中國工商銀行(亞洲)

ICBC (Asia)

(STOCK CODE：349)

2006 Interim Report

Industrial and Commercial Bank of China (Asia) Limited
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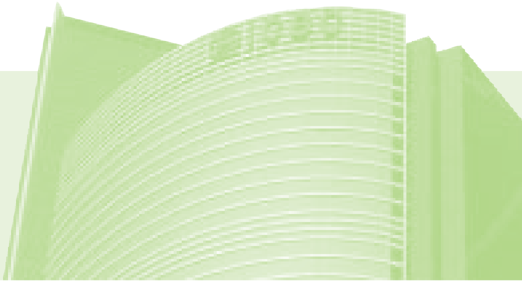


Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Directors of Industrial and Commercial Bank of China (Asia) Limited ("the Bank" or "ICBC (Asia)") are pleased to present the interim report and condensed accounts of the Bank and its subsidiaries ("the Group") for the six months ended 30 June 2006. The consolidated profit and loss account, consolidated statement of changes in equity and consolidated cash flow statement for the Group for the six months ended 30 June 2006, and the consolidated balance sheet as at 30 June 2006 of the Group, all of which are unaudited and condensed, along with notes to the condensed interim accounts, are set out on pages 10 to 35 of this report.

Interim Results

The Board of Directors is pleased to announce that the unaudited consolidated profit attributable to the equity holders of the Group for the six months ended 30 June 2006 was HK$560 million. This represented an 18% growth over the same period last year (First half of 2005: HK$476 million). Basic earnings per share for the six months ended 30 June 2006 were HK$0.50 (First half of 2005: HK$0.45). Return on average assets and return on average common equity were 1% and 11.6% respectively (First half of 2005: 0.9% and 11.4%).

Interim Dividend

The Directors are pleased to declare an interim dividend of HK$0.20 per ordinary share for the six months ended 30 June 2006 (First half of 2005: HK$0.18). The interim dividend will be payable in cash on or about Monday, 11 September 2006 to shareholders whose names appear on the Register of Members of the Bank at the close of business on Friday, 25 August 2006.

Closure of Register of Members

The Register of Members of the Bank will be closed from Monday, 28 August 2006 to Friday, 1 September 2006, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the above interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Bank's Share Registrars, Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong before 4:00 p.m. on Friday, 25 August 2006.

Financial Review

In the first six months of 2006, the Group achieved a remarkable result of HK$560 million, representing an increase of HK$84 million or 18% over HK$476 million achieved for the corresponding period in 2005.

Net interest income for the period ended 30 June 2006 increased HK$250 million or 44% to HK$820 million. The significant improvement came from the broadening of interest margin from 1.07% to 1.44% as well as 11% increase in average interest-earning assets.

Other operating income dropped HK$35 million or 9 % to HK$351 million from HK$386 million for the same period of 2005. Notwithstanding the growth of fees and commission from corporate loans and the prosperous stock market, the decrease was mainly due to the drop in trading swap foreign exchange profit and net loss on revaluation of securities. The ratio of other operating income to the total operating income decreased to 30%, compared with 40% for the corresponding period in 2005.

Operating expenses increased slightly by HK$12 million or 3% to HK$441 million, compared with HK$429 million for the same period of 2005. With total operating income rising faster than operating expenses, the cost to income ratio declined from 44.9% in 2005 to 37.7% in 2006.

The consolidated impairment losses on loans and advances for the period were HK$28 million.

Financial Position

The consolidated total assets of the Group reached HK$126,559 million as at 30 June 2006, representing an increase of 10%, compared with 31 December 2005 or 17% raise compared with 30 June 2005.

Consolidated total loans and advances decreased by HK$1,975 million or 3% to HK$68,431 million as at 30 June 2006. The drop was mainly due to the selling of HK$5,809 million loans during the period.

Total customer deposits amounted to HK$78,294 million, this represented an increase of 17,304 million or 28%, as compared with HK$60,990 million as at 31 December 2005. The increase evidenced the contribution from the IPO business as well as our marketing effort to solicit low cost funding.

Total loan capital amounted to HK$7,520 million, this represented an increase of 41%, compared with HK$5,339 million as at 31 December 2005. In June, the Group issued US$200 million perpetual and US$80 million non-perpetual floating rate notes to our ultimate holding company. The capital was issued to expand the capital base.

Capital Adequacy Ratio and Liquidity Ratio

The Group's adjusted consolidated capital adequacy ratio was increased to 17.8% as at 30 June 2006 from 15.7% as at 31 December 2005. The capital base increased following the new issuance of loan capital in June. The average liquidity ratio amounted to 42.7% (Average for the first half of 2005: 35.1%).

Impaired Loans

Consolidated impaired loans decreased by HK$100 million to HK$561 million as at 30 June 2006, compared with HK$661 million as at 31 December 2005. The consolidated impaired loan ratio was reduced from 0.9% to 0.8%.

As at 30 June 2006, the cumulative loan impairment allowances aggregated to HK$378 million (31 December 2005: HK$477 million), which included HK$166 million (31 December 2005: HK$267 million) of individual impairment allowance and HK$212 million (31 December 2005: HK$210 million) of collective impairment.

Overdue loans decreased from HK$340 million as at 31 December 2005 to HK$208 million as at 30 June 2006.

Business Review

Hong Kong's economy is steadily recovering from the downward cycle of the past several years. As the regional and the global economies move on to a new phase of development, the current trend in interest rates is a major concern for markets worldwide, particularly after Japan ended years of zero-interest-rate policy. For the banking industry, this presents both opportunities and challenges. The uncertainties in relation to the interest rate, as well as over energy and raw material price hikes, have exerted pressures on almost all industries, including the banking sector.

Retail Banking Business

During the first half of 2006, our retail customer deposit base grew significantly while our residential mortgage loan decreased slightly under the fierce price-cutting competition initiated by peer banks. During the rising cycle of the US interest rates, the massive fund inflow into Hong Kong reduced the cost of fund, the interest spread margin of loans improved and our retail banking profit grew quite significantly when compared with same period of 2005.

The rising interest rate had put Hong Kong's property market in stagnant in first 2 quarters. The fierce mortgage price war initiated by a major bank further caused our slight drop of residential mortgage loan.

Although the PRC government has initiated the "Macro Control Measures" to attack real estate market, we could still successfully lined up 5 quality projects with famed developers to provide HK/US$ mortgage financing services to the homebuyers. By the end of June, total loan portfolio of China Mortgage Division was approximately HK$500 million.

Under the fierce competition, our hire purchase and leasing loan portfolio recorded a slight drop. Nonetheless, net interest income increased due to the improved yield. Our market share on taxi and public light bus was maintained at approximately 14% to rank at top 5 in the market. In the second half of this year, it is anticipated that our business performance will improve with reasonable profit overall.

In the first half of 2006, we leveraged on our expanded branch network to actively acquire new target customers and deposit. The revenue so generated partially offset the negative effect of the decrease in mortgage loan.

In the wealth management and investment business area, our bank continued to ride on our edge to develop and promote mainland related banking products and services. In addition to the deposit account for "designated merchant" launched in 2005, the RMB current account was launched to better serve the active cross-border customers. Moreover, our bank launched a promotion program for RMB and mainland related products and achieved satisfactory result. Our bank also endeavoured to enhance the wealth management services and to expand the investment products. 3 batches of Certificates of deposit were issued for customers' subscription. Meanwhile, we have lined up with one more renowned fund house and joined the distribution of 7 structured products that linked to stock prices or credit performance to offer wide range of investment products.

However, as the deposit interest rates increased gradually and the bullion, share, commodity and FX markets were trading with significant volatility during the same period, customers have more investment opportunities than before, which obviously reduced the attractiveness of funds, bonds and Certificates of deposit. Under the macro economic market conditions, our non-interest revenue from stock trading increased significantly while that from funds, bonds and Certificates of deposit decreased accordingly.

Moreover, we acted as the receiving bank of the following enterprises, "Shimao Property", "Bank of China", "Champion REIT", "Dalian Port" and "Shanghai Prime Machinery" in their initial public offering (IPO) activities in the first half of 2006. These experiences strengthened our capability to develop further on IPO receiving bank business in the future.

Since the successful integration of Belgian Bank in October last year, we have completed the merger of 4 branches in duplicated areas with minimal attrition of customers and business.

Besides, we have expanded and relocated our Causeway Branch and North Point Branch in March and June respectively to provide a more comfortable branch environment with diversified banking facilities such as Securities Investment Center to our customers, which eventually improve the business development capability of the branches. Till then, about 20% of our branches have adopted new branch design theme which strengthens our unified bank image and is well accepted by our customers.

In the second half of 2006, we shall keep on actively acquiring new target customers and deposit, and solidify our various retail banking business through cross selling.

In HK mortgage business, we hope that after the upgrade and improvement of our computer systems, we could provide more versatile products and services like "Smart Mortgage" to our value customers so as to maintain our market share. Due to the uncertainty in the US rate hike cycle for the coming months, HK property market will be more or less as stagnant as before and the mortgage loan business competition will remain high which may lead to difficulty to grow, or even decrease in our residential loan portfolio.

Our mortgage business in China is expected to grow steadily despite the mainland macroeconomic tuning policy since we would keep on our strategy to develop the high-end target customers markets. In order to enlarge our market share, we plan to expand our business to cover developing cities like Nanjing, Chengdu, Hangzhou, Suzhou, Kunshan and Hainan, in addition to our current major cities as Shanghai and Beijing.

We expect fierce competition will continue in hire purchase and leasing business area. Following the releasing pressure from funding cost rise while our lending interest rate is expanding, it is anticipated that our business performance will improve.

Our bank will enhance the electronic channel services including improving the existing Personal Internet Banking Services and offering new Internet Securities Services functionalities, Automated Phone Securities Services, and Commercial Internet Banking.

We will continue to develop different types of investment products and line up with different financial institutions to offer diversified investment products for customers. Our bank will design different promotion offers to further sustain the growth of wealth management business.

Above all, our bank will keep on upgrading our IT system platform, improving the new Customer Relationship Management System and Sales Target Management System to raise our marketing capability and quality, and to provide more comprehensive, convenience and quality banking services to our different segments of customers. Our branch network rationalization program will be continued so as to create a comprehensive and well-covered network.

Treasury and Markets

The investment environment was difficult during the first half of 2006 as the Federal Reserve, mainly driven by economic figures, raised the Fed Funds Target Rate four times to a current level of 5.25%. As the market forecasted the US interest rates would peak later this year, the yield curve has flattened and even inverted for sometime. On the other hand, while many of the major economic entities were expected to raise their interest rates, local interest rates did not follow the US in the interest rate rally since May and remained largely stable under adequate liquidity in the local market. Despite such difficult market environment, we were able to position ourself to meet these challenges and did well in all lines of business – funding and liquidity management, fee-based activities as well as treasury dealing.

Under such market environment, we focused ourselves on the management of interest rate risks and credit risks of the debt securities investment portfolio and adopted a prudent, low risk investment strategy – we maintained only 35% of our total investments in fixed rate securities and reduced the duration to less than three years. On the other hand, we kept over 94% of the investments in securities (excluding Exchange Fund Bills) rated investment grades or above. Coupled with the flattening of the yield curve, this had put considerable pressure to the interest income from debt securities investment. Nevertheless, the strain on investment return is expected to be alleviated in the second half of 2006 and our income for debt securities investment is expected to be improved by then.

On the marketing and sales side, we continued to offer new wealth management products including yield-enhancement and principal-guaranteed products to individual investors as well as institutions to meet market demands. In particular, products related to the Renminbi exchange rate were especially welcomed by customers. In this respect, we launched several Renminbi exchange rate linked products, which were well received by the market. Moreover, we also offered several structured Certificates of deposit to retail customers with satisfactory results. These short and medium-term Certificates of deposit helped to expand our funding sources.

Looking ahead, the investment environment would still be difficult and full of uncertainty. As the volatility in global investment markets was expected to continue, the second half of the year would be full of challenges for us. With our continued efforts in improving risk management and control, the Bank is able to manage these risks effectively on an ongoing basis. On the other hand, we have stepped up our efforts in studying the detailed regulatory requirements under the New Basel Accord (Basel II) to meet the implementation schedule next year.

Commercial Banking

Leveraging on the strong global economic momentum of last year, we started off in line with market in the first and second quarters of 2006 with continued growth in customer advances and deposits.

Customer's satisfaction continued to be our prime commitment. We always shared customer's perspective on business needs, aiming at bringing reliable and best-fit financial solutions to them. To make our services more versatile to meet diversified needs, we offered Diamond Trade Finance to take care of local diamond traders, Indian Banking to serve local Indian traders and European Banking to act as the bridge between European origins and Mainland China. With strong support from parent company and our networking niche, cross-border activities remained our target business with proven record of success.

After the merge with Belgian Bank, we continued to commit to bring in operational excellence to facilitate customer daily banking activities. System enhancements were never scarce. In particular, we are in the process of upgrading our Commercial Internet Banking to make it more user-friendly and powerful in use.

In view of slowdown, if not a halt, of interest rate hiking, blooming local economy in terms of export and local consumption and on-going liberation of financial markets in Mainland China, we hold unabated optimism in business growth in the second half of 2006. We continue to go for higher return by putting forth skilled products like Trade Finance, Factoring, Equipment Finance and Structured Finance as our focused sales.

Corporate Banking

Corporate Banking reported encouraging results, with operating income increased by 16%, as compared to the same period last year. Other operating income, in particular, reached a record high level of HK$74 million, representing 46% of our operating income.

Instead of enlarging our loan book, we have focused on leveraging our book to generate fee-based income, thus enhancing our return on assets and equity. Instead of plain vanilla finance, our focus has been shifted to structured transactions, such as Mergers and Acquisitions Finance, Project Finance, Aviation Finance and Real Estate Investment Trust Finance, to leverage our structuring, execution and syndication ability.

We also dedicated our effort to strengthen the bank's funding base. During the period we privately placed the Bank's Certificates of deposit for a total of about HK$1 billion to corporate customers and increased our corporate deposit base by 89% to HK$27.5 billion. We have also strived to assist our customer in managing their foreign currency and interest rate risk, with good results. For example, by way of a RMB/USD Cross Currency Non-delivery Interest Rate Swap, one of our valued customers effectively converted its USD interest payment obligation on a US$145 million loan to a RMB interest payment obligation, which matches its RMB rental income source.

Our strategy to contain our loan book, while maintaining our leading position in the Corporate Banking market, by providing value-added services such as loan structuring, financial advisory, underwriting, syndication, risk mitigation and investment yield enhancement has brought to fruition. We will continue to further develop this business model.

Financial Institutions

First half of 2006 had been a very challenging period to our trade finance products due to overall market environment, particularly the competitiveness in pricing; however, we could maintain a reasonable return, as we focused on quality and profit margin instead of quantity. Our tailor-made cash management products had gained stable income and our IPO Receiving Bank Service had also become a key element of our business. With QDII close to be in place, we are prepared to face the challenge in providing custodian services to financial institutions of Mainland China.

Credit Card Business

A significant development in credit card business in the first half of 2006 was the acquisition of the credit card portfolio from ICBC, HK Branch. The merger of ICBC, HK Branch's credit card portfolio into the Bank was effected, both in legal and operational sense, on 26 March 2006. Along with integration, new credit card systems for both issuing and merchant business were implemented. The merger increased the Bank's card base by 300%. The merchant business also increased by 25 % in terms of number of merchants.

Following the merger, the Bank revised the organization of Credit Card Centre and re-engineered the processing workflows with a view to improve the efficiency and take the economies of scale delivered by the enlarged card portfolio. Credit Card Centre also adjusted its marketing and sales strategies to strengthen the cross-selling synergy between customers of credit card and branches. Although Credit Card Centre was occupied with the consolidation of its operations in the initial months after the integration in March, new marketing programs for credit cards were launched as early as in April with the result that total receivables increased by 5% in 3 months' time since integration.

Meanwhile, preparations have been made in full swing to add "Octopus" feature to our credit cards. We expect to make this new feature to all our card members in August. We have also worked on launching the Dual Currency Corporate Card which will again be the first card of similar nature in Hong Kong. The Card will be an important tool to acquire the businessmen traveling frequently between Mainland China and Hong Kong.

Our coming strategy is to push card acquisition mainly through branches. More acquisition programs will be launched to support branch promotion. Focus will also be placed on jerking up the revolving balance and active card ratio by offering more utilization programs. One major direction of which is to strengthen the cooperation with ICBC in Mainland China to offer spending privileges to our cardholders in Mainland China and to Peony Card cardholders when they come to Hong Kong. We are also seeking closer cooperation with our co-brand card partners such as Caritas and Yan Oi Tong.

Chinese Mercantile Bank

Even the market competition is so keen in the first half of 2006, Chinese Mercantile Bank ("CMB") still achieved a stable growth in less than one year after the acquisition by ICBC (Asia). As of 30 June 2006, the total asset of CMB was HK$2,256 million representing an increase of 48% comparing to that of last year-end. Total loan outstanding was HK$960 million. Profit after taxation was HK$7 million. No impaired loan was recorded.

CMB is programming to offer RMB business other than the fully foreign currency business, which has submitted application to China Banking Regulatory Commission. Once received approval to offer RMB business, CMB can provide even wider range of banking business.

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2006, the interests of the Directors and chief executives of the Bank in the shares, underlying shares and debentures of the Bank and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (the "Associated Corporations") as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Bank and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") were as follows:–

Ordinary shares of HK$2 each in the Bank

Name of Director	Personal interests	Total number of shares held	% of total issued shares
Dr. Jiang Jianqing	14,000	14,000	0.001%
Mr. Zhu Qi	50,000	50,000	0.004%
Mr. Zhang Yi	2,000	2,000	0.0002%
Mr. Yuen Kam Ho, George	50,000	50,000	0.004%

All the interests stated above represent long positions. As at 30 June 2006, no short positions were recorded in the register required to be kept under Section 352 of the SFO.

Save as disclosed above, as at 30 June 2006, none of the Directors or chief executives of the Bank or their spouses or children under 18 years of age were granted, or had exercised, any rights to subscribe for any equity or debt securities of the Bank or any of its Associated Corporations during the period ended 30 June 2006.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2006, so far as was known to the Directors, the following persons (other than a Director or chief executive of the Bank) who had interests in the shares or underlying shares of the Bank which were recorded in the register required to be kept under Section 336 of the SFO:–

Ordinary shares of HK$2 each in the Bank

Name of shareholder	Total number of shares held	% of total issued shares
Industrial and Commercial Bank of China Limited	669,587,059	59.72%
Fortis Bank SA/NV*	100,913,330	9.00%
Fortis N.V.*	100,913,330	9.00%
Fortis SA/NV*	100,913,330	9.00%
Fortis Brussels SA/NV*	100,913,330	9.00%

* Fortis Bank SA/NV is the legal owner of 100,913,330 ordinary shares of the Bank. Each of Fortis N.V., Fortis SA/NV and Fortis Brussels SA/NV is interested in such shares as a result of Fortis N.V. and Fortis SA/NV being entitled to exercise, or control the exercise of, one-third or more of the voting power at general meetings of Fortis Brussels SA/NV and Fortis Brussels SA/NV being entitled to exercise, or control the exercise of, one-third or more of the voting power at general meetings of Fortis Bank SA/NV.

All the interests stated above represent long positions. As at 30 June 2006, no short positions were recorded in the register required to be kept under Section 336 of the SFO.

Save as disclosed above, as at 30 June 2006, the Bank had not been notified by any persons (other than Directors or chief executives of the Bank) who had interests or short positions in the shares or underlying shares of the Bank which would fall to be disclosed to the Bank under the provisions of Part XV of the SFO or which were recorded in the register required to be kept under Section 336 of the SFO.

Compliance with "Interim Financial Disclosure by Locally Incorporated Authorized Institutions"

The Bank has fully complied with the disclosure requirements as set out in the Supervisory Policy Manual entitled "Interim Financial Disclosure by Locally Incorporated Authorized Institutions" issued by the Hong Kong Monetary Authority on 8 November 2002.

Corporate Governance

The Bank is committed to maintain high standards of corporate governance practices and also follows the module set out in the Supervisory Policy Manual entitled "Corporate Governance of Locally Incorporated Authorized Institutions" issued by the Hong Kong Monetary Authority on 21 September 2001.

In the opinion of the Directors, the Group has complied with all the Code Provisions of the Code on Corporate Governance Practices of the Listing Rules throughout the six months ended 30 June 2006, except for the following deviations:–

1. Under the Code Provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election.

   The Non-Executive Directors and the Independent Non-Executive Directors of the Bank were not appointed for specific term but subject to the retirement by rotation and re-election at the annual general meeting in accordance with the Bank's Articles of Association.

2. Under the Code Provision A.4.2, every director should be subject to retirement by rotation at least once every three years.

   According to the Bank's Articles of Association, at each annual general meeting one-third of the Directors for the time being (except the Managing Director) or, if their number is not a multiple of three, then the number nearest but not exceeding one-third shall retire from office by rotation. The Managing Director of the Bank had also offered himself for retirement at the annual general meeting of the Bank held on 27 April 2006 and was re-elected Director of the Bank. Save for one Non-Executive Director who will retire at the next annual general meeting, no other Director of the Bank held office for over three years as at 30 June 2006.

3. Under the Code Provision E.1.2, the chairman of the board should attend the annual general meeting.

   The Chairman of the Bank was unable to attend the annual general meeting of the Bank held on 27 April 2006 due to other important business engagements. Nonetheless, the majority of the board members (including the Chairman of each of the Audit, Remuneration and Nomination Committees) attended the above annual general meeting to answer questions from shareholders.

The Bank considered that sufficient measures have been taken to ensure that the Bank's corporate governance practices are no less exacting than those in the above Code Provisions, details of which were set out in the Corporate Governance Report of the Bank's 2005 Annual Report.

Model Code for Securities Transactions by Directors

The Bank has adopted the model code for securities transactions by directors set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. The Bank confirms that, having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code for the period ended 30 June 2006.

Purchase, Sale or Redemption of the Bank's Listed Securities

During the period, the Bank has not redeemed any of its listed securities. Neither the Bank nor any of its subsidiaries has purchased or sold any of the Bank's listed securities.

Audit Committee

The Bank has an Audit Committee which comprises Mr. Chen Aiping, a Non-Executive Director and the three Independent Non-Executive Directors, namely Professor Wong Yue Chim, Richard, SBS, JP, Mr. Tsui Yiu Wa, Alec and Mr. Yuen Kam Ho, George. The Committee meets on a quarterly basis to review the effectiveness of both the external and internal audit, and of internal controls and risk evaluation.

Interim Financial Information

The Audit Committee of the Bank has reviewed the results for the six months ended 30 June 2006 of the Group. The financial information in this interim report is unaudited and does not constitute statutory accounts.

On behalf of the Board
Industrial and Commercial Bank of China (Asia) Limited
Dr. Jiang Jianqing
Chairman

Hong Kong, 9 August 2006

As at the date of this interim report, the Board of Directors of the Bank comprises Mr. Zhu Qi, Mr. Wong Yuen Fai and Mr. Zhang Yi as Executive Directors, Dr. Jiang Jianqing, Ms. Wang Lili, Mr. Chen Aiping and Mr. Damis Jacobus Ziengs as Non-Executive Directors and Professor Wong Yue Chim, Richard, SBS, JP, Mr. Tsui Yiu Wa, Alec and Mr. Yuen Kam Ho, George as Independent Non-Executive Directors.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE SIX MONTHS ENDED 30 JUNE 2006

(Unaudited)

	Note	Six Months Ended 30 Jun 2006 HK$'000	 30 Jun 2005 HK$'000	Change %
Interest income		**2,992,583**	1,623,932	84%
Interest expense		**(2,172,200)**	(1,053,815)	106%
Net interest income		**820,383**	570,117	44%
Other operating income	(5)	**351,377**	386,228	-9%
Operating income		**1,171,760**	956,345	23%
Operating expenses	(6)	**(441,479)**	(428,926)	3%
Operating profit before impairment losses		**730,281**	527,419	38%
Net loss from disposal/reversal of revaluation deficit of property, plant and equipment		**(796)**	(903)	-12%
Net gain on disposal of held-to-maturity securities		**–**	4	-100%
Net gain on disposal of available-for-sale securities		**8,500**	59,720	-86%
Impairment losses on loans and advances	(7)	**(28,462)**	(9,264)	207%
Operating profit		**709,523**	576,976	23%
Share of profits of an associate		**1,147**	283	305%
Profit before taxation		**710,670**	577,259	23%
Taxation	(8)			
– Hong Kong		**(120,592)**	(106,642)	13%
– Overseas		**(31,962)**	(1,481)	2058%
– Deferred tax		**1,804**	6,415	-72%
Profit attributable to the equity holders of the Group		**559,920**	475,551	18%
Earnings per share	(9)	**HK$0.50**	HK$0.45	11%
Proposed interim dividend	(10)	**224,252**	201,827	11%

CONDENSED CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2006

(Unaudited)

	Note	30 Jun 2006 HK$'000	31 Dec 2005 HK$'000	Change %	30 Jun 2005 HK$'000	Change %
Assets						
Cash and short-term funds	(11)	**38,052,345**	25,317,238	50%	17,700,898	115%
Placements with and advances to banks and other financial institutions	(13)	**2,875,675**	2,469,645	16%	2,750,444	5%
Trade bills	(13)	**1,643,231**	1,992,380	-18%	2,270,265	-28%
Trading securities	(12)	**48,923**	247	19707%	–	–
Derivative financial instruments		**13,344**	44,720	-70%	128,749	-90%
Financial assets at fair value through profit or loss	(12)	**2,108,599**	1,690,010	25%	1,326,790	59%
Loans and advances to customers	(13)	**66,708,007**	68,152,663	-2%	67,184,047	-1%
Investment securities:		**12,574,724**	13,219,310	-5%	14,143,390	-11%
– Available-for-sale	(14)	**10,017,802**	10,137,811		9,828,624	
– Held-to-maturity	(15)	**2,556,922**	3,081,499		4,314,766	
Investment in an associate		**29,605**	28,484	4%	28,615	3%
Intangible assets		**1,058,943**	1,080,854	-2%	1,005,787	5%
Property, plant and equipment	(16)	**220,847**	211,342	4%	95,826	130%
Leasehold land and land use rights		**91,042**	91,704	-1%	92,367	-1%
Deferred income tax assets		**–**	–	–	24,498	-100%
Other assets		**1,134,081**	1,100,726	3%	1,066,831	6%
Total assets		**126,559,366**	115,399,323	10%	107,818,507	17%
Liabilities						
Deposits from banks and other financial institutions		**15,241,296**	25,095,384	-39%	22,231,904	-31%
Derivative financial instruments		**138,202**	157,802	-12%	191,276	-28%
Deposits from customers	(17)	**78,294,015**	60,990,148	28%	58,425,848	34%
– At fair value through profit or loss		**483,538**	487,255		735,540	
– At amortised cost		**77,810,477**	60,502,893		57,690,308	
Certificates of deposit issued		**10,479,464**	9,351,305	12%	8,311,486	26%
– At fair value through profit or loss		**5,230,356**	4,506,081		3,132,248	
– At amortised cost		**5,249,108**	4,845,224		5,179,238	
Debt securities in issue at fair value through profit or loss		**2,922,978**	2,978,615	-2%	3,051,102	-4%
Current income tax liabilities		**154,851**	8,333	1758%	76,178	103%
Deferred income tax liabilities	(18)	**24,569**	4,799	412%	–	–
Other liabilities		**1,645,380**	1,604,308	3%	1,410,721	17%
Total liabilities		**108,900,755**	100,190,694	9%	93,698,515	16%
Capital and reserves attributable to the Group's equity holders						
Loan capital	(19)	**7,519,580**	5,338,775	41%	5,347,635	41%
Share capital		**2,242,518**	2,242,518	–	2,095,930	7%
Retained earnings	(20)	**2,272,847**	2,106,340	8%	1,815,178	25%
Other reserves	(20)	**5,623,666**	5,520,996	2%	4,861,249	16%
Total equity		**17,658,611**	15,208,629	16%	14,119,992	25%
Total equity and liabilities		**126,559,366**	115,399,323	10%	107,818,507	17%

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2006

(Unaudited)

	30 Jun 2006 HK$'000	30 Jun 2005 HK$'000
Total equity (excluding loan capital) as at 1 January*	**9,869,854**	8,761,557
Revaluation deficit on bank premises	**(27)**	–
Change in fair value of available-for-sale securities	**123,276**	(166,278)
Change in deferred taxation	**(21,574)**	26,930
Exchange difference arising from translation of results of a foreign subsidiary	**23**	(534)
Net profit/(loss) not recognised in the profit and loss account	**101,698**	(139,882)
Profit attributable to the equity holders of the Group	**559,920**	475,551
Dividend	**(392,441)**	(324,869)
Total equity (excluding loan capital) as at 30 June	**10,139,031**	8,772,357

* Total equity (excluding loan capital) as at 1 January 2005 has been restated after adopting HKAS 17 and 39.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2006

(Unaudited)

	Six Months Ended	
	30 Jun 2006 HK$'000	30 Jun 2005 HK$'000
Net cash inflow/(outflow) from operating activities	**18,518,190**	(1,468,893)
Net cash outflow from investing activities	**(19,499)**	(27,675)
Net cash inflow/(outflow) from financing activities	**1,648,446**	(401,181)
Effects of foreign exchange differences	**5,879**	(4,071)
Net increase/(decrease) in cash and cash equivalents	**20,153,016**	(1,901,820)
Cash and cash equivalents at 1 January	**8,490,094**	8,443,309
Cash and cash equivalents at 30 June	**28,643,110**	6,541,489

For the purposes of the cash flow statement, cash and cash equivalents comprises the following balances with less than three months' maturity from the date of acquisition.

	30 Jun 2006 HK$'000	30 Jun 2005 HK$'000
Cash and balances with banks and other financial institutions (Note11)	**991,810**	1,236,093
Placements with banks and other financial institutions	**36,958,481**	15,233,060
Treasury bills (including Exchange Fund Bills)	**–**	146,339
Deposits and balances of banks and other financial institutions	**(9,307,181)**	(10,074,003)
	28,643,110	6,541,489

NOTES TO THE CONDENSED INTERIM ACCOUNTS

1 Basis of Preparation

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2006 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") No. 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). These financial statements also comply with the applicable requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), and the disclosure requirements of the "Interim Financial Disclosure by Locally Incorporated Authorised Institutions" under the Supervisory Policy Manual issued by the Hong Kong Monetary Authority ("HKMA").

2 Accounting Policies

(a) Impact of new/revised HKFRSs and HKASs

The accounting policies adopted in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005, except for the adoption of the following amendments mandatory for annual periods beginning on or after 1 January 2006:

- HKAS 39 Amendment "The Fair Value Option"

  The amendment restricted the use of the option to designate any financial asset or financial liability to be measured at fair value through profit and loss.

- HKAS 39 & HKFRS 4 Amendment "Financial Guarantee Contracts"

  The amendment amended the scope of HKAS 39 to include financial guarantee contracts issued. These contracts are recognized initially at fair value and generally re-measured at the higher of the amount determined in accordance with HKAS37 and the amount initially recognized less cumulative amortization.

There was no material impact on the basis of preparation of the unaudited condensed consolidated balance sheet and profit and loss account arising from the above-mentioned accounting standards.

(b) Impact of issued but not yet effective HKFRSs and HKASs

The Group has not applied the following new and revised HKFRSs and HKASs, which have been issued but are not yet effective, in these interim statements:

- HK(IFRIC)–Int9 "Reassessment of Embedded Derivatives" (effective for accounting period beginning on or after 1 June 2006)

  The amendment required that the assessment of whether an embedded derivatives should be separated from the host contract is done at the initiation of the contract, subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flow.

- HKAS 1 "Presentation of Financial Statements: Capital Disclosures" (effective for accounting period beginning on or after 1 January 2007)

  The amendment affects the disclosures about qualitative information about the Group's objective, policies and processes for managing capital, quantitative data about what the Group regards as capital; and compliance with any capital requirements and consequences of any non-compliance.

- HKFRS 7 "Financial instruments: Disclosures" (effective for accounting period beginning on or after 1 January 2007)

  HKFAS7 replaces HKAS 30 and modifies the disclosure requirements of HKAS 32 relating to financial instruments. The objective is to enable users to evaluate the significance of financial instruments for the Group's financial position and performance and the nature and the extent of risks arising from the financial instruments the Group is exposed during the period and at the reporting date.

The group expects that the adoption of the above pronouncements will not have significant impacts on the Group as at the date of interim financial statements.

3 Analysis of Assets and Liabilities by Remaining Maturity

The tables show the Group's assets and liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

The Group

At 30 June 2006	Repayable on demand HK$'000	3 months or less HK$'000	3-12 months HK$'000	1-5 years HK$'000	Over 5 years HK$'000	Undated HK$'000	Total HK$'000
Assets							
Cash and short-term funds	991,810	36,075,110	985,425	–	–	–	38,052,345
Placements with and advances to banks and other financial institutions	–	883,371	1,992,304	–	–	–	2,875,675
Trade bills	130,569	1,364,701	126,451	–	–	21,510	1,643,231
Trading securities	–	35,000	98	13,825	–	–	48,923
Derivative financial instruments	–	13,344	–	–	–	–	13,344
Financial assets at fair value through profit or loss	–	116,479	351,260	532,238	1,108,622	–	2,108,599
Loans and advances to customers	6,295,579	9,064,221	6,581,800	23,559,506	19,807,259	1,399,642	66,708,007
Available-for-sale investments	–	85,051	786,537	6,213,982	2,227,851	704,381	10,017,802
Held-to-maturity investments	–	122,095	693,016	1,528,821	212,990	–	2,556,922
Investment in an associate	–	–	–	–	–	29,605	29,605
Intangible assets	–	–	–	–	–	1,058,943	1,058,943
Property, plant and equipment	–	–	–	–	–	220,847	220,847
Leasehold land and land use rights	–	–	–	–	–	91,042	91,042
Other assets	28,055	851,018	115,894	65,741	906	72,467	1,134,081
Total assets	7,446,013	48,610,390	11,632,785	31,914,113	23,357,628	3,598,437	126,559,366
Liabilities							
Deposits from banks and other financial institutions	737,860	13,726,717	776,719	–	–	–	15,241,296
Derivative financial instruments	–	138,202	–	–	–	–	138,202
Deposits from customers	11,442,313	64,064,884	2,486,136	290,585	10,097	–	78,294,015
Certificates of deposit issued	–	128,092	2,999,714	7,351,658	–	–	10,479,464
Debt securities in issue at fair value through profit or loss	–	–	–	2,922,978	–	–	2,922,978
Other liabilities, including current and deferred income tax liabilities	74,469	1,279,436	349,140	74,039	906	46,810	1,824,800
Total liabilities	12,254,642	79,337,331	6,611,709	10,639,260	11,003	46,810	108,900,755
Net liquidity gap	(4,808,629)	(30,726,941)	5,021,076	21,274,853	23,346,625	3,551,627	17,658,611

3 Analysis of Assets and Liabilities by Remaining Maturity *(continued)*

The Group

At 31 December 2005	Repayable on demand HK$'000	3 months or less HK$'000	3-12 months HK$'000	1-5 years HK$'000	Over 5 years HK$'000	Undated HK$'000	Total HK$'000
Assets							
Cash and short-term funds	896,402	23,454,667	966,169	–	–	–	25,317,238
Placements with and advances to banks and other financial institutions	–	426,176	2,043,469	–	–	–	2,469,645
Trade bills	487,922	1,230,065	274,393	–	–	–	1,992,380
Trading securities	–	149	–	98	–	–	247
Derivative financial instruments	–	44,720	–	–	–	–	44,720
Financial assets at fair value through profit or loss	–	–	–	693,252	996,758	–	1,690,010
Loans and advances to customers	4,942,590	7,210,495	8,670,718	26,096,208	20,796,264	436,388	68,152,663
Available-for-sale investments	–	242,038	1,137,012	6,079,123	2,159,600	520,038	10,137,811
Held-to-maturity investments	–	291,837	581,628	1,954,032	254,002	–	3,081,499
Investment in an associate	–	–	–	–	–	28,484	28,484
Intangible assets	–	–	–	–	–	1,080,854	1,080,854
Property, plant and equipment	–	–	–	–	–	211,342	211,342
Leasehold land and land use rights	–	–	–	–	–	91,704	91,704
Other assets	474,581	464,749	–	–	–	161,396	1,100,726
Total assets	6,801,495	33,364,896	13,673,389	34,822,713	24,206,624	2,530,206	115,399,323
Liabilities							
Deposits from banks and other financial institutions	1,729,895	14,834,879	8,530,610	–	–	–	25,095,384
Derivative financial instruments	–	157,802	–	–	–	–	157,802
Deposits from customers	11,896,006	46,893,211	1,772,003	418,848	10,080	–	60,990,148
Certificates of deposit issued	–	603,228	1,845,259	6,902,818	–	–	9,351,305
Debt securities in issue at fair value through profit or loss	–	–	–	2,978,615	–	–	2,978,615
Other liabilities, including current and deferred income tax liabilities	556,166	703,019	–	–	–	358,255	1,617,440
Total liabilities	14,182,067	63,192,139	12,147,872	10,300,281	10,080	358,255	100,190,694
Net liquidity gap	(7,380,572)	(29,827,243)	1,525,517	24,522,432	24,196,544	2,171,951	15,208,629

4 Segment reporting

(a) Geographical areas

The Group operates predominantly in Hong Kong. Less than 10% of the Group's income, profit, assets, liabilities, contingent liabilities or commitments is attributable to the Group's overseas operations.

(b) Class of business

The Group operates predominantly in commercial banking which comprises commercial and retail banking, treasury and markets, and corporate and investment banking activities. Commercial and retail banking includes retail banking, commercial lending and trade finance. Treasury and markets activities include foreign exchange, money market and capital market activities. Corporate and investment banking activities mainly comprise corporate banking, the provision of debt capital market and corporate finance and advisory services.

	For the six months ended 30 June 2006				
	Commercial and retail banking HK$'000	Treasury and markets HK$'000	Corporate and investment banking HK$'000	Unallocated HK$'000	Total HK$'000
Net interest income	531,820	89,133	87,767	111,663	820,383
Other operating income	157,627	96,792	74,104	22,854	351,377
Operating income	689,447	185,925	161,871	134,517	1,171,760
Operating expenses	(340,729)	(39,952)	(22,253)	(38,545)	(441,479)
Operating profit before impairment losses	348,718	145,973	139,618	95,972	730,281
(Charge for)/write-back of individual impairment allowances	(22,968)	–	(11,730)	6,236	(28,462)
Operating profit after impairment losses	325,750	145,973	127,888	102,208	701,819
Net gain on disposal of available-for-sale securities	–	3,810	–	4,690	8,500
Net loss from disposal/reversal of revaluation deficit of property, plant and equipment	(787)	(1)	–	(8)	(796)
Share of profits of an associate	–	–	–	1,147	1,147
Profit before taxation	324,963	149,782	127,888	108,037	710,670
Segment assets	44,977,888	54,065,290	22,739,488	348,698	122,131,364
Investment in an associate	–	–	–	29,605	29,605
Unallocated assets	–	–	–	4,398,397	4,398,397
Total assets	44,977,888	54,065,290	22,739,488	4,776,700	126,559,366
Segment liabilities	52,324,738	15,636,313	27,631,905	919,619	96,512,575
Unallocated liabilities	–	–	–	12,388,180	12,388,180
Total liabilities	52,324,738	15,636,313	27,631,905	13,307,799	108,900,755
Capital expenditure	18,133	–	–	8,541	26,674
Depreciation and amortisation charges	7,757	675	33	33,404	41,869

4 Segment reporting *(continued)*

(b) Class of business *(continued)*

	For the six months ended 30 June 2005				
	Commercial and retail banking HK$'000	Treasury and markets HK$'000	Corporate and investment banking HK$'000	Unallocated HK$'000	Total HK$'000
Net interest income	431,048	37,708	98,815	2,546	570,117
Other operating income	164,487	163,778	40,232	17,731	386,228
Operating income	595,535	201,486	139,047	20,277	956,345
Operating expenses	(311,296)	(34,472)	(21,092)	(62,066)	(428,926)
Operating profit/(loss) before impairment losses	284,239	167,014	117,955	(41,789)	527,419
Write-back of individual impairment allowances	8,706	–	549	15,005	24,260
Charge for collective impairment allowances	(25,235)	(6,535)	(1,517)	(237)	(33,524)
Operating profit/(loss) after impairment losses	267,710	160,479	116,987	(27,021)	518,155
Net gain on disposal of available-for-sale securities	9	54,248	1,559	3,904	59,720
Net loss from disposal/reversal of revaluation deficit of property, plant and equipment	(90)	(1)	–	(812)	(903)
Net gain on disposal and redemption of held-to-maturity securities	–	4	–	–	4
Share of profits of an associate	–	–	–	283	283
Profit/(loss) before taxation	267,629	214,730	118,546	(23,646)	577,259
Segment assets	42,224,837	35,756,323	27,015,279	700,376	105,696,815
Investments in an associate	–	–	–	28,615	28,615
Unallocated assets	–	–	–	2,093,077	2,093,077
Total assets	42,224,837	35,756,323	27,015,279	2,822,068	107,818,507
Segment liabilities	40,939,514	23,254,416	17,004,535	146,211	81,344,676
Unallocated liabilities	–	–	–	12,353,839	12,353,839
Total liabilities	40,939,514	23,254,416	17,004,535	12,500,050	93,698,515
Capital expenditure	10,391	210	32	12,661	23,294
Depreciation and amortisation charges	8,327	622	33	23,167	32,149

5 Other operating income

	30 Jun 2006 HK$'000	30 Jun 2005 HK$'000
Fees and commission income	**236,645**	192,733
Less: Fees and commission expense	**(7,529)**	(4,814)
Net fees and commission income	**229,116**	187,919
Net gain from foreign exchange activities	**94,775**	131,654
Net gain from trading securities	**6,337**	77
Net (loss)/gain from available-for-sale securities	**(44,776)**	11,050
Net (loss)/gain from fair value through profit and loss securities	**(60,013)**	2,860
Net gain from fair value through profit and loss financial liabilities	**90,183**	62,908
Net gain/(loss) on derivative financial instruments	**26,492**	(19,424)
Dividend income from unlisted investments in securities	**2,149**	2,393
Others	**7,114**	6,791
Total other operating income	**351,377**	386,228

6 Operating expenses

	30 Jun 2006 HK$'000	30 Jun 2005 HK$'000
Staff costs		
– Salary and other costs	**230,578**	224,657
– Redundancy payment	**401**	108
– Employee benefit expenses	**15,140**	14,973
	246,119	239,738
Premises and equipment expenses (excluding depreciation)		
– Rental of premises	**48,144**	41,633
– Others	**27,927**	35,797
	76,071	77,430
Depreciation and amortisation expenses	**41,869**	32,149
Auditors' remuneration	**2,011**	1,888
Others	**75,409**	77,721
Total operating expenses	**441,479**	428,926

7 Impairment losses on loans and advances

	30 Jun 2006 HK$'000	30 Jun 2005 HK$'000
Net charge for/(write-back of) impairment losses on loans and advances		
– Individually assessed	**28,462**	(24,260)
– Collectively assessed	**–**	33,524
	28,462	9,264
Of which		
– new allowances	**69,031**	53,644
– releases	**(34,019)**	(32,715)
– recoveries	**(6,550)**	(11,665)
Net charge to the profit and loss account	**28,462**	9,264

8 Taxation

Hong Kong profits tax has been calculated at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxation for overseas branches and subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

The amount of taxation charged to the consolidated profit and loss account represents:

	30 Jun 2006 HK$'000	30 Jun 2005 HK$'000
Current taxation		
– Hong Kong profits tax	**120,592**	106,642
– Overseas taxation	**26,598**	1,481
– Under recognitions in prior years	**5,364**	–
Deferred taxation relating to the origination and reversal of temporary differences (Note 18)	**(1,804)**	(6,415)
	150,750	101,708

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the current taxation rate as follows:

	30 Jun 2006 HK$'000	30 Jun 2005 HK$'000
Profit before taxation	**710,670**	577,259
Calculated at a taxation rate of 17.5% (2005: 17.5%)	**124,367**	101,021
Effect of different taxation rates in other countries	**63**	716
Income not subject to taxation	**(23,844)**	(3,544)
Expenses not deductible for taxation purposes	**19,800**	3,515
Under recognitions in prior years	**5,364**	–
Tax provision for a foreign subsidiary	**25,000**	–
Taxation charge	**150,750**	101,708

9 Earnings per share

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

	30 Jun 2006	30 Jun 2005
Profit attributable to equity holders of the Group (HK$'000)	**559,920**	475,551
Weighted average number of ordinary shares in issue (thousands)	**1,121,259**	1,047,965
Basic earnings per share	**HK$0.50**	HK$0.45

There was no difference between basic and diluted earnings per share as there were no potential dilutive shares outstanding during the six months ended 30 June 2006 and 2005.

10 Proposed interim dividend

	30 Jun 2006 HK$'000	30 Jun 2005 HK$'000
Proposed interim dividend of HK$0.20 (2005: HK$0.18) per ordinary share	**224,252**	201,827
	224,252	201,827

11 Cash and short-term funds

	30 Jun 2006 HK$'000	31 Dec 2005 HK$'000
Cash and balances with banks and other financial institutions	**991,810**	896,402
Placement with banks and other financial institutions maturity within one month	**36,075,110**	23,454,667
Treasury bills (including Exchange Fund Bills)	**985,425**	966,169
	38,052,345	25,317,238
Remaining maturity of treasury bills:		
– One year or less, but over three months	**985,425**	966,169

12 Financial assets at fair value through profit or loss (including trading securities)

	30 Jun 2006 HK$'000	31 Dec 2005 HK$'000
Debt securities	**13,923**	247
Equity securities	**35,000**	–
Total trading securities	**48,923**	247
Financial assets at fair value through profit or loss	**2,108,599**	1,690,010
Total financial assets at fair value through profit or loss (including trading securities)	**2,157,522**	1,690,257
Remaining maturity of certificates of deposit included in debt securities:		
– Three months or less	**116,479**	–
– One year or less, but over three months	**200,090**	–
– Five years or less, but over one year	**98,142**	287,766
– Over five years	**93,390**	97,760
	508,101	385,526

13 Total loans and advances

	30 Jun 2006 HK$'000	31 Dec 2005 HK$'000
Advances to customers	**66,789,521**	68,299,287
Advances to banks and other financial institutions	**–**	104,694
Trade bills	**1,641,810**	2,001,557
Gross loans and advances	**68,431,331**	70,405,538
Less: impairment allowances		
– Individual	**(165,567)**	(267,418)
– Collective	**(212,536)**	(209,583)
Accrued interest	**298,010**	321,200
	68,351,238	70,249,737

	30 Jun 2006 HK$'000	31 Dec 2005 HK$'000
Impaired loans are analysed as follows:		
Trade bills	**4,859**	3,304
Loans and advances to customers	**556,088**	657,772
	560,947	661,076

13 Total loans and advances *(continued)*

	30 Jun 2006 HK$'000	31 Dec 2005 HK$'000
Gross impaired loans	**560,947**	661,076
Impairment allowances made in respect of such loans	**165,567**	267,418
As a percentage of total loans and advances	**0.8%**	0.9%

Impaired loans are defined as those loans having 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 reliably estimated.

14 Available-for-sale securities

	30 Jun 2006 HK$'000	31 Dec 2005 HK$'000
Debt securities	**9,320,371**	9,624,751
Equity securities	**697,431**	513,060
Total available-for-sale securities	**10,017,802**	10,137,811
Remaining maturity of certificates of deposit included in debt securities:		
– Three months or less	**–**	77,630
– One year or less, but over three months	**204,251**	862,236
– Five years or less, but over one year	**1,900,705**	1,951,508
– Over five years	**276,036**	295,533
	2,380,992	3,186,907

15 Held-to-maturity securities

	30 Jun 2006 HK$'000	31 Dec 2005 HK$'000
Debt securities	**2,556,922**	3,081,499
Remaining maturity of certificates of deposit included in debt securities:		
– Three months or less	**28,849**	199,993
– One year or less, but over three months	**233,016**	228,372
– Five years or less, but over one year	**666,727**	899,606
	928,592	1,327,971

16 Property, plant and equipment

	Bank premises and properties HK$'000	Leasehold improvements HK$'000	Furniture and equipment HK$'000	Total HK$'000
Cost or valuation				
At 1 January 2006	138,236	144,613	219,014	501,863
Acquired from ICBC, Hong Kong Branch (Note (i))	–	1,103	6,075	7,178
Additions	–	17,841	9,012	26,853
Disposals	–	(4,802)	(2,503)	(7,305)
Exchange difference	131	(2)	15	144
At 30 June 2006	138,367	158,753	231,613	528,733
Accumulated depreciation and impairment				
At 1 January 2006	34,195	88,233	168,093	290,521
Acquired from ICBC, Hong Kong Branch (Note (i))	–	1,103	3,892	4,995
Charge for the period	4,109	7,024	7,676	18,809
Disposals	–	(4,241)	(2,253)	(6,494)
Exchange difference	48	–	7	55
At 30 June 2006	38,352	92,119	177,415	307,886
Net book value				
At 30 June 2006	100,015	66,634	54,198	220,847
At 31 December 2005	104,041	56,380	50,921	211,342

Note:

(i) Assets were acquired from ICBC, Hong Kong Branch upon our acquisition of credit card business on 26 March 2006.

17 Deposits from customers

	30 Jun 2006 HK$'000	31 Dec 2005 HK$'000
Demand deposits and current accounts	**2,905,220**	2,992,817
Savings deposits	**8,462,447**	8,839,142
Time, call and notice deposits	**66,926,348**	49,158,189
	78,294,015	60,990,148

18 Deferred income tax

Deferred income tax is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2005: 17.5%).

The movement on the deferred income tax assets/(liabilities) account during the period is as follows:

	30 Jun 2006 HK$'000	31 Dec 2005 HK$'000
At 1 January, as previously reported	**(4,799)**	27,403
Effect of changes in accounting policies	**–**	(36,250)
At 1 January, as restated	**(4,799)**	(8,847)
Credited/(Charged) to profit and loss account (Note 8)	**1,804**	(23,790)
(Debited)/Credited to equity	**(21,574)**	27,838
At the end of the period/year	**(24,569)**	(4,799)

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 fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet.

	30 Jun 2006 HK$'000	31 Dec 2005 HK$'000
Deferred income tax assets	**31,376**	28,416
Deferred income tax liabilities	**(55,945)**	(33,215)
	(24,569)	(4,799)

	30 Jun 2006 HK$'000	31 Dec 2005 HK$'000
Deferred income tax assets to be recovered after more than 12 months	**30,357**	28,416
Deferred income tax liabilities to be settled after more than 12 months	**(45,122)**	(22,261)

19 Loan capital

	30 Jun 2006 HK$'000	31 Dec 2005 HK$'000
Subordinated floating rate notes		
– with a final maturity on 2 July 2011 (callable on 3 July 2006)	**584,820**	584,820
– with a final maturity on 12 December 2011 (callable on 13 December 2006)	**623,808**	623,808
– with a final maturity on 26 March 2012 (callable on 27 March 2007)	**545,916**	545,916
– with a final maturity on 10 December 2012 (callable on 10 December 2007)	**500,000**	500,000
– with a final maturity on 28 April 2014 (callable on 28 April 2009)	**1,169,955**	1,169,955
– with a final maturity on 29 June 2016 (callable on 30 June 2011)	**621,432**	–
– perpetual (callable on 10 December 2012)	**1,000,000**	1,000,000
– perpetual (callable on 9 July 2013)	**935,916**	935,916
– perpetual (callable on 30 June 2016)	**1,553,580**	–
Exchange adjustment	**(15,847)**	(21,640)
	7,519,580	5,338,775

Loan capital were raised by the Bank for the development and expansion of business and have been fully subscribed by the ultimate holding company. These notes quality for and have been included as the Bank's supplementary capital in accordance with the Third Schedule of the Hong Kong Banking Ordinance.

During the period ended 30 June 2006, the Bank has issued callable non-perpetual and perpetual floating rate subordinated notes of US$80,000,000 and US$200,000,000. The notes are interest bearing at 0.5% and 0.6% per annum over three-month LIBOR and then 1% and 1.6% per annum over three-month LIBOR should the call option is not exercised by the Bank to redeem the notes on callable date.

20 Reserves

	30 Jun 2006 HK$'000	31 Dec 2005 HK$'000
Ordinary share premium	**5,323,893**	5,323,893
Convertible non-cumulative preference share premium	**16,126**	16,126
Bank premises revaluation reserve	**26,929**	26,955
Investment revaluation reserve	**21,706**	(79,998)
General reserve	**235,012**	234,020
Retained profits*	**2,272,847**	2,106,340
	7,896,513	7,627,336
Proposed dividends not provided for	**224,252**	392,441

* As at 30 June 2006, the Group has earmarked a "Regulatory Reserve" of HK$342,157,000 from the retained profits. 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.

21 Balances with group companies

(a) Included in the following balance sheet captions are balances with the ultimate holding company:

	30 Jun 2006 HK$'000	31 Dec 2005 HK$'000
On-balance sheet		
Cash and short-term funds		
Placements with banks and other financial institutions maturing within one month	**6,530,437**	1,946,048
Cash and balances with banks and other financial institutions	**12,892**	59,017
	6,543,329	2,005,065
Placements with banks and other financial institutions maturing between one and twelve months	**2,173,844**	2,364,951
Other assets	**108,607**	87,729
	8,825,780	4,457,745
Deposits from banks and other financial institutions	**12,167,016**	20,513,379
Certificates of deposit issued	**3,883,600**	3,877,550
Other liabilities	**247,380**	240,982
	16,297,996	24,631,911
Loan capital	**7,519,580**	5,338,775

Note:

Included in deposits and balances of banks and other financial institutions is an amount of HK$4,240,891,000 (2005: HK$11,826,528,000) representing utilisation of a standby credit facility of US$795,000,000 (2005: US$1,575,000,000) granted by the ultimate holding company to the Bank for working capital purposes.

21 Balances with group companies *(continued)*

(a) Included in the following balance sheet captions are balances with the ultimate holding company: *(continued)*

	30 Jun 2006 HK$'000	31 Dec 2005 HK$'000
Off-balance sheet		
Foreign exchange contracts – contractual amount	**18,227,174**	6,124,861
Interest rate swaps – notional principal	**8,166,459**	7,766,655
Currency options – contractual amount		
– options purchased	**–**	44,966
	–	44,966
Interest rate options – contractual amount		
– options purchased	**1,661,312**	994,623
– options written	**1,647,114**	1,645,751
	3,308,426	2,640,374
Other commitments with maturity within 1 year		
– overdraft facility	**2,757,356**	2,753,061

(b) Included in the following balance sheet captions are balances with fellow subsidiaries:

	30 Jun 2006 HK$'000	31 Dec 2005 HK$'000
On-balance sheet		
Other assets	**2,214**	3,023
Deposits from banks and other financial institutions	**153,782**	112,555
Deposits from customers	**5,835,020**	267,787
Other liabilities	**5,537**	5,394
	5,994,339	385,736
Off-balance sheet		
Interest rate swaps – notional principal	**163,111**	301,673

21 Balances with group companies *(continued)*

(c) Included in the following balance sheet captions are balances with subsidiaries of the Bank:

	Bank	
	30 Jun 2006 HK$'000	31 Dec 2005 HK$'000
On-balance sheet		
Senior PLNs issued by UBCBM included in the balance sheet under "Held-to-maturity securities"	**–**	1,269
Placements with banks and other financial institutions	**682,760**	–
Other assets	**53,653**	1,840
	736,413	3,109
Deposits from banks and other financial institutions	**3,025**	9,780
Deposits from customers	**3,596,306**	5,519,158
Other liabilities	**25,718**	73,921
	3,625,049	5,602,859
Off-balance sheet		
Foreign exchange contracts – contractual amount	**–**	28,608

(d) Included in the following balance sheet captions are balances with an associate:

	30 Jun 2006 HK$'000	31 Dec 2005 HK$'000
On-balance sheet		
Deposits from customers	**218**	15,770
Other liabilities	**–**	4
	218	15,774

22 Related party transactions

During the period, the Group entered into various transactions in the normal course of business with related parties, including the ultimate holding company, fellow subsidiaries and associate.

(a) Summary of transactions entered into during the ordinary course of business with related parties

The aggregated income and expense arising from related party transactions with the ultimate holding company, fellow subsidiaries and associate are summarised as follows:

	30 Jun 2006 HK$'000	30 Jun 2005 HK$'000
Interest income		
– Placement (Note (i))	**109,829**	82,024
– Interest rate swaps (Note (ii))	**170,370**	192,654
Interest expense		
– Deposits (Note (iii))	**(345,353)**	(193,962)
– Interest rate swaps (Note (ii))	**(207,795)**	(157,486)
– Certificates of deposit issued (Note (iv))	**(92,877)**	(68,819)
– Loan capital (Note (v))	**(134,125)**	(76,312)
Net option premium expense (Note (vi))	**(5)**	(4,615)
Management fee income (Note (vii))	**3,000**	3,000
PRC loan service fee expense (Note (viii))	**(154)**	–
Service fee income (Note (ix))	**300**	855
Data processing service fee expense (Note (xii))	**(3,776)**	(3,771)
Premises income (Notes (x) & (xi))	**4,043**	594
Premises expense (Note (xiii))	**(1,150)**	–

Notes:

(i) Interest income was received on inter-bank deposits placed with the ultimate holding company and fellow subsidiaries at prevailing market rates.

(ii) Interest income and expense was received from and paid to the ultimate holding company and fellow subsidiaries on the interest rate swaps at prevailing market rates. These transactions included interest rate swaps entered on a back-to-back basis with the ultimate holding company and fellow subsidiaries.

(iii) Interest expense was paid on the deposits taken from the ultimate holding company and fellow subsidiaries.

(iv) Interest expense was paid to the ultimate holding company for certificates of deposit issued by the Bank and subscribed by the ultimate holding company with nominal value of US$500,000,000.

(v) Interest expense was paid to the ultimate holding company for subordinated floating rate notes issued by the Bank and subscribed by the ultimate holding company (Note 19).

(vi) Net option premium expense was paid to the ultimate holding company and fellow subsidiaries on the various option contracts at prevailing market rates.

22 Related party transactions *(continued)*

(a) Summary of transactions entered into during the ordinary course of business with related parties *(continued)*

(vii) In accordance with the Collaboration Agreement dated 3 July 2001 and the Supplemental Collaboration Agreement dated 4 February 2005, 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.

(viii) Service fee was paid to related ICBC Branches for assisting the Bank in PRC loan business.

(ix) In accordance with the Outsourcing Agreement dated 18 December 2002, and the Supplemental Outsourcing Agreement dated 4 February 2005, service fee income was received from the Branch for the provision of management, administrative and marketing services in respect of credit card business of the Branch launched in Hong Kong commencing from 18 December 2002.

(x) In accordance with the Licence Agreement dated 31 December 2004, premises expense was paid by the Branch to the Bank for using a portion of floor area on the 28th floor, ICBC Tower, 3 Garden Road, Central, Hong Kong.

(xi) In accordance with two Licence Agreements dated 31 December 2004 and 1 April 2005 respectively, premises expenses was paid by ICEA Services Limited to the Bank for using Suites 2501-2 and the 26th floor, ICBC Tower, 3 Garden Road, Central, Hong Kong.

(xii) In accordance with Service Levels Agreement dated 21 February 2002 and the Supplemental Services Levels Agreement dated 4 February 2005, service fee expense was paid to the ultimate holding company for the provision of data processing services to the Bank.

(xiii) In accordance with the Collaboration Agreement dated 3 July 2001, the Supplemental Collaboration Agreement dated 4 February 2005 and the Licence Agreement dated 27 December 2001, premises expense was paid to the Branch for using a portion of floor area rented by the Branch.

(b) Buy and sale of certain assets from/to related parties

Sub-participation of syndicated loans
During the six months ended 30 June 2006, the Bank entered into various capital market transactions with the Branch, the ultimate holding company and fellow subsidiaries. These transactions included sub-participation in syndicated loans of the Bank by the Branch, the ultimate holding company and fellow subsidiaries for a total of HK$151,952,000 (First half of 2005: HK$776,714,000) and similar sub-participation in syndicated loans of the Branch, the ultimate holding company and fellow subsidiaries by the Bank for a total of HK$6,269,105,000 (First half of 2005: HK$2,460,897,000). These transactions were priced based either on the terms of the underlying loan agreement, if applicable, or prevailing market rates if such comparable rates are available, or on terms that are no less favourable than those available to other independent syndicate members.

Buy and sale of debt securities
During the six months ended 30 June 2006, debt securities of carrying value of HK$320,000,000 (First half of 2005: HK$550,000,000) were sold by the Bank to the ultimate holding company and fellow subsidiaries. These transactions were entered into on normal commercial terms with reference to prevailing market rates.

22 Related party transactions *(continued)*

(c) Undertaking fom 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 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. The amount of such on-balance sheet and off-balance sheet large exposures of the Bank covered by this guarantee as at 30 June 2006 was HK$143,892,000 and HK$99,560,000 respectively (First half of 2005: HK$842,282,000 and HK$504,401,000 respectively).

(d) Transactions with other state controlled entities

The state controlled entities are those over which the PRC government directly holds over 50% of the outstanding shares or voting rights, and has the ability to control or the power to govern their financial or operational policies. It should be noted, however, the PRC government may indirectly hold interest in many PRC companies. Some of these interests may, in themselves or when combined with other indirect interest, be controlling interest. Such interests, however, would not be known to the Group and are not reflected below.

The Group enters into banking transactions with other state controlled entities in the ordinary course of business. These include loans, deposits, investment securities, money market transactions and off-balance sheet exposures. These transactions are executed at the relevant market rates at the time of the transactions.

The outstanding balances of related party transactions and related provisions at the period/year end, and the related major income and/or expense for the period/year are as follows:

(i) Loans and advances to customers

	30 Jun 2006 HK$'million	31 Dec 2005 HK$'million
Outstanding balance at the beginning of the period/year	**7,138**	6,239
Less: allowance for impairment losses	**(82)**	(157)
	7,056	6,082
Outstanding balance at the end of the period/year	**5,114**	7,138
Less: allowance for impairment losses	**–**	(82)
	5,114	7,056

	Six months ended	
	30 Jun 2006 HK$'million	30 Jun 2005 HK$'million
Interest income	**156**	79

The allowance for impairment losses only relates to the amount of individual assessments.

22 Related party transactions *(continued)*

(d) Transactions with other state controlled entities *(continued)*

(ii) Investment securities

	30 Jun 2006 HK$'million	31 Dec 2005 HK$'million
Outstanding balance at the beginning of the period/year		
– Held-to-maturity securities	**–**	384
– Available-for-sale securities	**588**	491
	588	875
Outstanding balance at the end of the period/year		
– Financial assets at fair value through profit and loss	**370**	–
– Available-for-sale securities	**778**	588
– Trading securities	**35**	–
	1,183	588

	Six months ended	
	30 Jun 2006 HK$'million	30 Jun 2005 HK$'million
Interest income	**27**	4
Gain on disposal of available-for-sale securities	**5**	–
Other operating income	**6**	–

(iii) Due from other banks and financial institutions

	30 Jun 2006 HK$'million	31 Dec 2005 HK$'million
Outstanding balance at the beginning of the period/year	**9,559**	11,279
Outstanding balance at the end of the period/year	**10,508**	9,559

	Six months ended	
	30 Jun 2006 HK$'million	30 Jun 2005 HK$'million
Interest income	**138**	13

(iv) Due to other banks and financial institutions

	30 Jun 2006 HK$'million	31 Dec 2005 HK$'million
Outstanding balance at the beginning of the period/year	**22,501**	15,290
Outstanding balance at the end of the period/year	**13,850**	22,501

	Six months ended	
	30 Jun 2006 HK$'million	30 Jun 2005 HK$'million
Interest expense	**421**	1

22 Related party transactions *(continued)*

(d) Transactions with other state controlled entities *(continued)*

(v) Due to customers

	30 Jun 2006 HK$'million	31 Dec 2005 HK$'million
Outstanding balance at the beginning of the period/year	**2,952**	2,391
Outstanding balance at the end of the period/year	**10,343**	2,952

	Six months ended	
	30 Jun 2006 HK$'million	30 Jun 2005 HK$'million
Interest expense	**59**	21

(vi) Others

	30 Jun 2006 HK$'million	31 Dec 2005 HK$'million
Outstanding balance at the beginning of the period/year	**5,392**	5,366
Outstanding balance at the end of the period/year	**12,439**	5,392

	Six months ended	
	30 Jun 2006 HK$'million	30 Jun 2005 HK$'million
Other expenses	**245**	–

(vii) Off balance sheet exposures

	30 Jun 2006 HK$'million	31 Dec 2005 HK$'million
Outstanding balance at the beginning of the period/year	**17,053**	16,516
Outstanding balance at the end of the period/year	**29,944**	17,053

23 Off-balance sheet exposures

(a) Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments:

	30 Jun 2006 HK$'000	31 Dec 2005 HK$'000
Direct credit substitutes	**1,738,901**	1,429,763
Transaction-related contingencies	**99,059**	131,935
Trade-related contingencies	**3,104,625**	2,698,287
Other commitments with an original maturity of:		
– Under 1 year or which are unconditionally cancellable	**15,624,412**	13,602,099
– 1 year and over	**11,593,566**	9,886,108
Forward deposits placed	**144,974**	371,097
	32,305,537	28,119,289

23 Off-balance sheet exposures *(continued)*

(b) Derivatives

The following is a summary of the contractual or notional amounts of each significant type of derivatives:

	30 Jun 2006 HK$'000	31 Dec 2005 HK$'000
Exchange rate contracts		
– Forwards	**20,253,349**	2,427,966
– Swaps	**25,524,758**	22,484,615
– Currency options purchased	**4,093,469**	1,644,858
– Currency options written	**4,004,422**	1,665,317
	53,875,998	28,222,756
Interest rate contracts		
– Interest rate swaps	**33,735,860**	29,125,145
– Interest rate options purchased	**5,160,533**	4,487,346
– Interest rate options written	**5,160,533**	4,487,346
	44,056,926	38,099,837
Other contracts		
– Equity options purchased	**34,689**	35,505
– Equity options written	**34,689**	35,505
	69,378	71,010
Total	**98,002,302**	66,393,603

The contractual or notional amounts of off-balance sheet instruments provide only an indication of the volume of business outstanding at the balance sheet date and bear little relation to the underlying risks of the exposures.

The aggregate replacement costs and credit risk weighted amounts of the above off-balance sheet exposures are:

	30 Jun 2006		31 Dec 2005	
	Replacement cost HK$'000	**Credit risk weighted amount HK$'000**	Replacement cost HK$'000	Credit risk weighted amount HK$'000
Contingent liabilities and commitments	**–**	**7,761,668**	–	6,338,082
Exchange rate contracts	**124,912**	**138,717**	111,974	75,752
Interest rate contracts	**707,761**	**180,950**	537,187	149,296
Other contracts	**959**	**–**	533	–
	833,632	**8,081,335**	649,694	6,563,130

The replacement costs and credit risk weighted amounts of the off-balance sheet exposures do not take into account the effects of bilateral netting arrangements.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

The following information is disclosed as part of the accompanying information to the accounts.

1 Capital adequacy ratio and capital base

	30 Jun 2006	31 Dec 2005
Capital adequacy ratio	**18.0%**	15.8%
Adjusted capital adequacy ratio	**17.8%**	15.7%

The unadjusted capital adequacy ratio is computed on the consolidated basis which comprises the positions of the Bank and its subsidiaries as required by the Hong Kong Monetary Authority for its regulatory purposes, and is in accordance with the Third Schedule of the Hong Kong Banking Ordinance.

The adjusted capital adequacy ratio which takes into account market risks as at the balance sheet date is computed in accordance with the Guideline "Maintenance of Adequate Capital Against Market Risks" issued by the Hong Kong Monetary Authority and on the same consolidated basis as for unadjusted capital adequacy ratio.

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

	30 Jun 2006 HK$'000	31 Dec 2005 HK$'000
Core capital:		
Paid up ordinary share capital	**2,242,518**	2,242,518
Ordinary share premium	**5,323,893**	5,323,893
Convertible non-cumulative preference share premium	**16,126**	16,126
Reserves	**1,696,009**	1,404,323
Deduct: Goodwill	**(937,576)**	(936,520)
	8,340,970	8,050,340
Eligible supplementary capital:		
Reserves on revaluation of land and interests in land	**18,918**	18,917
Reserves on revaluation of holding of securities not held for trading purpose	**(182,880)**	(67,821)
Collective impairment allowances for impaired assets and regulatory reserve	**554,693**	561,611
Perpetual subordinated debts	**3,485,504**	1,930,612
Term subordinated debts	**4,034,076**	3,408,163
	7,910,311	5,851,482
Total capital base before deductions	**16,251,281**	13,901,822
Deductions from total capital base	**(609,201)**	(624,075)
Total capital base after deductions	**15,642,080**	13,277,747

2 Liquidity ratio

	30 Jun 2006	30 Jun 2005
Average liquidity ratio for the six months ended	**42.7%**	35.1%

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 in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance.

3 Currency concentrations

The net position in foreign currencies are disclosed when each currency constitutes 10% or more of the total net position in all foreign currencies.

	US$ HK$'000	**EUR HK$'000**	**JPY HK$'000**	**RMB HK$'000**	**Total HK$'000**
As at 30 June 2006					
Spot assets	**59,689,426**	**1,689,640**	**1,718,740**	**281,662**	**63,379,468**
Spot liabilities	**(60,208,229)**	**(1,117,319)**	**(140,824)**	**(199,844)**	**(61,666,216)**
Forward purchases	**24,073,556**	**1,525,581**	**1,461,434**	**9,740,307**	**36,800,878**
Forward sales	**(23,272,053)**	**(1,997,610)**	**(2,900,572)**	**(9,632,462)**	**(37,802,697)**
Net option position	**90,140**	**(45,945)**	**(36,449)**	**–**	**7,746**
Net long position	**372,840**	**54,347**	**102,329**	**189,663**	**719,179**
As at 31 December 2005					
Spot assets	45,309,000	–	1,806,000	274,000	47,389,000
Spot liabilities	(54,237,000)	–	(227,000)	(193,000)	(54,657,000)
Forward purchases	17,817,000	–	420,000	1,485,000	19,722,000
Forward sales	(8,349,000)	–	(1,921,000)	(1,508,000)	(11,778,000)
Net option position	(16,000)	–	(1,000)	–	(17,000)
Net long position	524,000	–	77,000	58,000	659,000

4 Segmental information

(a) Loans and advances to customers

(i) Gross advances to customers – by industry sectors

	30 Jun 2006 HK$'000	31 Dec 2005 HK$'000
Loans for use in Hong Kong		
Industrial, commercial and financial		
– Property development	**3,460,745**	4,202,630
– Property investment	**11,809,809**	10,554,322
– Financial concerns	**3,299,595**	3,709,737
– Stockbrokers	**37,785**	91,305
– Wholesale and retail trade	**1,949,217**	1,665,212
– Civil engineering works	**975,448**	830,649
– Manufacturing	**5,363,369**	6,195,831
– Transport and transport equipment	**7,978,846**	9,323,538
– Electricity, gas and telecommunications	**763,929**	1,140,181
– Hotels, boarding houses and catering	**1,086,514**	1,232,911
– Others	**5,844,731**	5,136,568
Individuals		
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**140,569**	130,242
– Loans for the purchase of other residential properties	**10,912,432**	11,447,846
– Credit card advances	**80,052**	51,198
– Others	**1,085,956**	980,815
Trade finance	**5,717,325**	5,501,227
Loans for use outside Hong Kong	**6,283,199**	6,105,075
	66,789,521	68,299,287

(ii) Gross advances to customers – by geographical areas

As at 30 June 2006 and 31 December 2005, over 90% of the Group's advances to customers, impaired loans and overdue loans were made to counterparties located in Hong Kong. In determining this analysis, no account has been taken of transfer of risk with respect to claims guaranteed by a party in a country, which is different from that of the counterparty.

4 Segmental information *(continued)*

(b) Cross-border claims

The Group analyses cross-border claims by geographical area. In determining this analysis, it has been taken into account of any transfer of risk with respect to claims guaranteed by a party in a country different from that of the counterparty. Those areas which 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
As at 30 June 2006				
Asia Pacific (excluding Hong Kong)	**17,278**	**709**	**7,069**	**25,056**
North and South America	**1,325**	**422**	**5,839**	**7,586**
Middle East and Africa	**706**	**–**	**1,060**	**1,766**
Europe	**25,852**	**–**	**1,176**	**27,028**
As at 31 December 2005				
Asia Pacific (excluding Hong Kong)	10,659	483	8,569	19,711
North and South America	1,001	438	5,776	7,215
Middle East and Africa	609	–	792	1,401
Europe	20,334	97	1,049	21,480

5 Overdue, rescheduled advances and repossessed assets

(a) The gross amount of the Group's advances to customers and trade bills which have been overdue are analysed as follows:

	Gross advances HK$'000	Percentage of advances to customers	Market value of collateral HK$'000	Secured amount HK$'000	Unsecured amount HK$'000	Individual impairment allowance HK$'000
As at 30 June 2006						
Six months or less but over three months	**64,722**	**0.1%**	**75,089**	**46,421**	**18,301**	**12,390**
One year or less but over six months	**52,390**	**0.1%**	**30,541**	**24,448**	**27,942**	**27,968**
Over one year	**91,027**	**0.1%**	**18,998**	**7,944**	**83,083**	**76,607**
	208,139	**0.3%**	**124,628**	**78,813**	**129,326**	**116,965**
As at 31 December 2005						
Six months or less but over three months	107,362	0.2%	52,429	27,500	79,862	42,894
One year or less but over six months	96,417	0.1%	22,797	12,039	84,378	71,133
Over one year	136,180	0.2%	21,114	13,326	122,854	107,994
	339,959	0.5%	96,340	52,865	287,094	222,021

5 Overdue, rescheduled advances and repossessed assets *(continued)*

(b) Other overdue assets

	30 Jun 2006 HK$'000	31 Dec 2005 HK$'000
Accrued interest		
Six months or less but over three months	**281**	105
Over one year	**1**	2
	282	107
Rescheduled assets	**50**	152
	332	259

(c) Rescheduled advances

	30 Jun 2006 HK$'000	**Percentage of advances to customers**	31 Dec 2005 HK$'000	Percentage of advances to customers
Rescheduled advances to customers	**51,224**	**0.1%**	68,749	0.1%

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 (a) above.

(d) Repossessed assets

At 30 June 2006, the estimated market value of the repossessed assets of the Group amounted to HK$25,920,000 (31 December 2005: HK$9,110,000).

6 Risk management

The Group has established policies and procedures for the identification, measurement, control and monitoring of risk factors (including credit, liquidity, market, interest rate, operational, legal and compliance risks). The management and the relevant functional committees review these policies and procedures on a regular basis, and the Group's Internal Audit Department also performs regular checks to ensure due compliance with policies and procedures.

(a) Credit risk management

Credit risk is the risk that a borrower or counterparty of the Group will be unable or unwilling to honour a repayment obligation. The Group has standards, policies and procedures and designated functional departments in place to control and monitor these risks.

The Group recognizes that sound credit risk management is essential to business growth and maximization of the return on Group's resources employed. The management has set credit policies and system to identify, measure, monitor and control risks inherent in the operation of various lending business. This process ensures prudence and enables potential problems to be detected and tackled earlier than otherwise, thereby minimizing business loss. With the enlarged lending operation of the Bank to SMEs after merging, credit policies and practice apposite to their risk monitoring are adopted or modified to maintain the desired credit standard and to cope with the Bank's increasing penetration into the SME sector.

6 Risk management *(continued)*

(a) Credit risk management *(continued)*

High-level credit policies of the Group are set, reviewed and constantly updated by the relevant functional committees, and for prominent issues, by the Board of Directors to take balanced accounts of its dynamic market situation, regulatory development, the Group's usual prudent lending practices and the latest business strategies. All these credit policies, processes and practices, as they are developed, updated, reviewed and revised, are written in phases into Credit Manuals and supplementary lending product manuals for internal control and compliance purposes. Given the Basel II capital accord to be implemented in 2007, the Group has been adjusting its credit risk management practice in line with relevant guidelines releases of the Hong Kong Monetary Authority and for the sake of enhancing internal credit control and processing efficiency.

Credit authorities are delegated to individual approvers for maintaining efficiency and competitiveness. Except for taxi loans, small business loans and consumer loans, no business originating units can singly approve any loan. Loans singly approved by business originating units are nevertheless still subject to approval criteria pre-set by Credit Risk Management Department or Credit Committee. Otherwise, the Group generally requires "Dual" approval whereby loan proposals shall require joint approval by the Business Line and Credit Function. Credit Function approvers also sit prominently in the Bank's Credit Committee, which approve all credit policies and large loans. Only the loan proposals approved by Credit Committee would be submitted to CEO signature if and where it is needed.

Credit Risk Management Department is the centralized department in the Bank mandated to carry out credit policies. It performs independent credit assessment, post-approval credit administration and other credit control functions to ensure that the credit process complies with credit policies and guidelines lay down by the management. Apart from the independent credit assessment and matrix approval process, regular credit audits are conducted on specific loan portfolio or operating units in the credit process. To maintain its independence, the Credit Risk Management Department of the Bank has a direct reporting line to a Deputy General Manager independent of business.

The management spares no efforts in monitoring the quality and behavior of the loan portfolio. The Group's internal credit risk grading system was first introduced in the last quarter of 2000 to track the health of the Group loan portfolio. A new 15-grade credit rating system built on Basel II – complaint attributes is adopted after the merger to align the two separate credit rating models of the two Banks that existed before the merger. With internal data being constantly enriched through years of experience, it is expected that the Group could make further use of the credit statistics to profile and track down credit risk migration, to measure loan default probabilities and to practise other credit risk management processes, of which the new credit rating model is substantially an integral part.

(b) Liquidity risk management

Liquidity risk is the risk that the Group cannot meet its financial obligations as and when they fall due. Liquidity risk management is therefore to ensure adequate cash flows to meet all financial obligations under both normal and contingency circumstances in a cost-effective manner and within regulatory requirements. To manage liquidity risk, the Group has established asset and liquidity management policies which are reviewed by the relevant functional committees, with prominent issues approved by the Board of Directors. Liquidity is also managed and forecast on a daily basis to enable Treasury and Markets ("T&M") and the relevant functional committee to act proactively according to changing market conditions and to implement contingency plans on a timely basis. Stress tests are regularly performed to assess contingent funding needs, for which corresponding remedial measures are planned. The Group continues to explore and diversify funding channels to capitalise on opportunities for the Group's business expansion. Concrete funding availability is proven from the parent company, ICBC in strengthening our liquidity capability. As at 30 June 2006, the Group has a total of approximately HKD10.5 billion certificates of deposit issued to secure longer term funding.

6 Risk management *(continued)*

(b) Liquidity risk management *(continued)*

The liquidity position remained affluent throughout the first half of 2006 with an average liquidity ratio at 42.7% (Average for the first half of 2005: 35.1%), which was well above the statutory requirement of 25%.

(c) Capital management

The Group manages its capital to execute its strategic business plans and support its growth and investments in an efficient way. The Group's capital base and capital ratio as at 30 June 2006 remained strong, with capital adequacy ratios well above the regulatory requirements. The Group's adjusted Tier 1 and total capital adequacy ratios were 9.5% and 17.8% respectively as at 30 June 2006. The Group adjusts its business and loan booking strategy from time to time to optimize its risk-return profile.

(d) Market risk management

Market risk is the risk that market rates and prices on assets, liabilities and off-balance sheet positions change, thus causing profits or losses. Generally, the Group's market risk is associated with its positions in foreign exchange, debt securities, derivatives and recently, stocks. Most off-balance sheet derivative positions arise from the execution of customer-related orders and positions taken for hedging purpose.

Market risk exposure for different types of transactions is managed within risk limits and guidelines approved by the management and the Asset and Liability Management Committee ("ALCO"), and for prominent issues, by the Board of Directors. Trading limits are increased for opportunities in the market. Exposures are measured and monitored against limits on positions, stop-loss, value-at-risk, sensitivity, delta, gamma, etc. Daily risk monitoring is carried out by an independent Middle Office Department, which ensures all dealing activities are conducted within approved limits. The Group's market risk exposures are reviewed by the ALCO and the Risk Management Committee. All exceptions to limits are reported to the ALCO. Stress tests are performed regularly to estimate the possible losses under extreme circumstances. The Group's Internal Audit Department also performs regular review and testing on dealing activities to ensure compliance with all internal guidelines.

Besides, various reputable treasury systems are being used to further strengthen the functions of control and monitoring, supplemented, as mentioned, by among others, predetermined stop loss limits to keep the risk of increased trading limits at bay.

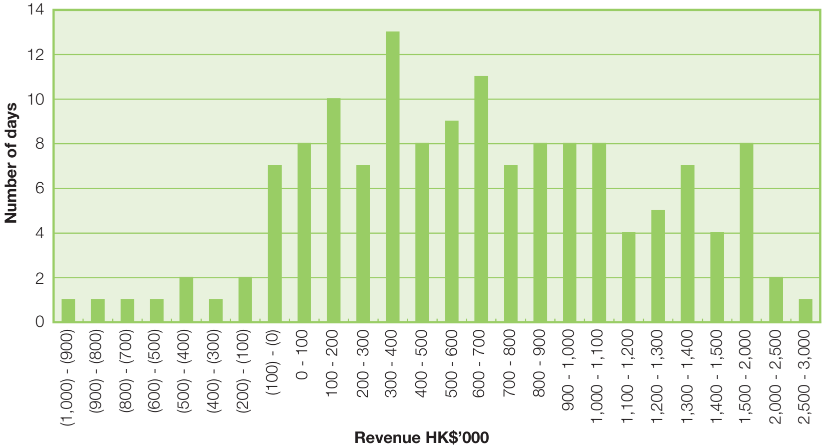
The average daily revenue earned from the Group's market risk related activities during the period ended 30 June 2006 was HK$650,612 (First half of 2005: HK$405,069) and the standard deviation for such daily revenue was HK$615,988 (First half of 2005: HK$646,488). The Group gradually increases its market risk activities to complement its conventional reliance on loan assets for revenue.

6 Risk management *(continued)*

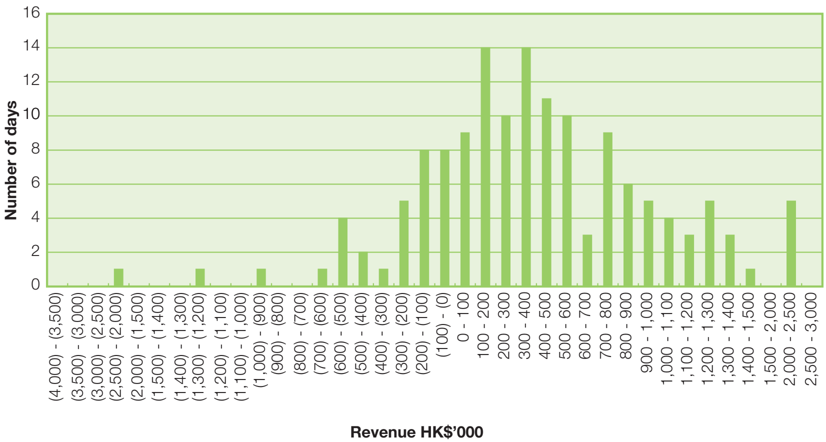
(d) Market risk management *(continued)*

The following histograms show the frequency distribution of daily revenues related to market risk activities of the Group for the six months end 30 June 2006 and 30 June 2005.

Six months period ended 30 June 2006



Six months period ended 30 June 2005



6 Risk management *(continued)*

(e) Interest rate risk management

Interest rate risk is the risk that the Group's position may be adversely affected by a change in market interest rates. Interest rate risk arises mainly from the maturity mismatch of interest bearing assets and liabilities and yield curve movement. Interest rate risk exposure is managed within risk limits approved and monitored by ALCO with the participation of the Middle Office Department.

The Group manages its interest rate risk by way of entering into on or off balance sheet interest risk hedging instruments. The effectiveness of the hedging activities is assessed regularly in accordance with the Hong Kong Accounting Standard 39. The Group's interest rate risk position is further regularly reported to and scrutinized by the Risk Management Committee.

Foreign currency funding used to fund Hong Kong dollar assets is normally hedged using currency swaps or forward exchange contracts to neutralize foreign exchange risk.

(f) Operational risk management

Operational risk is the risk of unexpected financial losses resulting from inadequate or failed internal processes, people, systems and from external events. It is inherent to every business organization and covers a wide spectrum of issues. Enhanced efforts in identifying and understanding the underlying operational risks in processes are taken. Such risk is mitigated through the implementation of comprehensive internal control systems, adequate insurance cover, offshore computer back-up sites and contingency plans with periodic drills. The Group's Internal Audit Department also plays an important role in detecting any deviations from operating procedures and identifying weaknesses at all operating levels independently and objectively. More active operational risk management practice will be pursed going forward in accordance with relevant Basel II guidelines and principles.

(g) Legal and compliance risk management

Legal and compliance risk is the prospective risk of legal and regulatory sanctions, financial loss, or reputation loss that the Group may suffer as a result for violations of, or non-compliance with, all applicable laws, regulations, internal policies with respect to the conduct of business.

Legal and compliance staff members advise the management on the legal and regulatory developments and assist them in establishing policies, procedures and monitoring program to ensure compliance with the legal and regulatory requirements. They conduct regular compliance checking so that the Group can identify any potential non-compliance issue and take remedial action on a timely basis. They also issue monthly bulletin and arrange training at least quarterly to enrich the knowledge of all staff in the legal and regulatory requirements. Furthermore, regular reports on non-compliance issue and the legal and regulatory developments are made to the Risk Management Committee.