—	—	2,119,434	33,921,821
Placements with and advances to banks and other financial institutions	—	—	2,827,114	1,073,569	—	—	—	3,900,683
Financial assets held for trading	—	—	—	14,104	25,555	6,442	159,565	205,666
Financial assets designated at fair value through profit or loss	—	—	—	228,000	723,345	—	—	951,345
Derivative financial instruments	9,582	419,634	302,776	772,706	208,690	171,453	—	1,884,841
Loans and advances to customers, banks and other financial institutions	22,789,989	14,115,612	14,254,798	33,058,464	68,143,678	32,695,887	—	185,058,428
Available-for-sale financial investments	—	1,554,541	909,627	3,507,801	27,253,018	1,545,824	873,204	35,644,015
Held-to-maturity financial investments	—	—	699,713	464,343	—	—	—	1,164,056
Investment in an associate	—	—	—	—	—	—	192,987	192,987
Goodwill and other intangible assets	—	—	—	—	—	—	1,016,647	1,016,647
Investment properties	—	—	—	—	—	—	53,765	53,765
Property, plant and equipment	—	—	—	—	—	—	501,851	501,851
Other assets	10,591	533,901	109,461	637,613	138,873	—	1,011,909	2,442,348
<b>Total assets</b>	<b>33,640,830</b>	<b>37,595,407</b>	<b>19,103,489</b>	<b>39,756,600</b>	<b>96,493,159</b>	<b>34,419,606</b>	<b>5,929,362</b>	<b>266,938,453</b>
<b>Liabilities</b>								
Deposits from banks and other financial institutions	4,641,286	8,401,654	7,431,459	7,404,293	—	—	—	27,878,692
Derivative financial instruments	5,470	160,565	421,089	754,703	681,796	405,629	—	2,429,252
Deposits from customers	49,368,349	74,287,952	34,610,714	32,475,968	2,772,144	28,424	—	193,543,551
Certificates of deposit issued	—	—	1,091,187	4,791,950	4,754,695	—	—	10,637,832
Debt securities in issue	—	87,957	129,436	—	—	—	—	217,393
Subordinated debts measured at amortised cost	—	—	—	621,880	3,487,520	5,410,048	—	9,519,448
Other liabilities, including current and deferred tax liabilities	99,083	571,689	422,484	1,223,677	97,520	10,634	138,367	2,563,454
<b>Total liabilities</b>	<b>54,114,188</b>	<b>83,509,817</b>	<b>44,106,369</b>	<b>47,272,471</b>	<b>11,793,675</b>	<b>5,854,735</b>	<b>138,367</b>	<b>246,789,622</b>
<b>Net liquidity gap</b>	<b>(20,473,358)</b>	<b>(45,914,410)</b>	<b>(25,002,880)</b>	<b>(7,515,871)</b>	<b>84,699,484</b>	<b>28,564,871</b>	<b>5,790,995</b>	<b>20,148,831</b>

## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

**5 Segment reporting****(a) Class of business**

The Group comprises seven operating segments. Commercial banking represents commercial lending and trade financing. Retail banking represents retail banking, hire purchase and leasing, and credit card business. Global markets and trading represents foreign exchange, money market and capital market activities. Corporate and investment banking mainly comprises corporate banking, the provision of debt capital market and investment banking. Institutional banking represents financial institution business. Chinese Mercantile Bank represents the business of the Bank's subsidiary in Mainland China. Unallocated items mainly comprise the central management unit, bank premises and any items which cannot be reasonably allocated to specific operating segments. During the period, the group has changed the presentation basis for segment reporting. Inter-segment elimination entries which previously eliminated within the corresponding segment were grouped into unallocated items as at 30 June 2011.

**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**
**5 Segment reporting (continued)**

30 June 2011	Corporate and investment banking HK\$'000	Commercial banking HK\$'000	Retail banking HK\$'000	Global markets and trading HK\$'000	Institutional banking HK\$'000	Chinese Mercantile Bank HK\$'000	Unallocated HK\$'000	Total HK\$'000
Net interest income	323,714	668,036	223,064	434,092	113,304	434,055	33,799	2,230,064
Fee and commission income	75,020	145,266	190,008	256	97,167	42,132	11,495	561,344
Fee and commission expense	(21,557)	(19,303)	(52,281)	—	(5,952)	(407)	5,930	(93,570)
Net fee and commission income	53,463	125,963	137,727	256	91,215	41,725	17,425	467,774
Net trading income/(expense)	18,063	118,007	30,228	38,696	6,910	(3,009)	21,492	230,387
Net (loss)/gain on financial assets and liabilities designated at fair value through profit or loss	—	—	—	(26,533)	—	—	4,837	(21,696)
Dividend income from financial investments	193	—	—	—	—	—	4,011	4,204
Other operating income	2,680	124	250	—	—	2,332	4,229	9,615
Operating income	398,113	912,130	391,269	446,511	211,429	475,103	85,793	2,920,348
Operating expenses	(54,340)	(178,532)	(333,890)	(80,141)	(27,203)	(88,246)	(9,390)	(771,742)
Operating profit before impairment losses	343,773	733,598	57,379	366,370	184,226	386,857	76,403	2,148,606
(Charge for)/write-back of impairment losses on loans and advances	(69,539)	(77,904)	(6,110)	(42)	292	(91,719)	187	(244,835)
Operating profit after impairment losses	274,234	655,694	51,269	366,328	184,518	295,138	76,590	1,903,771
Revaluation gain on investment properties	—	—	—	—	—	—	1,500	1,500
Net (loss)/gain from disposal/reversal of revaluation deficits of property, plant and equipment	—	(1)	(351)	—	—	(6)	77	(281)
Net gain on disposal of available-for-sale financial investments	—	—	—	12,158	—	—	—	12,158
Operating profit	274,234	655,693	50,918	378,486	184,518	295,132	78,167	1,917,148
Share of profit of an associate	—	—	—	—	—	—	10,381	10,381
Profit before tax	274,234	655,693	50,918	378,486	184,518	295,132	88,548	1,927,529
Segment assets	68,520,489	93,434,277	28,322,864	125,845,394	9,140,930	42,610,905	(8,314,864)	359,559,995
Investment in an associate	—	—	—	—	—	—	203,368	203,368
Unallocated assets	—	—	—	—	—	—	3,330,891	3,330,891
Total assets	68,520,489	93,434,277	28,322,864	125,845,394	9,140,930	42,610,905	(4,780,605)	363,094,254
Segment liabilities	64,439,336	56,459,895	59,228,598	60,019,356	30,577,604	39,814,120	(9,127,506)	301,411,403
Unallocated liabilities	—	—	—	—	—	—	39,942,629	39,942,629
Total liabilities	64,439,336	56,459,895	59,228,598	60,019,356	30,577,604	39,814,120	30,815,123	341,354,032
Capital expenditure	9	32	18,134	1,010	—	1,327	13,205	33,717
Depreciation and amortisation charges	258	1,063	12,208	598	77	8,588	10,350	33,142



## NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

### 5 Segment reporting (continued)

	Corporate and investment banking	Commercial banking	Retail banking	Global markets and trading	Institutional banking	Chinese Mercantile Bank	Unallocated	Total
30 June 2010	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net interest income	401,060	532,711	263,557	210,048	97,067	194,145	26,284	1,724,872
Fee and commission income	91,670	98,992	174,773	564	28,290	22,190	5,518	421,997
Fee and commission expense	(14,118)	(11,961)	(35,693)	—	(1)	(2,292)	(91)	(64,156)
Net fee and commission income	77,552	87,031	139,080	564	28,289	19,898	5,427	357,841
Net trading income/(expense)	22,170	77,077	24,599	41,186	8,336	(2,150)	(7,919)	163,299
Net gain on financial assets and liabilities designated at fair value through profit or loss	—	—	—	12,742	—	—	5,295	18,037
Dividend income from financial investments	237	—	24	—	—	—	3,330	3,591
Other operating income	1,335	11	526	776	—	3,525	4,477	10,650
Operating income	502,354	696,830	427,786	265,316	133,692	215,418	36,894	2,278,290
Operating expenses	(44,658)	(176,028)	(318,506)	(66,408)	(16,659)	(45,568)	(11,975)	(679,802)
Operating profit before impairment losses	457,696	520,802	109,280	198,908	117,033	169,850	24,919	1,598,488
(Charge for)/write-back of impairment losses on loans and advances	(58,869)	(9,926)	(5,271)	(121)	(25,522)	(112,286)	1,667	(210,328)
Write-back of impairment losses on held-to-maturity financial investments	—	—	—	80	—	—	—	80
Operating profit after impairment losses	398,827	510,876	104,009	198,867	91,511	57,564	26,586	1,388,240
Revaluation gain on investment properties	—	—	—	—	—	—	1,275	1,275
Net gain from disposal/reversal of revaluation deficits of property, plant and equipment	—	—	54	—	—	—	2,217	2,271
Net (loss)/gain on disposal of available-for-sale financial investments	—	—	—	(18)	—	—	58,547	58,529
Gain on disposal of loans and advances	17,553	3,738	—	—	—	—	—	21,291
Operating profit	416,380	514,614	104,063	198,849	91,511	57,564	88,625	1,471,606
Share of profit of an associate	—	—	—	—	—	—	7,174	7,174
Profit before tax	416,380	514,614	104,063	198,849	91,511	57,564	95,799	1,478,780
Segment assets	51,362,828	60,241,200	31,616,558	60,401,417	28,077,267	19,409,792	2,283,139	253,392,201
Investment in an associate	—	—	—	—	—	—	182,351	182,351
Unallocated assets	—	—	—	—	—	—	2,232,076	2,232,076
Total assets	51,362,828	60,241,200	31,616,558	60,401,417	28,077,267	19,409,792	4,697,566	255,806,628
Segment liabilities	54,053,694	52,407,094	56,318,668	28,886,476	10,716,021	15,193,676	2,112,951	219,688,580
Unallocated liabilities	—	—	—	—	—	—	16,778,146	16,778,146
Total liabilities	54,053,694	52,407,094	56,318,668	28,886,476	10,716,021	15,193,676	18,891,097	236,466,726
Capital expenditure	8	137	3,163	1,066	7	904	9,605	14,890
Depreciation and amortisation charges	294	1,088	11,868	763	84	7,449	9,590	31,136

**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**
**5 Segment reporting (continued)**
**(b) Geographical area**

The Group operates predominantly in Hong Kong. The geographical analysis, which has been classified by the location of the principal operations, is as follows:

**For the six months ended 30 June 2011**

	Hong Kong HK\$'000	Asia Pacific (excluding Hong Kong) HK\$'000	Europe HK\$'000	Consolidated HK\$'000
Operating income (net of interest expense)	2,445,245	475,103	—	2,920,348
Profit before tax	1,632,397	295,132	—	1,927,529
Total assets	320,483,349	42,610,905	—	363,094,254
Total liabilities	301,539,912	39,814,120	—	341,354,032
Contingent liabilities and commitments	106,436,700	12,359,847	—	118,796,547
Capital expenditure during the period	32,390	1,327	—	33,717

**For the six months ended 30 June 2010**

	Hong Kong HK\$'000	Asia Pacific (excluding Hong Kong) HK\$'000	Europe HK\$'000	Consolidated HK\$'000
Operating income (net of interest expense)	2,125,440	215,418	(62,568)	2,278,290
Profit/(loss) before tax	1,483,932	57,564	(62,716)	1,478,780
Total assets	236,396,836	19,409,792	—	255,806,628
Total liabilities	221,273,050	15,193,676	—	236,466,726
Contingent liabilities and commitments	101,064,417	20,075,171	—	121,139,588
Capital expenditure during the period	13,986	904	—	14,890

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

6 Net interest income

	30 Jun 2011 HK\$'000	30 Jun 2010 HK\$'000
Interest income on:		
Cash and balances with banks and other financial institutions	197,437	59,259
Placements with and advances to banks and other financial institutions	103,691	20,332
Loans and advances to customers, banks and other financial institutions	2,805,682	1,935,911
Financial investments — available-for-sale	527,581	470,663
Financial investments — held-to-maturity	<u>1,322</u>	<u>1,946</u>
	<b>3,635,713</b>	2,488,111
Financial assets held for trading	719	737
Financial assets designated at fair value through profit or loss	<u>20,571</u>	<u>25,003</u>
	<b>3,657,003</b>	<b>2,513,851</b>
Interest expense on:		
Deposits from banks and other financial institutions	332,956	91,920
Deposits from customers	823,467	467,176
Certificates of deposit issued	91,271	9,872
Debt securities in issue measured at amortised cost	7,144	—
Subordinated debts measured at amortised cost	127,389	39,801
Others	<u>36,872</u>	<u>160,438</u>
	<b>1,419,099</b>	769,207
Financial liabilities designated at fair value through profit or loss	<u>7,840</u>	<u>19,772</u>
	<b>1,426,939</b>	<b>788,979</b>
Net interest income	<b><u>2,230,064</u></b>	<b><u>1,724,872</u></b>

Included in the above is interest income accrued on impaired financial assets of HK\$17,378,830 (First half of 2010: HK\$32,961,326), including unwinding of discounts on loan impairment losses of HK\$15,687,904 (First half of 2010: HK\$11,348,000).

**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**
**7 Net fee and commission income**

	<b>30 Jun 2011</b>	30 Jun 2010
	<b>HK\$'000</b>	HK\$'000
Loans, overdrafts and guarantees	<b>182,484</b>	159,838
Securities and brokerage	<b>82,791</b>	83,219
Trade finance	<b>156,314</b>	73,409
Credit cards	<b>64,037</b>	43,859
Remittance	<b>17,040</b>	14,994
Insurance	<b>14,280</b>	14,265
Other retail and commercial banking services	<b>19,944</b>	17,636
Others	<b><u>24,454</u></b>	<u>14,777</u>
Fee and commission income	<b>561,344</b>	421,997
Fee and commission expense	<b><u>(93,570)</u></b>	<u>(64,156)</u>
Net fee and commission income	<b><u>467,774</u></b>	<u>357,841</u>

Of which:

Net fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are neither held for trading nor designated at fair value through profit or loss	<b>338,798</b>	233,247
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Net fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	<b>5,397</b>	11,901
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	<b>30 Jun 2011</b>	30 Jun 2010
	<b>HK\$'000</b>	HK\$'000

Of which:

Fee and commission income by product line constituting not less than 10% of the total amount of fee and commission income:		
- syndication loan	<b>120,973</b>	88,026
- securities and brokerage	<b>82,791</b>	83,219
- bill refinancing	<b>76,973</b>	4,591
- credit card	<b>64,037</b>	43,859

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

**8 Net trading income**

	<b>30 Jun 2011</b>	30 Jun 2010
	<b>HK\$'000</b>	HK\$'000
Equity investments	<b>26,633</b>	(1,100)
Debt securities - financial assets held for trading	<b>2,241</b>	(3,486)
- available-for-sale financial investments	<b>(3,453)</b>	—
Derivatives	<b>(2,925)</b>	10,117
Foreign exchange	<b><u>210,074</u></b>	<u>158,145</u>
	<b>232,570</b>	163,676
Gain/(loss) from hedging activities		
Fair value hedges		
- Net gain on hedged items attributable to the hedged risk	<b>23,825</b>	347,656
- Net loss on hedging instruments	<b><u>(26,008)</u></b>	<u>(348,033)</u>
	<b><u>(2,183)</u></b>	<u>(377)</u>
Total net trading income	<b><u>230,387</u></b>	<u>163,299</u>

There is no trading income on the gain of financial liabilities measured at amortised cost for first half of 2011 (First half of 2010: Nil).

**9 Net (loss)/gain on financial assets and liabilities designated at fair value through profit or loss**

	<b>30 Jun 2011</b>	30 Jun 2010
	<b>HK\$'000</b>	HK\$'000
Financial assets designated at fair value through profit or loss	<b>(26,503)</b>	12,719
Financial liabilities designated at fair value through profit or loss	<b><u>4,807</u></b>	<u>5,318</u>
Total net (loss)/gain on financial assets and liabilities designated at fair value through profit or loss	<b><u>(21,696)</u></b>	<u>18,037</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

**10 Dividend income from financial investments**

	<b>30 Jun 2011</b>	30 Jun 2010
	<b>HK\$'000</b>	HK\$'000
Dividend income from listed financial assets held for trading	—	720
Dividend income from listed available-for-sale financial investments	<b>2,206</b>	—
Dividend income from unlisted available-for-sale financial investments	<b>1,998</b>	2,871
Total dividend income from financial investments	<b><u>4,204</u></b>	<b><u>3,591</u></b>

**11 Other operating income**

	<b>30 Jun 2011</b>	30 Jun 2010
	<b>HK\$'000</b>	HK\$'000
Management fee income	<b>3,625</b>	3,750
Rental income	<b>14</b>	18
Rental income from investment properties	<b>1,158</b>	1,248
Less: Direct operating expenses arising from investment properties that generated rental income during the period	<b>(73)</b>	(41)
Others	<b>4,891</b>	5,675
Total other operating income	<b><u>9,615</u></b>	<b><u>10,650</u></b>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

12 Operating expenses

	30 Jun 2011 HK\$'000	30 Jun 2010 HK\$'000
Staff costs		
- Salaries and other costs	396,000	342,905
- Redundancy payments	—	1,563
- Retirement benefit costs	<u>19,590</u>	<u>19,536</u>
	<u>415,590</u>	<u>364,004</u>
Premises and equipment expenses, excluding depreciation and amortisation		
- Rental of premises	133,369	125,892
- Others	<u>41,909</u>	<u>39,207</u>
	<u>175,278</u>	<u>165,099</u>
Depreciation and amortisation expenses	33,142	31,136
Auditors' remuneration	2,762	3,355
General administration expenses	23,891	18,606
Business promotion expenses	17,194	18,097
Communication expenses	21,345	22,162
Other operating expenses	<u>82,540</u>	<u>57,343</u>
Total operating expenses	<u>771,742</u>	<u>679,802</u>

**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**
**13 Charge for impairment losses on loans and advances**

	<b>30 Jun 2011</b>	30 Jun 2010
	<b>HK\$'000</b>	HK\$'000
Charge for impairment losses on loans and advances		
Individually assessed		
- New allowances	<b>110,455</b>	102,955
- Releases	<b>(27,136)</b>	(17,570)
- Recoveries	<b>(3,516)</b>	(2,746)
Net charge for impairment losses on individually assessed loans and advances	<b><u>79,803</u></b>	<u>82,639</u>
Collectively assessed		
- New allowances	<b>169,938</b>	127,689
- Releases	<b>(4,906)</b>	—
Net charge for impairment losses on collectively assessed loans and advances	<b><u>165,032</u></b>	<u>127,689</u>
Net charge to the income statement	<b><u><u>244,835</u></u></b>	<u><u>210,328</u></u>

**14 Tax**

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable for overseas subsidiaries have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The amount of tax charged to the consolidated income statement represents:

	<b>30 Jun 2011</b>	30 Jun 2010
	<b>HK\$'000</b>	HK\$'000
Current tax — Hong Kong profits tax for the period	<b>281,027</b>	240,812
— Overseas tax for the period	<b>134,448</b>	16,805
Underprovision in respect of prior years	<b>769</b>	3,448
Deferred taxation relating to the origination and reversal of temporary differences	<b><u>(28,210)</u></b>	<u>(11,443)</u>
	<b><u><u>388,034</u></u></b>	<u><u>249,622</u></u>



NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

**14 Tax (continued)**

The difference between the tax expense for the Group's profit before tax and the theoretical amount that would arise using the current tax rate is as follows:

	<b>30 Jun 2011</b>	30 Jun 2010
	<b>HK\$'000</b>	HK\$'000
Profit before tax	<b>1,927,529</b>	1,478,780
Calculated at a tax rate of 16.5% (2010: 16.5%)	<b>318,042</b>	243,999
Effect of different tax rates in other countries	<b>88,694</b>	7,273
Income not subject to tax	<b>(34,913)</b>	(31,510)
Expenses not deductible for tax purposes	<b>17,327</b>	27,703
Adjustments in respect of current tax of previous periods	<b>769</b>	3,448
Share of tax of an associate	<b>(1,713)</b>	(1,184)
Taxation of partnership	<b>(172)</b>	(107)
Tax charge	<b><u>388,034</u></b>	<u>249,622</u>

**15 Declared interim dividend**

	<b>30 Jun 2011</b>	30 Jun 2010
	<b>HK\$'000</b>	HK\$'000
Declared interim dividend of HK\$Nil per share (2010: HK\$0.37 per share)	<u>—</u>	<u>500,263</u>

At a meeting held on 24 August 2011, the Board has not recommended the payment of interim dividend for the six months ended 30 June 2011.

**16 Earnings per share**

Basic earnings per share amount is calculated by dividing the profit for the period attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the period.

	<b>30 Jun 2011</b>	30 Jun 2010
Profit attributable to equity holders of the Bank (HK\$'000)	<b>1,539,495</b>	1,229,158
Weighted average number of ordinary shares in issue (thousands)	<b>1,352,062</b>	1,318,713
Basic earnings per share (HK\$)	<b><u>HK\$1.14</u></b>	<u>HK\$0.93</u>

Diluted earnings per share amount for the periods ended 30 June 2011 and 30 June 2010 were the same as basic earning per share, as the Group had no potential dilutive ordinary shares in issue during those periods.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

17 Cash and balances with banks and other financial institutions

	<b>30 Jun 2011</b>	31 Dec 2010
	<b>HK\$'000</b>	HK\$'000
Cash on hand	<b>318,543</b>	305,978
Balances with central banks	<b>7,866,795</b>	6,405,914
Balances with other banks and financial institutions	<b>21,076,023</b>	6,238,210
Placements with banks and other financial institutions maturing within one month	<b><u>55,748,799</u></b>	<u>20,971,719</u>
	<b><u>85,010,160</u></b>	<u>33,921,821</u>

18 Placements with and advances to banks and other financial institutions

	<b>30 Jun 2011</b>	31 Dec 2010
	<b>HK\$'000</b>	HK\$'000
Placements with and advances to banks and other financial institutions maturing between one and twelve months	<b><u>8,765,629</u></b>	<u>3,900,683</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

19 Financial assets held for trading

	30 Jun 2011 HK\$'000	31 Dec 2010 HK\$'000
Debt securities, at fair value:		
Listed in Hong Kong	6,506	6,694
Unlisted	<u>40,245</u>	<u>39,407</u>
	<u>46,751</u>	<u>46,101</u>
Equity securities, at fair value:		
Listed in Hong Kong	200,147	140,387
Unlisted	<u>—</u>	<u>19,178</u>
	<u>200,147</u>	<u>159,565</u>
Total financial assets held for trading	<u>246,898</u>	<u>205,666</u>
Financial assets held for trading comprise the following items:		
Other debt securities	46,751	46,101
Equity securities	<u>200,147</u>	<u>159,565</u>
	<u>246,898</u>	<u>205,666</u>
Financial assets held for trading are analysed by category of issuer as follows:		
Central governments and central banks	25	24
Public sector entities	—	252
Banks and other financial institutions	240,367	198,948
Corporate entities	<u>6,506</u>	<u>6,442</u>
	<u>246,898</u>	<u>205,666</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

20 Financial assets designated at fair value through profit or loss

	30 Jun 2011 HK\$'000	31 Dec 2010 HK\$'000
Debt securities, at fair value:		
Listed in Hong Kong	83,438	310,340
Listed outside Hong Kong	453,348	452,990
Unlisted	<u>188,769</u>	<u>188,015</u>
Total financial assets designated at fair value through profit or loss	<u>725,555</u>	<u>951,345</u>
Financial assets designated at fair value through profit or loss comprise the following item:		
Other debt securities	<u>725,555</u>	<u>951,345</u>
Financial assets designated at fair value through profit or loss are analysed by category of issuer as follows:		
Public sector entities	125,069	124,165
Banks and other financial institutions	186,605	189,071
Corporate entities	<u>413,881</u>	<u>638,109</u>
	<u>725,555</u>	<u>951,345</u>

**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS****21 Derivative financial instruments**

The Group enters into the following equity, foreign exchange and interest rate related derivative financial instruments for trading and risk management purposes:

Currency forwards represent commitments to purchase and sell foreign currencies on a future date.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an exchange of currencies, interest rates (for example, fixed rate for floating rate), or a combination of all these (i.e., cross-currency interest rate swaps). Except for certain currency swap contracts, no exchange of principal takes place.

Foreign currency, interest rate and equity options are contractual agreements under which the seller (writer) grants the purchaser (holder) the rights, but not an obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of the financial instrument at a predetermined price. In consideration for the assumption of foreign exchange and interest rate risk, the seller receives a premium from the purchaser. Options are negotiated OTC between the Group and its counterparty or traded through the stock exchange (for example, exchange-traded stock options).

The contractual/notional amounts and fair values of derivative financial instruments held by the Group are set out in the following tables. The contractual/notional amounts of these instruments indicate the volume of transactions outstanding at the end of the reporting periods and certain of them provide a basis for comparison with fair value instruments recognised on the consolidated statement of financial position. However, they do not necessarily indicate the amounts of future cash flows involved or the current fair values of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates and equity relative to their terms. The aggregate fair values of derivative financial instruments (assets and liabilities) can fluctuate significantly from time to time.

The Group trades derivative products (both exchange-traded or OTC) mainly for customer business. The Group strictly follows risk management policies in providing derivative products to the customers and in trading derivative products in the interbank market.

Derivatives are also used to manage the interest rate risk of the banking book. A derivative instrument must be included in the approved product list before any transactions for that instrument can be made. There are limits to control the notional amount of exposure arising from derivative transactions and the maximum tenor of the deal and management alert limit in profit or loss is set. Every derivative transaction must be input into the relevant system for settlement, mark to market revaluation, reporting and control.

**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**
**21 Derivative financial instruments (continued)**

The following tables summarise the contractual/notional amounts of each significant type of derivative financial instrument as at 30 June 2011 and 31 December 2010:

<b>As at 30 June 2011</b>	<b>Contractual/ notional amount HK\$'000</b>	<b>Fair value assets HK\$'000</b>	<b>Fair value liabilities HK\$'000</b>
1) Derivatives held for trading			
a) Foreign exchange derivatives			
- Currency forwards	259,648,506	1,069,405	(811,398)
- OTC currency options purchased	9,698,501	54,749	—
- OTC currency options written	9,257,702	—	(59,838)
- Structured foreign exchange instruments	345,374	13,029	(13,029)
Total foreign exchange derivatives		<u>1,137,183</u>	<u>(884,265)</u>
b) Interest rate derivatives			
- Interest rate swaps	46,602,508	316,075	(304,047)
- Quanto swaps	9,965,122	204	—
- Structured interest rate instruments	50,000	—	(23)
Total interest rate derivatives		<u>316,279</u>	<u>(304,070)</u>
c) Equity derivatives			
- Equity options	132,020	1,628	(1,628)
Total equity derivatives		<u>1,628</u>	<u>(1,628)</u>
Total derivative assets/(liabilities) held for trading		<u>1,455,090</u>	<u>(1,189,963)</u>
2) Derivatives held for hedging			
a) Derivatives designated as fair value hedges			
- Interest rate swaps	7,475,665	—	(369,929)
- Cross currency swaps	959,759	—	(131,405)
		—	(501,334)
b) Derivatives designated as cash flow hedges			
- Interest rate swaps	8,329,536	21,859	(142,823)
- Cross currency swaps	404,690	927	—
		<u>22,786</u>	<u>(142,823)</u>
Total derivative assets/(liabilities) held for hedging		<u>22,786</u>	<u>(644,157)</u>

**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**
**21 Derivative financial instruments (continued)**

<b>As at 30 June 2011</b>	<b>Contractual/ notional amount HK\$'000</b>	<b>Fair value assets HK\$'000</b>	<b>Fair value liabilities HK\$'000</b>
3) Derivatives not qualified as hedges for accounting purposes but which are managed in conjunction with the financial instruments designated at fair value through profit or loss			
- Interest rate swaps	870,468	<u>2,612</u>	<u>(63,530)</u>
Total derivative assets/(liabilities) not qualified as hedges		<u>2,612</u>	<u>(63,530)</u>
Total recognised derivative assets/(liabilities)		<u><b>1,480,488</b></u>	<u><b>(1,897,650)</b></u>
<b>As at 31 December 2010</b>	<b>Contractual/ notional amount HK\$'000</b>	<b>Fair value assets HK\$'000</b>	<b>Fair value liabilities HK\$'000</b>
1) Derivatives held for trading			
a) Foreign exchange derivatives			
- Currency forwards	204,435,982	1,380,033	(1,187,915)
- OTC currency options purchased	6,827,340	109,169	(326)
- OTC currency options written	5,784,932	326	(119,967)
- Structured foreign exchange instruments	272,353	<u>11,882</u>	<u>(11,882)</u>
Total foreign exchange derivatives		1,501,410	(1,320,090)
b) Interest rate derivatives			
- Interest rate swaps	28,535,440	373,641	(347,318)
- Interest rate options purchased	505,278	—	—
- Interest rate options written	505,278	—	—
- Quanto swaps	3,086,546	1,044	—
- Structured interest rate instruments	651,669	<u>2,687</u>	<u>(2,837)</u>
Total interest rate derivatives		377,372	(350,155)
c) Equity derivatives			
- Equity options	205,160	<u>806</u>	<u>(806)</u>
Total equity derivatives		<u>806</u>	<u>(806)</u>
Total derivative assets/(liabilities) held for trading		<u><b>1,879,588</b></u>	<u><b>(1,671,051)</b></u>

**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**
**21 Derivative financial instruments (continued)**

As at 31 December 2010	Contractual/ notional amount HK\$'000	Fair value assets HK\$'000	Fair value liabilities HK\$'000
2) Derivatives held for hedging			
a) Derivatives designated as fair value hedges			
- Interest rate swaps	7,854,240	—	(346,063)
- Cross currency swaps	958,649	972	(83,854)
		972	(429,917)
b) Derivatives designated as cash flow hedges			
- Interest rate swaps	7,022,861	—	(231,296)
- Cross currency swaps	404,222	696	—
		696	(231,296)
Total derivative assets/(liabilities) held for hedging		1,668	(661,213)
3) Derivatives not qualified as hedges for accounting purposes but which are managed in conjunction with the financial instruments designated at fair value through profit or loss			
- Interest rate swaps	1,069,577	3,585	(96,988)
Total derivative assets/(liabilities) not qualified as hedges		3,585	(96,988)
Total recognised derivative assets/(liabilities)		1,884,841	(2,429,252)

The contractual or notional amounts of contingent liabilities and commitments and derivative financial instruments provide only an indication of the volume of business outstanding at the end of the reporting period and bear little relation to the underlying risks of the exposures.

Among the above derivative financial instruments, certain of them were designated as hedging instruments.

Fair value hedges are used by the Group to protect it against changes in the fair value of financial assets due to movements in market interest rates. The financial instruments hedged for interest rate risk mainly include available-for-sale debt securities. The Bank uses interest rate swaps and cross currency swaps to hedge interest rate risk.



NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

21 Derivative financial instruments (continued)

The effectiveness of the hedge based on changes in fair value of the derivatives and the hedged items attributable to the hedged risk recognised in the income statement during the period is presented as follows:

	30 Jun 2011 HK\$'000	30 Jun 2010 HK\$'000
Gain/(loss) arising from fair value hedge, net:		
- Hedging instruments	(26,008)	(348,033)
- Hedged items attributable to the hedged risk	<u>23,825</u>	<u>347,656</u>
	<u>(2,183)</u>	<u>(377)</u>

Cash flow hedge consists of interest rate swaps and cross-currency interest rate swaps entered into that are used to protect the Group against exposures to variability of floating-rate assets and liabilities. Gains and losses on the effective portion of the swaps are initially recognised directly in equity, in the cash flow hedge reserve, and are transferred to the income statement when the forecast cash flows affect the income statement. The gains and losses on ineffective portions of such derivatives are recognised immediately in the income statement. During the period, there was no ineffectiveness recognised in the income statement that arose from cash flow hedges (2010: Nil).

Below is a schedule indicating as at 30 June 2011 and 31 December 2010, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss:

<b>30 June 2011</b>	<b>Within 1 year HK\$ million</b>	<b>1-3 years HK\$ million</b>	<b>3-8 years HK\$ million</b>	<b>Over 8 years HK\$ million</b>
Cash inflows (assets)	13	25	54	14
Cash outflows (liabilities)	(10)	(8)	(5)	(1)
Net cash flows	3	17	49	13
<b>31 December 2010</b>				
Cash inflows (assets)	12	23	58	22
Cash outflows (liabilities)	(12)	(11)	(3)	—
Net cash flows	—	12	55	22

During the period, realised gain amounting to HK\$35,076,000 previously recognised in equity under the cash flow hedge reserve was transferred to the income statement and included in the net interest income (First half of 2010: Realised loss of HK\$10,331,000).

There were no transactions for which cash flow hedge accounting had to be ceased in 2011 as a result of the highly probable cash flows no longer being expected to occur.

**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**
**21 Derivative financial instruments (continued)**

The aggregate replacement costs and credit risk weighted amounts of the above contingent liabilities and commitments and derivative financial instruments are:

	<b>30 Jun 2011</b>		31 Dec 2010	
	<b>Replacement cost</b>	<b>Credit risk weighted amount</b>	<b>Replacement cost</b>	<b>Credit risk weighted amount</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Contingent liabilities and commitments	—	<b>14,655,268</b>	—	17,523,389
Exchange rate contracts	<b>869,359</b>	<b>2,275,308</b>	1,166,444	2,214,311
Interest rate contracts	<b>340,750</b>	<b>438,705</b>	380,958	431,023
Equity contracts	<b>1,628</b>	<b>1,118</b>	806	1,392
	<b><u>1,211,737</u></b>	<b><u>17,370,399</u></b>	<b><u>1,548,208</u></b>	<b><u>20,170,115</u></b>

The replacement costs and credit risk weighted amounts of the exposures do not have the effects of bilateral netting arrangements.

**22 Loans and advances to customers, banks and other financial institutions**
**(a) Loans and advances to customers, banks and other financial institutions**

	<b>30 Jun 2011</b>	31 Dec 2010
	<b>HK\$'000</b>	<b>HK\$'000</b>
Advances to customers	<b>172,604,697</b>	161,894,142
Advances to banks and other financial institutions	<b>25,263,378</b>	18,051,398
Trade bills	<b><u>24,782,821</u></b>	<u>5,579,869</u>
Gross loans and advances to customers, banks and other financial institutions	<b>222,650,896</b>	185,525,409
Accrued interest	<b><u>538,284</u></b>	<u>553,512</u>
	<b><u>223,189,180</u></b>	<u>186,078,921</u>
Less: impairment allowances		
- Individually assessed	<b>(453,887)</b>	(472,586)
- Collectively assessed	<b><u>(716,790)</u></b>	<u>(547,907)</u>
	<b><u>222,018,503</u></b>	<u>185,058,428</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

22 Loans and advances to customers, banks and other financial institutions (continued)

	30 Jun 2011	31 Dec 2010
	HK\$'000	HK\$'000
Gross impaired loans and advances	995,601	1,007,772
Impairment allowances made in respect of such loans	453,887	472,586
Gross impaired loans and advances as a percentage of total gross loans and advances	0.45%	0.54%
Market value of collateral	<u>373,536</u>	<u>351,230</u>

Impaired loans and advances are defined as those loans which are individually determined to have objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event has an impact on the estimated future cash flows of the loans that can be reliably estimated.

Loss event refers to situations such as credit downgrade of the loan borrowers; or loan outstandings become overdue.

There were no impaired advances to banks and other financial institutions as at 30 June 2011 and 31 December 2010; nor were there any individual impairment allowances made for them on these two dates.

The market value of the collateral is readily determinable or can be reasonably established and verified.

**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**
**22 Loans and advances to customers, banks and other financial institutions (continued)**
**(b) Overdue advances to customers, banks and other financial institutions (excluding trade bills and receivables)**

The gross amount of the Group's advances to customers, banks and other financial institutions (excluding trade bills and receivables) which have been overdue is analysed as follows:

	Gross advances HK\$'000	% of advances to customers	Market value of collateral HK\$'000	Amount of secured balance HK\$'000	Amount of unsecured balance HK\$'000	Individual impairment allowance HK\$'000
<b>As at 30 Jun 2011</b>						
Six months or less but over three months	17,507	0.0	36,388	15,964	1,543	837
One year or less but over six months	1	0.0	—	—	1	—
Over one year	<u>854,385</u>	<u>0.5</u>	<u>808,459</u>	<u>736,758</u>	<u>117,627</u>	<u>177,877</u>
	<u><u>871,893</u></u>	<u><u>0.5</u></u>	<u><u>844,847</u></u>	<u><u>752,722</u></u>	<u><u>119,171</u></u>	<u><u>178,714</u></u>
<b>As at 31 Dec 2010</b>						
Six months or less but over three months	10,317	0.0	16,021	9,066	1,251	1,168
One year or less but over six months	505,843	0.3	503,094	502,767	3,076	1,950
Over one year	<u>400,985</u>	<u>0.2</u>	<u>251,841</u>	<u>225,275</u>	<u>175,710</u>	<u>217,015</u>
	<u><u>917,145</u></u>	<u><u>0.5</u></u>	<u><u>770,956</u></u>	<u><u>737,108</u></u>	<u><u>180,037</u></u>	<u><u>220,133</u></u>

The criteria for eligible collateral are as follows:

- The market value of the collateral is readily determinable or can be reasonably established and verified;
- The collateral is marketable and there exists a readily available secondary market for disposing of the collateral;
- The Bank's rights to repossess the collateral is legally enforceable and without impediment; and
- If the collateral is a moveable asset, it should be under the Bank's custody, or its whereabouts can be located by the Bank.

The eligible collaterals are mainly properties, deposits and shares.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

22 Loans and advances to customers, banks and other financial institutions (continued)

(c) Other overdue assets

	30 Jun 2011 Accrued interest HK\$'000	30 Jun 2011 Other assets HK\$'000	31 Dec 2010 Accrued interest HK\$'000	31 Dec 2010 Other assets HK\$'000
Six months or less but over three months	—	761	—	—
One year or less but over six months	—	—	2,431	—
Over one year	56,236	—	52,185	—
	56,236	761	54,616	—
Rescheduled assets	11	—	—	—
	56,247	761	54,616	—

Other assets refer to trade bills and receivables.

(d) Rescheduled advances

	30 Jun 2011 HK\$'000	As % of advances to customers	31 Dec 2010 HK\$'000	As % of advances to customers
Rescheduled advances (excluding loans overdue over three months)	83,816	0.05	98,456	0.06

Rescheduled advances which have been overdue for more than three months under the revised repayment terms are included in the analysis of overdue advances in (b) above.

There were no advances to banks and other financial institutions which were overdue; nor were there any rescheduled advances to banks and other financial institutions as at 30 June 2011 and 31 December 2010.

(e) Repossessed assets

At 30 June 2011, the estimated market value of the repossessed assets of the Group amounted to HK\$9,797,000 (31 December 2010: Nil). These are properties which the Group has acquired access to or control of (e.g., through legal actions or voluntary actions by the borrowers concerned) for releasing in full or in part the obligations of the borrowers.

(f) Cash collateral on securities borrowed and reverse repurchase agreements (the "Reverse Repo")

In respect of reverse repurchase transactions, the fair value of collateral held by the Group which were permitted to be sold or repledged amounted to HK\$2,764,098,000 (The amount of the Reverse Repo) as at 30 June 2011 (31 December 2010: HK\$2,247,577,000). No collateral has been actually sold or repledged by the Group as at 30 June 2011 and 31 December 2010. The transactions are conducted on terms that are usual and customary to standard lending activities.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

23 Available-for-sale financial investments

	30 Jun 2011	31 Dec 2010
	HK\$'000	HK\$'000
Debt securities:		
Listed in Hong Kong	3,819,022	2,658,936
Listed outside Hong Kong	20,073,367	18,304,817
Unlisted	<u>14,667,368</u>	<u>13,815,011</u>
	<u>38,559,757</u>	<u>34,778,764</u>
Equity securities:		
Listed in Hong Kong	594,442	781,210
Unlisted	<u>84,131</u>	<u>84,041</u>
	<u>678,573</u>	<u>865,251</u>
 Total available-for-sale financial investments	 <u>39,238,330</u>	 <u>35,644,015</u>
 Market value of listed securities	 <u>24,486,831</u>	 <u>21,744,963</u>
 Debt securities after taking into account impairment losses comprise the following items:		
Certificates of deposit held	2,800,960	2,091,732
Other debt securities	<u>35,758,797</u>	<u>32,687,032</u>
	<u>38,559,757</u>	<u>34,778,764</u>
 Available-for-sale financial investments are analysed by category of issuer as follows:		
Central governments and central banks	1,685,461	1,307,822
Public sector entities	515,658	514,234
Banks and other financial institutions	25,341,507	24,418,907
Corporate entities	11,695,027	9,402,375
Others	<u>677</u>	<u>677</u>
	<u>39,238,330</u>	<u>35,644,015</u>

There was no individual impairment loss made during the period (First half of 2010: Nil).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

**24 Held-to-maturity financial investments**

	<b>30 Jun 2011</b>	31 Dec 2010
	<b>HK\$'000</b>	HK\$'000
Debt securities:		
Unlisted	<u><b>1,163,013</b></u>	<u>1,164,056</u>
Less: Impairment losses	<u>—</u>	<u>—</u>
Total held-to-maturity financial investments	<u><b>1,163,013</b></u>	<u>1,164,056</u>
Debt securities after taking into account impairment losses comprise the following items:		
Treasury bills	<u><b>1,163,013</b></u>	<u>1,164,056</u>
Held-to-maturity financial investments are analysed by category of issuer as follows:		
Central governments and central banks	<u><b>1,163,013</b></u>	<u>1,164,056</u>

**25 Investment properties**

	<b>30 Jun 2011</b>	31 Dec 2010
	<b>HK\$'000</b>	HK\$'000
Carrying amount at 1 January	<b>53,765</b>	46,213
Net revaluation gain	<u><b>1,500</b></u>	<u>7,552</u>
Carrying amount at 30 June/31 December	<u><b>55,265</b></u>	<u>53,765</u>

**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**
**26 Property, plant and equipment**

	<b>Bank premises and properties HK\$'000</b>	<b>Leasehold improvements HK\$'000</b>	<b>Furniture and equipment HK\$'000</b>	<b>Total HK\$'000</b>
At 31 December 2010 and 1 January 2011:				
Cost or valuation	439,319	214,142	236,187	889,648
Accumulated depreciation and impairment	<u>(95,902)</u>	<u>(133,318)</u>	<u>(158,577)</u>	<u>(387,797)</u>
Net book value at 31 December 2010 and 1 January 2011	<u>343,417</u>	<u>80,824</u>	<u>77,610</u>	<u>501,851</u>
Additions	—	12,101	16,800	28,901
Disposals	—	(111)	(162)	(273)
Revaluation	15,762	—	—	15,762
Depreciation provided during the period	(8,787)	(8,585)	(11,160)	(28,532)
Exchange rate and other adjustments	<u>1,018</u>	<u>—</u>	<u>160</u>	<u>1,178</u>
Net book value at 30 June 2011	<u>351,410</u>	<u>84,229</u>	<u>83,248</u>	<u>518,887</u>
At 30 June 2011:				
Cost or valuation	448,209	224,644	251,331	924,184
Accumulated depreciation and impairment	<u>(96,799)</u>	<u>(140,415)</u>	<u>(168,083)</u>	<u>(405,297)</u>
Net book value at 30 June 2011	<u>351,410</u>	<u>84,229</u>	<u>83,248</u>	<u>518,887</u>
The analysis of cost or valuation of the above assets is as follows:				
At 30 June 2011:				
At cost	—	224,644	251,331	475,975
At valuation	<u>351,410</u>	<u>—</u>	<u>—</u>	<u>351,410</u>
	<u>351,410</u>	<u>224,644</u>	<u>251,331</u>	<u>827,385</u>



NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

26 Property, plant and equipment (continued)

	Bank premises and properties HK\$'000	Leasehold improvements HK\$'000	Furniture and equipment HK\$'000	Total HK\$'000
At 31 December 2009 and 1 January 2010:				
Cost or valuation	171,868	208,261	221,736	601,865
Accumulated depreciation and impairment	<u>(69,402)</u>	<u>(117,215)</u>	<u>(141,295)</u>	<u>(327,912)</u>
Net book value at 31 December 2009 and 1 January 2010	102,466	91,046	80,441	273,953
Effect of adopting HKAS 17	<u>240,238</u>	<u>—</u>	<u>—</u>	<u>240,238</u>
Net book value at 31 December 2009 and 1 January 2010, as restated	342,704	91,046	80,441	514,191
Additions	—	6,877	17,116	23,993
Disposals	(26,878)	—	(163)	(27,041)
Revaluation	40,828	—	—	40,828
Depreciation provided during the year	(14,808)	(17,100)	(19,874)	(51,782)
Exchange rate and other adjustments	<u>1,571</u>	<u>1</u>	<u>90</u>	<u>1,662</u>
Net book value at 31 December 2010	<u>343,417</u>	<u>80,824</u>	<u>77,610</u>	<u>501,851</u>
At 31 December 2010:				
Cost or valuation	439,319	214,142	236,187	889,648
Accumulated depreciation and impairment	<u>(95,902)</u>	<u>(133,318)</u>	<u>(158,577)</u>	<u>(387,797)</u>
Net book value at 31 December 2010	<u>343,417</u>	<u>80,824</u>	<u>77,610</u>	<u>501,851</u>
The analysis of cost or valuation of the above assets is as follows:				
At 31 December 2010:				
At cost	—	214,142	236,187	450,329
At valuation	<u>343,417</u>	<u>—</u>	<u>—</u>	<u>343,417</u>
	<u>343,417</u>	<u>214,142</u>	<u>236,187</u>	<u>793,746</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

27 Other assets

	30 Jun 2011 HK\$'000	31 Dec 2010 HK\$'000
Interest receivable	489,722	420,348
Prepayments	180,644	166,230
Settlement accounts	353,742	398,153
Margin deposit paid	559,954	539,275
Interest in a partnership	452,656	459,009
Factoring receivables	435,006	385,987
Others	173,476	73,346
	<u>2,645,200</u>	<u>2,442,348</u>

28 Deposits from customers

	30 Jun 2011 HK\$'000	31 Dec 2010 HK\$'000
Demand deposits and current accounts	17,448,315	12,789,495
Savings deposits	37,104,202	35,694,781
Time, call and notice deposits	165,122,202	145,059,275
	<u>219,674,719</u>	<u>193,543,551</u>

29 Deferred income tax

Deferred income tax is calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5% (2010: 16.5%).

The movements in the deferred income tax assets/(liabilities) accounts are as follows:

	Deferred income tax assets 30 Jun 2011 HK\$'000	Deferred income tax liabilities 30 Jun 2011 HK\$'000	Total 30 Jun 2011 HK\$'000	Deferred income tax liabilities 31 Dec 2010 HK\$'000
At 1 January	(8,085)	(106,746)	(114,831)	(190,262)
Effect of adopting HKAS 17	—	—	—	(34,124)
At 1 January, as restated	(8,085)	(106,746)	(114,831)	(224,386)
Credited to income statement	13,950	14,260	28,210	691
Credited to equity	—	778	778	107,925
Exchange and other adjustments	175	—	175	939
At 30 June / 31 December	<u>6,040</u>	<u>(91,708)</u>	<u>(85,668)</u>	<u>(114,831)</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

29 Deferred income tax (continued)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated statement of financial position.

	30 Jun 2011 HK\$'000	31 Dec 2010 HK\$'000
Deferred income tax assets, net		
to be recovered after more than 12 months	6,040	—
to be recovered within 12 months	—	—
	<u>6,040</u>	<u>—</u>
Deferred income tax liabilities, net		
to be settled after more than 12 months	(89,033)	(114,184)
to be settled within 12 months	(2,675)	(647)
	<u>(91,708)</u>	<u>(114,831)</u>

30 Subordinated debts measured at amortised cost

	30 Jun 2011 HK\$'000	Interest rate %	31 Dec 2010 HK\$'000	Interest rate %
Subordinated floating rate notes				
- with a final maturity on 29 June 2016	622,600	1.246%	621,880	0.803%
- with a final maturity on 20 October 2018 (callable on 21 October 2013)	1,556,500	1.124%	1,554,700	1.153%
- perpetual (callable on 10 December 2012)	1,000,000	0.760%	1,000,000	0.779%
- perpetual (callable on 9 July 2013)	933,900	0.793%	932,820	0.803%
- perpetual (callable on 30 June 2016)	1,556,500	0.846%	1,554,700	0.903%
	<u>5,669,500</u>		5,664,100	
Subordinated fixed rate notes				
- with a final maturity on 30 November 2020	3,861,383	5.125%	3,855,348	5.125%
	<u>9,530,883</u>		<u>9,519,448</u>	

Subordinated debts were raised by the Bank for the development and expansion of business. Floating rate debts have been fully subscribed by the ultimate holding company. These notes have been qualified and included as the Bank's supplementary capital in accordance with the Capital Rules.

On 22 November 2010, the Bank issued subordinated notes with aggregate nominal amount of US\$500 million, bearing a fixed interest rate of 5.125% per annum to institutional investors. The notes were issued at the price fixed at 99.737% of the nominal amount with maturity due on 30 November 2020. The notes were listed on the Singapore Exchange Securities Trading Limited.

The Bank has not had any default of principal or interest or other breaches with respect to the subordinated debts during the period (2010: Nil).

**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**
**31 Other liabilities**

	<b>30 Jun 2011</b>	31 Dec 2010
	<b>HK\$'000</b>	HK\$'000
Interest payable	<b>833,421</b>	623,636
Salaries and welfare payable	<b>151,960</b>	166,525
Settlement accounts	<b>665,476</b>	398,283
Margin deposit received	<b>201,059</b>	217,236
Factoring payables	<b>435,006</b>	385,987
Others	<b>668,358</b>	407,848
	<b><u>2,955,280</u></b>	<b><u>2,199,515</u></b>

The Group and the Bank have not had any default of principal, interest or other breaches with respect to their liabilities during the period (2010: Nil).

**32 Share capital**

	<b>Number of shares (in thousands)</b>	<b>Ordinary shares HK\$'000</b>	<b>Ordinary share premium HK\$'000</b>
At 1 January 2011 and 30 June 2011	<b><u>1,352,061</u></b>	<b><u>2,704,123</u></b>	<b><u>9,187,768</u></b>
At 1 January 2010	1,318,340	2,636,681	8,640,575
Allotment of new shares regarding the scrip dividend scheme of final dividend for the year ended 31 December 2009	33,721	67,442	547,223
Share issue expenses	—	—	(30)
At 31 December 2010	<b><u>1,352,061</u></b>	<b><u>2,704,123</u></b>	<b><u>9,187,768</u></b>

The total number of authorised ordinary shares is 2,000 million shares (2010: 2,000 million shares) with a par value of HK\$2 per share (2010: HK\$2 per share). All issued shares are fully paid.

The total number of authorised convertible non-cumulative preference shares is 232 million shares (2010: 232 million shares) with a par value of HK\$5 per share (2010: HK\$5 per share).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

**33 Reserves**

The general reserve of the Group for the period comprised of:

- the transfer of retained earnings which is distributable to the shareholders of the Group; and
- a statutory surplus reserve of a subsidiary (representing 10% of the profit after tax appropriation as required by law and regulation in PRC). This reserve is used to offset accumulated losses or increase in capital.

As at 30 June 2011, the Group has earmarked a “Regulatory Reserve” of HK\$1,955,021,000 (31 December 2010: HK\$1,029,059,000) from retained earnings. The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purpose. Movements in the reserve are made directly through retained earnings and in consultation with the Hong Kong Monetary Authority.

The consolidated profit attributable to equity holders of the Group includes a profit of HK\$1,231,957,000 (31 December 2010: HK\$2,778,375,000) which has been dealt with in the accounts of the Bank.

**34 Related party transactions**

Listed out below is a summary of the transactions entered into during the ordinary course of business with the ultimate holding company and fellow subsidiaries and associates, including the acceptance of placement of interbank deposits, corresponding banking transactions and off-balance sheet transactions. The activities were priced at the relevant market rates at the time of transactions.

a. Ultimate holding company

	<b>Six months ended</b>	
	<b>30 Jun 2011</b>	30 Jun 2010
	<b>HK\$'000</b>	HK\$'000
Interest income	<b>366,694</b>	161,560
Interest expense	<b>273,337</b>	136,416
Other operating income <sup>1,2</sup>	<b>93,317</b>	21,911
Other operating expenses <sup>3,4</sup>	<b>12,404</b>	12,005
	<b>30 Jun 2011</b>	31 Dec 2010
	<b>HK\$'000</b>	HK\$'000
Amounts due from	<b>47,917,886</b>	29,915,390
Amounts due to	<b>71,884,842</b>	27,445,071

**NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS****34 Related party transactions (continued)**

1. In accordance with the collaboration agreement dated 3 July 2001 and the supplemental collaboration agreements dated 4 February 2005 and 13 February 2008 and the memorandum of Understanding dated 13 May 2011, management fee income was received from the Hong Kong Branch of ICBC (the “Branch”) for the provision of services such as accounting and budgeting, internal audit, marketing and back office settlement and clearing. In accordance with the collaboration agreement dated 28 September 2007, management fee income was received from the ultimate holding company for the provision of management, administrative and marketing services of its credit card business.
2. In accordance with the custodian and trustee services agreement dated 4 September 2007 and the supplemental custodian and trustee services agreements dated 16 May 2008 and 31 December 2009, services fees were paid by the ultimate holding company to the Bank for providing custodian, settlement and clearing services in relation to the investments outside the PRC in certain investment products by the customers of the ultimate holding company in connection with the Qualified Domestic Institutional Investor Scheme of the PRC.
3. In accordance with the service levels agreements with the Bank dated 21 February 2002 (as amended and supplemented by supplemental agreements), and the service levels agreement with a subsidiary of the Bank dated 19 March 2008, service fee expense was paid to the ultimate holding company for the provision of data processing services to the Bank and its subsidiary.
4. In accordance with the tenancy agreement dated 31 December 2008, rental expense was paid to the ultimate holding company for the leasing of property located in Hong Kong.

The transactions with the ultimate holding company included the issuance of floating rate certificates of deposit and subordinated floating rate notes, which were both fully subscribed by the ultimate holding company and its branches. As at 30 June 2011, the Bank has issued floating rate certificates of deposit with a nominal value of HK\$2,500,000,000 and US\$1,170,000,000 to the ultimate holding company (First half of 2010: floating rate certificates of deposit with a nominal value of HK\$2,500,000,000 and US\$100,000,000).

Information relating to issuance of subordinated floating rate notes by the Group, fully subscribed by the ultimate holding company and its branch can be found in Note 30 Subordinated debts measured at amortised cost.

**Other material transactions**

- i. Undertaking from the ultimate holding company

To demonstrate its support to the Bank, a Letter of Comfort dated 3 July 2001 was executed by the ultimate holding company, pursuant to which it will provide the Bank with such funding as may be required by the Bank to ensure that it will maintain sufficient capital and liquidity levels.

Simultaneously on 3 July 2001, the ultimate holding company and the Bank entered into a guarantee agreement whereby the ultimate holding company agreed to guarantee to the extent of HK\$9,000,000,000, being the payment obligations of certain customers whose “large exposures” were transferred to the Bank pursuant to the business transfer agreement and to indemnify the Bank in respect of any losses incurred if any obligation of such customers becomes unenforceable. There are no on-balance sheet large exposures of the Bank covered by this guarantee as at 30 June 2011 (First half of 2010: HK\$39,361,000).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

34 Related party transactions (continued)

ii. Sub-participation of loans

During the period, the Bank entered into various capital market transactions with the Branch, which include arranging participation/sub-participation in loans, acquiring and disposing of interests in syndicated or individual loans, subscribing to and/or issuing of debt securities and tax efficient financing. These transactions included sub-participation in loans of the Bank by the ultimate holding company and/or the Branch for a total of HK\$56,090,683,000 (First half of 2010: HK\$45,132,992,000). For both the first half of 2011 and 2010, there was no sub-participation in loans of the Branch by the Bank. The total fee attributable to the above transactions of approximately HK\$38,091,000 (First half of 2010: HK\$25,270,000) was paid by the Bank to the Branch. These transactions were priced based either on the terms of the underlying loan agreement, if applicable, or prevailing market rates if such comparable rates were available, or on terms that were no less favourable than those available to other independent loan members.

b. Fellow subsidiaries

	<b>Six months ended</b>	
	<b>30 Jun 2011</b>	30 Jun 2010
	<b>HK\$'000</b>	HK\$'000
Interest income	<b>17,660</b>	25,838
Interest expense	<b>3,282</b>	157
Other operating income	<b>510</b>	20
	<b>30 Jun 2011</b>	31 Dec 2010
	<b>HK\$'000</b>	HK\$'000
Amounts due from	<b>1,601,178</b>	1,130,092
Amounts due to	<b>1,861,370</b>	602,775

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

34 Related party transactions (continued)

c. Associates

	Six months ended	
	30 Jun 2011	30 Jun 2010
	HK\$'000	HK\$'000
Interest income	2,077	2,089
Interest expense	20	7
Other operating income	—	5,990
	<b>30 Jun 2011</b>	31 Dec 2010
	<b>HK\$'000</b>	<b>HK\$'000</b>
Amounts due from	146,144	167,146
Amounts due to	6,403	6,404

d. Transactions with government authorities and other state-controlled entities

Transactions with the following government authorities and state-controlled entities of the People's Republic of China are included:

- The Ministry of Finance ("MOF") of the PRC
- Central Huijin Investment Limited ("Huijin")
- Other banks and financial institutions under the direction of the PRC government in which Huijin has equity interests

	Six months ended	
	30 Jun 2011	30 Jun 2010
	HK\$'000	HK\$'000
Interest income	64,905	36,564
Interest expense	11,580	1,807
	<b>30 Jun 2011</b>	31 Dec 2010
	<b>HK\$'000</b>	<b>HK\$'000</b>
Amounts due from	39,264,547	10,797,934
Amounts due to	1,679,120	883,764

In addition, the Group may also enter into transactions with other state-owned entities, including but not limited to lending, deposit taking and the provision of financial products or services. In the opinion of management, transactions with these state-owned entities were conducted in the ordinary course of business under normal terms and conditions and at market rates. As a result, none of these transactions are considered individually significant.



NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

34 Related party transactions (continued)

e. Key management personnel remuneration

Remuneration for key management personnel is as follows:

	<b>Six months ended</b>	
	<b>30 Jun 2011</b>	30 Jun 2010
	<b>HK\$'000</b>	HK\$'000
Employee benefits	<b>10,227</b>	13,728

f. Material transactions with key management personnel

During the period, the Group entered into certain banking transactions consisting of loans and advances, deposits and other financial related transactions with related parties in the normal course of business. The related parties include key management personnel of the Bank, their close family members and companies controlled or significantly influenced by them.

	<b>Six months ended</b>	
	<b>30 Jun 2011</b>	30 Jun 2010
	<b>HK\$'000</b>	HK\$'000
Interest income	<b>11</b>	53
Interest expense	<b>79</b>	65

	<b>30 Jun 2011</b>	
	<b>HK\$'000</b>	31 Dec 2010
	<b>HK\$'000</b>	HK\$'000
Amounts due from	<b>726</b>	2,154
Amounts due to	<b>28,143</b>	32,735

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

35 Off-balance sheet exposures

(a) Contingent liabilities and commitments

The following are the summaries of the contractual amounts of each significant class of contingent liabilities and commitments:

	30 Jun 2011	30 Jun 2011	31 Dec 2010	31 Dec 2010
	Contractual amount	Credit risk weighted amount	Contractual amount	Credit risk weighted amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Direct credit substitutes	11,425,802	4,451,456	15,805,214	7,645,607
Transaction-related contingencies	94,296	15,805	93,803	14,145
Trade-related contingencies	9,208,620	1,656,287	6,555,038	1,216,456
Other commitments				
- Unconditionally cancellable	75,911,001	—	64,414,381	—
- With original maturity of less than one year	603,236	120,647	855,690	171,138
- With original maturity of over one year	14,583,366	7,017,028	17,335,621	8,429,402
Forward forward deposits placed	6,970,226	1,394,045	233,205	46,641
	<u>118,796,547</u>	<u>14,655,268</u>	<u>105,292,952</u>	<u>17,523,389</u>

(b) Capital commitments

Capital commitments for property, plant and equipment outstanding as at 30 June 2011/31 December 2010 not provided for in the financial statements are as follows:

	30 Jun 2011	31 Dec 2010
	HK\$'000	HK\$'000
Expenditure contracted, but not provided for	<u>55,472</u>	<u>50,126</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

35 Off-balance sheet exposures (continued)

(c) Operating lease commitments

The Group had future aggregate minimum lease payments under non-cancellable operating leases as at 30 June 2011/31 December 2010 as follows:

	30 Jun 2011 HK\$'000	31 Dec 2010 HK\$'000
Land and buildings		
- Not later than one year	243,832	225,110
- Later than one year and not later than five years	334,065	303,760
- More than five years	<u>1,840</u>	<u>—</u>
	<u>579,737</u>	<u>528,870</u>

(d) Operating lease arrangements

The Group leases its investment properties (see Note 25) under operating lease arrangements, with leases negotiated for terms ranging from two to eight years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 30 June 2011, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 Jun 2011 HK\$'000	31 Dec 2010 HK\$'000
Within one year	2,363	2,382
In the second to fifth years, inclusive	<u>2,450</u>	<u>2,483</u>
	<u>4,813</u>	<u>4,865</u>

During the period, the Group had no unrecognised contingent rentals receivable (2010: Nil).

**SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)**

The following information is disclosed as part of the accompanying information to the financial statements and does not form part of the financial statements.

**1 Capital adequacy and capital base**

The capital ratios as at 30 June 2011 and 31 December 2010 were computed in accordance with the Banking (Capital) Rules (the “Capital Rules”) issued by the HKMA under Section 98A of the Hong Kong Banking Ordinance for the implementation of the “Basel II” with effect from 1 January 2007. In view of the Capital Rules, the Bank has adopted the “standardised (credit risk) approach” for the calculation of the risk-weighted assets for credit risk, “basic indicator approach” for the calculation of the operational risk and the “standardised (market risk) approach” for the calculation of market risk. Under the Capital Rules, the basis of consolidation in calculating the capital ratios follows that of the financial reporting with the exclusion of subsidiaries which are “regulated financial entities” (e.g., insurance and securities companies) as defined by the Capital Rules. Accordingly, the investment costs of these unconsolidated subsidiaries are deducted from the capital base. There is no capital shortfall of these unconsolidated subsidiaries. Unconsolidated subsidiaries include UB China Business Management Co. Ltd., ICBC (Asia) Investment Holdings Limited, ICBC (Asia) Bullion Company Limited, ICBC (Asia) Securities Limited, ICBC (Asia) Trustee Company Limited, ICBC (Asia) Asset Management Company Limited, ICBC (Asia) Investment Management Company Limited and ICBC (Asia) Wa Pei Nominees Limited.

	<b>30 Jun 2011</b>	31 Dec 2010
Core capital ratio	<b>7.8%</b>	8.9%
Capital adequacy ratio	<b>13.4%</b>	14.9%

**SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)**
**1 Capital adequacy and capital base (continued)**

The components of the total capital base after deductions include the following items:

	<b>30 Jun 2011</b>	31 Dec 2010
	<b>HK\$'000</b>	HK\$'000
Core capital:		
Paid-up ordinary share capital	<b>2,704,123</b>	2,704,123
Share premium	<b>9,187,768</b>	9,187,768
Reserves	<b>5,083,686</b>	3,580,599
Income statement	<b>1,498,311</b>	2,369,973
Deduct: Goodwill	<b>(980,154)</b>	(980,154)
Other intangible assets	<b>(15,310)</b>	(15,037)
50% of total unconsolidated investments and other deductions	<b>(568,604)</b>	(567,627)
	<b>16,909,820</b>	16,279,645
Eligible supplementary capital:		
Fair value gains on the revaluation of land and buildings	<b>109,319</b>	101,505
Fair value gains on the revaluation of available-for-sale equities and debt securities	<b>294,756</b>	355,070
Unrealised fair value gains arising from equities and debt securities designated at fair value through profit or loss	<b>21,061</b>	32,968
Collective impairment allowances	<b>716,790</b>	547,907
Regulatory reserve	<b>1,955,021</b>	1,029,059
Perpetual subordinated debts	<b>3,490,400</b>	3,487,520
Subordinated debts measured at amortised cost	<b>6,040,483</b>	6,031,928
Deduct: 50% of total unconsolidated investments and other deductions	<b>(568,604)</b>	(567,627)
	<b>12,059,226</b>	11,018,330
Total capital base after deductions	<b>28,969,046</b>	27,297,975
Risk-weighted assets		
Credit risk	<b>203,313,900</b>	171,077,385
Market risk	<b>4,806,288</b>	3,553,400
Operational risk	<b>8,774,763</b>	8,131,000
Total risk-weighted assets	<b>216,894,951</b>	182,761,785

**SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)**
**2 Liquidity ratio**

The average liquidity ratio for the period is the simple average of each calendar month's average liquidity ratio, which is computed on the consolidated basis as required by the Hong Kong Monetary Authority for its regulatory purposes, and is computed in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance.

	<b>30 Jun 2011</b>	30 Jun 2010
Average liquidity ratio for the six months ended	<u><b>40.8%</b></u>	<u>41.5%</u>

**3 Segmental information**

(a) Loans and advances to customers, banks and other financial institutions

Advances to customers, banks and other financial institutions by geographical area

The Group's gross advances to customers, banks and other financial institutions by country or geographical area after taking into account any risk transfers are as follows:

<b>30 June 2011</b>	<b>Gross advances to customers, banks and other financial institution HK\$'000</b>	<b>Overdue advances for over three months HK\$'000</b>	<b>Impaired loans and advances HK\$'000</b>	<b>Individual impairment allowances HK\$'000</b>	<b>Collective impairment allowances HK\$'000</b>
Hong Kong	72,878,394	148,672	292,514	190,052	392,903
Mainland China	142,512,203	223,678	223,677	62,195	281,160
Macau	1,197,924	—	—	—	6,683
Asia Pacific Region excluding Hong Kong, Mainland China and Macau	3,620,609	—	479,410	201,640	16,578
United Kingdom	13,846	—	—	—	5,873
Others	2,427,920	500,304	—	—	13,593
	<u><b>222,650,896</b></u>	<u><b>872,654</b></u>	<u><b>995,601</b></u>	<u><b>453,887</b></u>	<u><b>716,790</b></u>

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

3 Segmental information (continued)

(a) Loans and advances to customers, banks and other financial institutions (continued)

	Gross advances to customers, banks and other financial institution	Overdue advances for over three months	Impaired loans and advances	Individual impairment allowances	Collective impairment allowances
31 December 2010	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	84,154,488	143,763	262,562	180,917	304,411
Mainland China	91,375,663	273,657	273,657	102,182	201,132
Macau	1,244,087	—	—	—	6,779
Asia Pacific Region excluding Hong Kong, Mainland China and Macau	1,706,654	—	471,553	189,487	13,690
United Kingdom	8,052	—	—	—	2,926
Others	7,036,465	499,725	—	—	18,969
	<u>185,525,409</u>	<u>917,145</u>	<u>1,007,772</u>	<u>472,586</u>	<u>547,907</u>

Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

(b) Cross-border claims

The Group analyses cross-border claims by geographical area. In determining this analysis, the Group has taken into account the transfers of risk with respect to claims guaranteed by a party in a country different from that of the counterparty. Those areas that constitute 10% or more of the aggregate cross-border claims are as follows:

	Banks and other financial institutions HK\$ million	Public sector entities HK\$ million	Others HK\$ million	Total HK\$ million
<b>30 June 2011</b>				
Asia Pacific excluding Hong Kong	112,792	12,095	103,126	228,013
Europe	12,579	—	22	12,601
<b>31 December 2010</b>				
Asia Pacific excluding Hong Kong	42,497	4,575	63,741	110,813
Europe	17,171	—	3,624	20,795

**SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)**
**3 Segmental information (continued)**

## (c) Non-bank Mainland exposures

The analysis of non-bank Mainland China exposures is based on the categories of non-bank counterparties and the types of direct exposures defined by the HKMA under the Banking (Disclosure) Rules with reference to the completion instructions in Note 6 of the “Returns of Quarterly Analysis of Loans and Advances and Provisions — MA(BS)2A”, which includes the Mainland China exposures extended by the Bank and its overseas subsidiary and branch.

<b>30 June 2011</b>	<b>On-balance sheet exposure HK\$'000</b>	<b>Contingent liabilities HK\$'000</b>	<b>FX and derivatives contract HK\$'000</b>	<b>Total exposures HK\$'000</b>	<b>Individually assessed allowances HK\$'000</b>
Type of counterparties					
(a) ITICs and their subsidiaries	644,411	—	—	644,411	—
(b) Red-chip companies and their subsidiaries	8,194,199	174,683	4,355	8,373,237	—
(c) H-shares companies and their subsidiaries	2,938,388	—	138,145	3,076,533	—
(d) Other state, provincial or municipal government owned entities and their subsidiaries	7,825,802	743,663	7,928	8,577,393	—
(e) Other entities incorporated or established in Mainland China	937,397	24,866	21,520	983,783	—
(f) Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	18,637,309	86,293	112,842	18,836,444	131,197
(g) Other counterparties where the exposure is considered by the Bank to be non-bank Mainland China exposure	<u>13,449,712</u>	<u>1,140,484</u>	<u>399,058</u>	<u>14,989,254</u>	<u>834</u>
	<b>52,627,218</b>	<b>2,169,989</b>	<b>683,848</b>	<b>55,481,055</b>	<b>132,031</b>
Companies and individuals for purchasing properties in Mainland China under (a) to (g)	2,704,437	—	—	2,704,437	—
(h) Exposures incurred by banking subsidiary in Mainland China	24,535,120	10,318,705	—	34,853,825	61,361



SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

3 Segmental information (continued)

(c) Non-bank Mainland exposures (continued)

	On-balance sheet exposure	Contingent liabilities	FX and derivatives contract	Total exposures	Individually assessed allowances
31 December 2010	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Type of counterparties					
(a) ITICs and their subsidiaries	496,271	—	—	496,271	—
(b) Red-chip companies and their subsidiaries	5,989,594	26,669	—	6,016,263	—
(c) H-shares companies and their subsidiaries	2,709,798	—	—	2,709,798	—
(d) Other state, provincial or municipal government owned entities and their subsidiaries	5,922,297	385,524	—	6,307,821	—
(e) Other entities incorporated or established in Mainland China	1,550,699	21,547	—	1,572,246	—
(f) Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	19,246,936	261,964	—	19,508,900	132,385
(g) Other counterparties where the exposure is considered by the Bank to be non-bank Mainland China exposure	<u>13,111,611</u>	<u>54,019</u>	<u>—</u>	<u>13,165,630</u>	<u>861</u>
	49,027,206	749,723	—	49,776,929	133,246
Companies and individuals for purchasing properties in Mainland China under (a) to (g)	3,058,515	—	—	3,058,515	—
(h) Exposures incurred by banking subsidiary in Mainland China	19,510,815	1,595,439	—	21,106,254	101,321

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

4 Loans and advances to customers, banks and other financial institutions

Gross loans and advances to customers, banks and other financial institutions by industry sector

	30 Jun 2011	30 Jun 2011	31 Dec 2010	31 Dec 2010
	Gross	% of secured	Gross	% of secured
	advances	advances	advances	advances
	HK\$'000		HK\$'000	
Loans for use in Hong Kong				
Industrial, commercial and financial				
- Property development	15,683,180	27.91%	17,111,099	26.82%
- Property investment	16,773,951	79.42%	18,546,175	79.81%
- Financial concerns	7,130,424	2.26%	5,445,139	2.97%
- Stockbrokers	562,951	99.65%	437,871	99.57%
- Wholesale and retail trade	16,098,808	21.20%	10,294,018	31.54%
- Civil engineering works	259,684	90.77%	214,883	91.60%
- Manufacturing	5,202,630	37.91%	3,742,007	52.74%
- Transport and transport equipment	11,016,681	69.55%	10,915,112	67.88%
- Electricity and gas	12,000	100.00%	75,003	37.81%
- Information technology	2,163,436	1.85%	2,494,183	0.61%
- Recreational activities	43,393	96.96%	46,324	100.00%
- Hotels, boarding houses and catering	1,876,896	85.09%	2,053,379	85.85%
- Others	7,626,175	28.25%	5,816,022	32.39%
Individuals				
- Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	552,207	95.29%	560,328	94.89%
- Loans for the purchase of other residential properties	11,695,738	99.78%	12,286,456	99.74%
- Credit card advances	114,628	0.00%	109,213	0.00%
- Others	2,101,048	90.87%	2,134,442	92.70%
Trade finance	52,334,154	51.01%	24,669,575	11.60%
Loans for use outside Hong Kong	71,402,912	25.93%	68,574,180	29.85%
	<u>222,650,896</u>	<u>42.61%</u>	<u>185,525,409</u>	<u>40.24%</u>

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

4 Loans and advances to customers, banks and other financial institutions (continued)

Individually impaired loans, overdue loans and advances over three months, impairment allowances and impaired loans and advances written off in respect of industry sectors that constitute 10% or more of the total advances to customers, banks and other financial institutions are as follows:

	30 Jun 2011	31 Dec 2010
	HK\$'000	HK\$'000
(a) Trade finance		
Individually impaired loans	79,773	28,727
Overdue loans and advances over three months	77,619	29,068
Individual impairment allowances	59,516	24,272
Collective impairment allowances	89,729	26,780
New impairment allowances charged/(credited) to the income statement	98,527	(64,466)
Impaired loans and advances written off during the period/year	—	57,404
(b) Loans for use outside Hong Kong		
Individually impaired loans	815,752	907,681
Overdue loans and advances over three months	763,935	849,974
Individual impairment allowances	359,191	424,054
Collective impairment allowances	366,972	291,121
New impairment allowances charged to the income statement	25,230	236,343
Impaired loans and advances written off during the period/year	99,677	49,169

**SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)**
**5 Currency concentration**

The table below summarises the net foreign currency positions of the Group. The net structural and non-structural positions in a foreign currency is disclosed when the currency constitutes 10% or more of the total net position of all foreign currencies.

	US\$	RMB	JPY	EUR	CHF	GBP	AUD	Other foreign currencies	Total
June 2011	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-structural position									
Spot assets	149,438,234	82,328,551	2,306,956	3,912,397	103,799	1,208,727	4,432,942	1,116,002	244,847,608
Spot liabilities	(115,166,500)	(79,091,785)	(1,365,324)	(7,257,204)	(103,871)	(1,436,549)	(4,405,136)	(1,953,111)	(210,779,480)
Forward purchases	109,529,192	89,425,807	2,076,451	7,255,398	329,317	1,001,470	899,478	918,170	211,435,283
Forward sales	(143,517,117)	(92,247,393)	(3,447,645)	(3,904,625)	(580,693)	(692,537)	(747,313)	(137,520)	(245,274,843)
Net option position	107,210	—	(134,859)	(44,283)	(44)	(40,036)	79,442	45,891	13,321
Net long/(short) position	391,019	415,180	(564,421)	(38,317)	(251,492)	41,075	259,413	(10,568)	241,889
Net structural position	188,753	2,257,352	—	—	—	—	—	—	2,446,105

  

	US\$	RMB	JPY	EUR	CHF	GBP	AUD	Other foreign currencies	Total
December 2010	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-structural position									
Spot assets	107,879,262	28,772,094	2,113,511	2,256,141	92,594	364,902	4,867,341	338,444	146,684,289
Spot liabilities	(94,669,439)	(28,975,846)	(522,259)	(3,444,800)	(75,847)	(1,126,725)	(3,827,848)	(1,930,854)	(134,573,618)
Forward purchases	94,495,072	74,938,054	1,440,683	2,341,699	290,415	903,239	1,199,858	1,936,580	177,545,600
Forward sales	(107,327,423)	(74,722,833)	(3,177,093)	(1,260,058)	(301,960)	(131,313)	(2,580,790)	(252,368)	(189,753,838)
Net option position	(360,233)	—	130,802	95,230	7,087	23,077	155,237	(66,772)	(15,572)
Net long/(short) position	17,239	11,469	(14,356)	(11,788)	12,289	33,180	(186,202)	25,030	(113,139)
Net structural position	188,534	2,110,390	—	—	—	—	—	—	2,298,924

Foreign currency exposures include those arising from the trading position. The net option position is calculated using the delta equivalent approach. The net structural position of the Group includes the structural positions of the Bank's capital investment in an overseas subsidiary, Chinese Mercantile Bank.