



INDUSTRIAL AND COMMERCIAL BANK OF CHINA (ASIA) LIMITED

中國工商銀行（亞洲）有限公司

(Incorporated in Hong Kong with limited liability)

**INTERIM FINANCIAL DISCLOSURE STATEMENTS
FOR THE SIX MONTHS ENDED
30 JUNE 2012**

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INTERIM RESULTS AND FINANCIAL REVIEW

The Board of Directors (the “Board”) of Industrial and Commercial Bank of China (Asia) Limited (the “Bank” or “ICBC (Asia)”) is pleased to present the interim financial disclosure statements of the Bank and its subsidiaries (the “Group”) for the six months ended 30 June 2012. The consolidated income statement, consolidated statement of comprehensive income, condensed consolidated statement of cash flows and consolidated statement of changes in equity of the Group for the six months ended 30 June 2012, and the consolidated statement of financial position as at 30 June 2012 of the Group, all of which are unaudited, along with selected explanatory notes are set out on pages 4 to 47 of these interim financial disclosure statements.

Interim Results

The Board of Directors is pleased to announce that the unaudited consolidated profit attributable to the equity holders of the Bank for the six months ended 30 June 2012 was HK\$1,984 million. This represents a 29% increase over the same period last year (first half of 2011: HK\$1,539 million). Basic earnings per share for the six months ended 30 June 2012 were HK\$1.15 (first half of 2011: HK\$1.14). Return on average assets and return on average equity were 0.96% and 13.04% respectively (first half of 2011: 1.0% and 14.8% respectively).

Interim Dividend

The Board has not recommended the payment of any interim dividend for the six months ended 30 June 2012 (2011 interim dividend: Nil).

Financial Review

In the first half of 2012, the Group achieved satisfactory results. Consolidated profit attributable to equity holders was HK\$1,984 million, representing an increase of HK\$445 million or 29% over HK\$1,539 million achieved for the corresponding period in 2011.

Net interest income increased HK\$572 million or 26% to HK\$2,802 million. Net fee and commission income increased HK\$145 million or 31% to HK\$613 million.

Non-interest income decreased HK\$36 million or 5% to HK\$654 million from HK\$690 million for the corresponding period in 2011. The ratio of non-interest income to total operating income was 19%, down 5 percentage points compared with 24% for the corresponding period in 2011.

Operating expenses increased by HK\$196 million or 25% to HK\$968 million, as compared to HK\$772 million for the corresponding period in 2011. The cost to income ratio was 28.0%, up 1.6 percentage points compared with the corresponding period in 2011.

The impairment losses on loans and advances for the period were HK\$188 million, out of which HK\$75 million was made as additional provision for individual assessment and HK\$113 million was made as additional provision for collective assessment.

Statement of Financial Position

The total assets of the Group amounted to HK\$424,808 million as at 30 June 2012, representing an increase of HK\$19,850 million or 5% over the financial position as at 31 December 2011.

INTERIM RESULTS AND FINANCIAL REVIEW

Customer deposits amounted to HK\$262,018 million as at 30 June 2012, representing an decrease of HK\$604 million or 0.2%, compared to HK\$262,622 million as at 31 December 2011. Loans and advances increased by HK\$49,392 million or 21% to HK\$286,881 million as at 30 June 2012, as compared to HK\$237,489 million as at 31 December 2011.

Total securities investment amounted to HK\$36,123 million as at 30 June 2012, which represents a decrease of HK\$2,266 million or 5.9% as compared to HK\$38,389 million as at 31 December 2011.

Total certificates of deposit issued increased HK\$9,751 million or 27% to HK\$45,935 million as at 30 June 2012, as compared to HK\$36,184 million as at 31 December 2011.

Capital and Liquidity Management

The Group's capital adequacy ratio decreased to 14.7% as at 30 June 2012 from 15.9% as at 31 December 2011. The average liquidity ratio amounted to 48.1% (average for the first half of 2011: 40.8%).

Asset Quality

Impaired loans and advances increased by HK\$64 million to HK\$1,313 million as at 30 June 2012, as compared to HK\$1,249 million as at 31 December 2011. The impaired loan ratio was 0.46% as at 30 June 2012 (31 December 2011: 0.52%).

As at 30 June 2012, the cumulative loan impairment allowances amounted to HK\$1,734 million (31 December 2011: HK\$1,565 million), which included HK\$827 million (31 December 2011: HK\$769 million) of individual impairment allowance and HK\$907 million (31 December 2011: HK\$796 million) of collective impairment allowance.

Hong Kong, 28 August 2012

**CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2012
(UNAUDITED)**

	Notes	Six months ended		Change %
		30 Jun 2012 HK\$'000	30 Jun 2011 HK\$'000	
Interest income	(6)	5,785,216	3,657,003	58%
Interest expense	(6)	(2,982,777)	(1,426,939)	109%
Net interest income	(6)	2,802,439	2,230,064	26%
Fee and commission income	(7)	744,809	561,344	33%
Fee and commission expense	(7)	(131,720)	(93,570)	41%
Net fee and commission income	(7)	613,089	467,774	31%
Net trading income	(8)	30,181	230,387	-87%
Net loss on financial assets and liabilities designated at fair value through profit or loss	(9)	(2,851)	(21,696)	-87%
Dividend income from financial investments	(10)	4,738	4,204	13%
Other operating income	(11)	8,945	9,615	-7%
Operating income		3,456,541	2,920,348	18%
Operating expenses	(12)	(968,431)	(771,742)	25%
Operating profit before impairment losses		2,488,110	2,148,606	16%
Charge for impairment losses on loans and advances	(13)	(188,384)	(244,835)	-23%
Operating profit after impairment losses		2,299,726	1,903,771	21%
Revaluation gain on investment properties		8,600	1,500	473%
Net loss from disposal/reversal of revaluation deficits of property, plant and equipment		(6,927)	(281)	2365%
Net gain on disposal of available-for-sale financial investments		196,226	12,158	1514%
Gain on disposal of loans and advances		111	—	—
Operating profit		2,497,736	1,917,148	30%
Share of profit of an associate		8,868	10,381	-15%
Profit before tax		2,506,604	1,927,529	30%
Income tax expense	(14)	(523,001)	(388,034)	35%
Profit for the period and attributable to equity holders of the Bank		1,983,603	1,539,495	29%
Earnings per share — Basic and diluted	(16)	HK\$1.15	HK\$1.14	1%

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2012
(UNAUDITED)**

	<u>Six months ended</u>		Change %
	30 Jun 2012	30 Jun 2011	
	HK\$'000	HK\$'000	
Profit for the period	<u>1,983,603</u>	<u>1,539,495</u>	29%
Revaluation surplus on bank premises	19,590	15,866	23%
Income tax effect	<u>(3,232)</u>	<u>(2,618)</u>	23%
	16,358	13,248	23%
Change of fair value of hedging instruments under cash flow hedges	121,643	110,193	10%
Income tax effect	<u>(20,071)</u>	<u>(18,182)</u>	10%
	101,572	92,011	10%
Change in fair value reserve of available-for-sale financial investments	546,100	(134,031)	507%
Income tax effect	<u>(88,097)</u>	<u>21,578</u>	508%
	458,003	(112,453)	507%
Exchange differences arising from translation of results of a foreign subsidiary	<u>(11,366)</u>	<u>59,090</u>	-119%
Other comprehensive income for the period, net of tax	<u>564,567</u>	<u>51,896</u>	988%
Total comprehensive income for the period, net of tax	<u>2,548,170</u>	<u>1,591,391</u>	60%
Attributable to:			
Equity holders of the Bank	<u>2,548,170</u>	<u>1,591,391</u>	60%

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012**

		Unaudited 30 Jun 2012	Audited 31 Dec 2011	Change %	Unaudited 30 Jun 2011	Change %
	Notes	HK\$'000	HK\$'000		HK\$'000	
Assets						
Cash and balances with banks and other financial institutions	(17)	69,356,776	112,115,295	-38%	85,010,160	-18%
Placements with and advances to banks and other financial institutions	(18)	21,458,664	9,860,804	118%	8,765,629	145%
Financial assets held for trading	(19)	285,960	242,388	18%	246,898	16%
Financial assets designated at fair value through profit or loss	(20)	526,987	709,231	-26%	725,555	-27%
Derivative financial instruments	(21)	2,553,141	2,076,533	23%	1,480,488	72%
Loans and advances to customers, banks and other financial institutions	(22)	286,880,617	237,488,676	21%	222,018,503	29%
Financial investments:		35,309,619	37,437,648	-6%	40,401,343	-13%
- Available-for-sale	(23)	34,145,733	36,273,409	-6%	39,238,330	-13%
- Held-to-maturity	(24)	1,163,886	1,164,239	0%	1,163,013	0%
Investment in an associate		222,535	213,667	4%	203,368	9%
Goodwill and other intangible assets		1,045,272	1,017,478	3%	1,016,918	3%
Investment properties	(25)	67,091	75,816	-12%	55,265	21%
Property, plant and equipment	(26)	631,375	593,494	6%	518,887	22%
Deferred income tax assets	(29)	—	3,954	-100%	6,040	-100%
Other assets	(27)	6,469,681	3,123,368	107%	2,645,200	145%
Total assets		<u>424,807,718</u>	<u>404,958,352</u>	5%	<u>363,094,254</u>	17%
Liabilities						
Deposits from banks and other financial institutions		58,702,156	54,370,925	8%	77,880,389	-25%
Derivative financial instruments	(21)	2,408,258	2,174,582	11%	1,897,650	27%
Deposits from customers at amortised cost	(28)	262,018,005	262,622,063	0%	219,674,719	19%
Certificates of deposit issued		45,934,609	36,183,629	27%	27,347,031	68%
- Designated at fair value through profit or loss		—	77,818	-100%	880,047	-100%
- At amortised cost		45,934,609	36,105,811	27%	26,466,984	74%
Debt securities in issue measured at amortised cost		7,642,973	5,573,444	37%	1,444,417	429%
Current income tax liabilities		649,305	398,457	63%	531,955	22%
Deferred income tax liabilities	(29)	116,769	13,456	768%	91,708	27%
Subordinated debts measured at amortised cost	(30)	11,324,631	11,356,698	0%	9,530,883	19%
Other liabilities	(31)	4,381,370	3,183,626	38%	2,955,280	48%
Total liabilities		<u>393,178,076</u>	<u>375,876,880</u>	5%	<u>341,354,032</u>	15%
Equity						
Share capital	(32)	3,462,830	3,462,830	0%	2,704,123	28%
Retained earnings		11,447,675	9,692,599	18%	8,217,757	39%
Other reserves		16,719,137	15,926,043	5%	10,818,342	55%
Total equity		<u>31,629,642</u>	<u>29,081,472</u>	9%	<u>21,740,222</u>	45%
Total equity and liabilities		<u>424,807,718</u>	<u>404,958,352</u>	5%	<u>363,094,254</u>	17%

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2012
(UNAUDITED)**

Note	Bank								Total
	Share capital	Ordinary share premium	Bank premises revaluation reserve	Investment revaluation reserve	Cash flow hedge reserve	Exchange reserve	General reserve	Retained earnings	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2012	3,462,830	14,529,002	292,919	(265,723)	219,928	353,016	796,901	9,692,599	29,081,472
Profit for the period	—	—	—	—	—	—	—	1,983,603	1,983,603
Other comprehensive income for the period:									
Change in fair value of available-for-sale financial investments	—	—	—	445,842	—	—	—	—	445,842
Reserve realised on disposal of available-for-sale financial investments	—	—	—	100,258	—	—	—	—	100,258
Changes in fair value of cash flow hedge	—	—	—	—	121,643	—	—	—	121,643
Revaluation surplus on bank premises	—	—	19,590	—	—	—	—	—	19,590
Change in deferred tax	(29)	—	(3,232)	(88,097)	(20,071)	—	—	—	(111,400)
Exchange differences	—	—	—	—	—	(11,367)	1	—	(11,366)
Partial transfer of retained earnings to general reserve	—	—	—	—	—	—	228,527	(228,527)	—
Total comprehensive income for the period	—	—	16,358	458,003	101,572	(11,367)	228,528	1,755,076	2,548,170
At 30 June 2012	<u>3,462,830</u>	<u>14,529,002</u>	<u>309,277</u>	<u>192,280</u>	<u>321,500</u>	<u>341,649</u>	<u>1,025,429</u>	<u>11,447,675</u>	<u>31,629,642</u>

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

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

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2012
(UNAUDITED)**

	Six months ended	
	30 Jun 2012	30 Jun 2011
	HK\$'000	HK\$'000
Net cash flows (used in)/from operating activities	(39,433,694)	49,273,882
Net cash flows used in investing activities	(59,236)	(29,417)
Net cash flows from financing activities	1,810,565	1,243,986
Effects of foreign exchange differences	<u>64,051</u>	<u>74,477</u>
Net (decrease)/increase in cash and cash equivalents	(37,618,314)	50,562,928
Cash and cash equivalents at 1 January	<u>111,942,389</u>	<u>36,084,706</u>
Cash and cash equivalents at 30 June	<u><u>74,324,075</u></u>	<u><u>86,647,634</u></u>

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

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

	30 Jun 2012	30 Jun 2011
	HK\$'000	HK\$'000
Cash and balances with banks and other financial institutions	11,416,292	29,261,361
Placements with banks and other financial institutions	<u>62,907,783</u>	<u>57,386,273</u>
	<u><u>74,324,075</u></u>	<u><u>86,647,634</u></u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

1 Principal activities

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

2.1 Basis of preparation

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

The unaudited interim financial disclosure statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at 31 December 2011.

The preparation of unaudited interim financial disclosure statements requires management to exercise its judgement and make estimates and assumptions in the process of applying the Group’s accounting policies and reporting amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. The significant judgements made by management were the same as those applied to the annual financial statements for the year ended 31 December 2011.

2.2 Basis of consolidation

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

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

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

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

3.1 Impact of new/revised Hong Kong Financial Reporting Standards (“HKFRSs”)

The accounting policies adopted in the preparation of the interim financial disclosure statements are consistent with those used in the preparation of the Group’s audited financial statements for the year ended 31 December 2011 except for the adoption of the following HKFRSs and HKASs issued up to 30 June 2012 which are pertinent to the Group’s operations and relevant to these interim financial disclosure statements.

HKAS 12 Amendments	<i>Amendments to HKAS 12 Income Taxes Deferred Tax Recovery of Underlying Assets</i>
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HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis.

The Group has applied the amendments in the interim financial statements and will be adopted in the annual financial statements for year end 2012.

Since the Group neither recognises deferred tax assets/liabilities on its investment properties; nor has any non-depreciable property, plant and equipment, this amendment does not have material effect on the financial position or performance of the Group.

Apart from the above, HKFRS 1 Amendments and HKFRS 7 Amendments are effective for the reporting period. However, none of these amendments have a material financial impact on the Group.

3.2 Issued but not yet effective HKFRSs

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

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Analysis of assets and liabilities by remaining maturity

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

At 30 June 2012	Repayable on demand HK\$'000	Up to 1 month HK\$'000	1-3 months HK\$'000	3-12 months HK\$'000	1-5 years HK\$'000	Over 5 years HK\$'000	Indefinite HK\$'000	Total HK\$'000
Assets								
Cash and balances with banks and other financial institutions	4,872,414	57,940,484	—	—	—	—	6,543,878	69,356,776
Placements with and advances to banks and other financial institutions	—	—	12,548,502	8,910,162	—	—	—	21,458,664
Financial assets held for trading	—	—	—	25	53,788	6,939	225,208	285,960
Financial assets designated at fair value through profit or loss	—	—	—	103,550	423,437	—	—	526,987
Derivative financial instruments	153,456	149,560	394,484	667,295	420,826	767,520	—	2,553,141
Loans and advances to customers, banks and other financial institutions	39,156,404	21,865,136	58,758,464	67,796,584	66,426,221	32,877,808	—	286,880,617
Available-for-sale financial investments	—	1,851,680	1,423,014	6,432,328	21,674,779	2,335,048	428,884	34,145,733
Held-to-maturity financial investments	—	—	—	1,163,886	—	—	—	1,163,886
Investment in an associate	—	—	—	—	—	—	222,535	222,535
Goodwill and other intangible assets	—	—	—	—	—	—	1,045,272	1,045,272
Investment properties	—	—	—	—	—	—	67,091	67,091
Property, plant and equipment	—	—	—	—	—	—	631,375	631,375
Other assets	12,707	3,885,961	164,759	1,288,072	211,082	—	907,100	6,469,681
Total assets	44,194,981	85,692,821	73,289,223	86,361,902	89,210,133	35,987,315	10,071,343	424,807,718
Liabilities								
Deposits from banks and other financial institutions	7,340,964	27,438,175	16,456,532	7,000,974	465,511	—	—	58,702,156
Derivative financial instruments	28,197	126,955	396,564	738,730	615,483	502,329	—	2,408,258
Deposits from customers	71,129,326	79,838,071	50,366,440	57,136,305	3,545,655	2,208	—	262,018,005
Certificates of deposit issued	—	3,253,538	8,579,834	32,581,016	1,520,221	—	—	45,934,609
Debt securities in issue measured at amortised cost	—	2,708,048	2,441,506	1,893,419	600,000	—	—	7,642,973
Subordinated debts measured at amortised cost	—	—	—	1,000,000	6,473,329	3,851,302	—	11,324,631
Other liabilities, including current and deferred tax liabilities	701,630	726,069	2,312,486	1,155,332	129,892	—	122,035	5,147,444
Total liabilities	79,200,117	114,090,856	80,553,362	101,505,776	13,350,091	4,355,839	122,035	393,178,076
Net liquidity gap	(35,005,136)	(28,398,035)	(7,264,139)	(15,143,874)	75,860,042	31,631,476	9,949,308	31,629,642

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

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

	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Total
At 31 December 2011	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets								
Cash and balances with banks and other financial institutions	39,246,439	67,587,149	—	—	—	—	5,281,707	112,115,295
Placements with and advances to banks and other financial institutions	—	—	4,515,467	5,345,337	—	—	—	9,860,804
Financial assets held for trading	—	—	—	25	54,525	6,802	181,036	242,388
Financial assets designated at fair value through profit or loss	—	—	—	180,469	528,762	—	—	709,231
Derivative financial instruments	170,723	220,175	273,238	407,425	429,041	575,931	—	2,076,533
Loans and advances to customers, banks and other financial institutions	26,549,181	13,007,731	35,903,978	64,269,111	66,730,677	31,027,998	—	237,488,676
Available-for-sale financial investments	—	1,584,608	1,978,697	7,127,751	24,037,377	986,831	558,145	36,273,409
Held-to-maturity financial investments	—	—	699,584	464,655	—	—	—	1,164,239
Investment in an associate	—	—	—	—	—	—	213,667	213,667
Goodwill and other intangible assets	—	—	—	—	—	—	1,017,478	1,017,478
Investment properties	—	—	—	—	—	—	75,816	75,816
Property, plant and equipment	—	—	—	—	—	—	593,494	593,494
Other assets, including deferred tax assets	25,281	779,969	218,655	813,281	185,529	—	1,104,607	3,127,322
Total assets	65,991,624	83,179,632	43,589,619	78,608,054	91,965,911	32,597,562	9,025,950	404,958,352
Liabilities								
Deposits from banks and other financial institutions	5,056,658	31,601,411	7,262,290	9,984,236	466,330	—	—	54,370,925
Derivative financial instruments	12,269	305,260	228,873	440,809	789,767	397,604	—	2,174,582
Deposits from customers	77,873,063	88,863,846	49,190,953	43,237,651	3,456,550	—	—	262,622,063
Certificates of deposit issued	—	4,901,235	12,000,565	13,632,780	5,649,049	—	—	36,183,629
Debt securities in issue	—	10,820	591,149	4,371,475	600,000	—	—	5,573,444
Subordinated debts measured at amortised cost	—	—	—	1,000,000	6,500,518	3,856,180	—	11,356,698
Other liabilities, including current and deferred tax liabilities	114,595	497,468	790,468	1,951,507	241,267	—	234	3,595,539
Total liabilities	83,056,585	126,180,040	70,064,298	74,618,458	17,703,481	4,253,784	234	375,876,880
Net liquidity gap	(17,064,961)	(43,000,408)	(26,474,679)	3,989,596	74,262,430	28,343,778	9,025,716	29,081,472

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

5 Segment reporting

(a) Class of business

The Group comprises seven operating segments. Commercial banking represents commercial lending and trade financing. Retail banking represents retail banking, hire purchase and leasing, and credit card business. Global markets and trading represents foreign exchange, money market and capital market activities. Corporate and investment banking mainly comprises corporate banking, the provision of debt capital market and investment banking. Institutional banking represents financial institution business. Chinese Mercantile Bank represents the business of the Bank's subsidiary in Mainland China. Unallocated items mainly comprise the central management unit, bank premises, inter-segment elimination entries and any items which cannot be reasonably allocated to specific operating segments.

	Corporate and investment banking HK\$'000	Commercial banking HK\$'000	Retail banking HK\$'000	Global markets and trading HK\$'000	Institutional banking HK\$'000	Chinese Mercantile Bank HK\$'000	Unallocated HK\$'000	Total HK\$'000
30 June 2012								
Net interest income	497,651	923,125	281,998	240,652	138,303	607,626	113,084	2,802,439
Fee and commission income	111,964	193,588	198,348	3	103,715	130,078	7,113	744,809
Fee and commission expense	(37,528)	(16,563)	(76,993)	—	—	(406)	(230)	(131,720)
Net fee and commission income	74,436	177,025	121,355	3	103,715	129,672	6,883	613,089
Net trading income/(expense)	17,307	107,174	21,666	(144,260)	3,311	3,455	21,528	30,181
Net loss on financial assets and liabilities designated at fair value through profit or loss	—	—	—	(2,851)	—	—	—	(2,851)
Dividend income from financial investments	—	—	—	—	—	—	4,738	4,738
Other operating income	1,511	1	120	338	—	1,380	5,595	8,945
Operating income	590,905	1,207,325	425,139	93,882	245,329	742,133	151,828	3,456,541
Operating expenses	(68,248)	(209,403)	(378,224)	(91,381)	(36,985)	(172,960)	(11,230)	(968,431)
Operating profit before impairment losses	522,657	997,922	46,915	2,501	208,344	569,173	140,598	2,488,110
Charge for impairment losses on loans and advances	(33,069)	(10,511)	(9,936)	(31)	(22,278)	(111,315)	(1,244)	(188,384)
Operating profit after impairment losses	489,588	987,411	36,979	2,470	186,066	457,858	139,354	2,299,726
Revaluation gain on investment properties	—	—	—	—	—	—	8,600	8,600
Net loss from disposal/reversal of revaluation deficits of property, plant and equipment	(1)	—	(3,656)	—	—	(11)	(3,259)	(6,927)
Net (loss)/gain on disposal of available-for-sale financial investments	—	—	—	(143,802)	—	—	340,028	196,226
Gain on disposal of loans and advances	—	111	—	—	—	—	—	111
Operating profit/(loss)	489,587	987,522	33,323	(141,332)	186,066	457,847	484,723	2,497,736
Share of profit of an associate	—	—	—	—	—	—	8,868	8,868
Profit/(loss) before tax	489,587	987,522	33,323	(141,332)	186,066	457,847	493,591	2,506,604
Segment assets	75,703,043	123,278,579	31,275,001	107,480,011	27,547,801	75,144,157	(18,624,538)	421,804,054
Investment in an associate	—	—	—	—	—	—	222,535	222,535
Unallocated assets	—	—	—	—	—	—	2,781,129	2,781,129
Total assets	75,703,043	123,278,579	31,275,001	107,480,011	27,547,801	75,144,157	(15,620,874)	424,807,718
Segment liabilities	52,125,310	82,314,700	73,467,967	49,697,450	26,599,380	69,588,362	(22,384,747)	331,408,422
Unallocated liabilities	—	—	—	—	—	—	61,769,654	61,769,654
Total liabilities	52,125,310	82,314,700	73,467,967	49,697,450	26,599,380	69,588,362	39,384,907	393,178,076
Capital expenditure	28	181	16,316	427	29	17,498	49,321	83,800
Depreciation and amortisation charges	128	497	14,323	575	49	12,104	11,377	39,053

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

5 Segment reporting (continued)

(a) Class of business (continued)

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

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

5 Segment reporting (continued)

(b) Geographical area

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

For the six months ended 30 June 2012

	Hong Kong HK\$'000	Asia Pacific (excluding Hong Kong) HK\$'000	Consolidated HK\$'000
Operating income (net of interest expense)	2,533,223	923,318	3,456,541
Profit before tax	1,866,704	639,900	2,506,604
Total assets	349,666,980	75,140,738	424,807,718
Total liabilities	323,593,397	69,584,679	393,178,076
Contingent liabilities and commitments	117,666,809	9,198,042	126,864,851
Capital expenditure during the period	66,302	17,498	83,800

For the six months ended 30 June 2011

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

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

6 Net interest income

	30 Jun 2012 HK\$'000	30 Jun 2011 HK\$'000
Interest income on:		
Cash and balances with banks and other financial institutions	387,765	197,437
Placements with and advances to banks and other financial institutions	571,612	103,691
Loans and advances to customers, banks and other financial institutions	4,260,318	2,805,682
Financial investments — available-for-sale	544,387	527,581
Financial investments — held-to-maturity	1,037	1,322
	<u>5,765,119</u>	<u>3,635,713</u>
Financial assets held for trading	925	719
Financial assets designated at fair value through profit or loss	19,172	20,571
	<u>5,785,216</u>	<u>3,657,003</u>
Interest expense on:		
Deposits from banks and other financial institutions	306,972	332,956
Deposits from customers	2,080,113	823,467
Certificates of deposit issued	314,330	91,271
Debt securities in issue measured at amortised cost	75,228	7,144
Subordinated debts measured at amortised cost	189,194	127,389
Others	16,763	36,872
	<u>2,982,600</u>	<u>1,419,099</u>
Financial liabilities designated at fair value through profit or loss	177	7,840
	<u>2,982,777</u>	<u>1,426,939</u>
Net interest income	<u>2,802,439</u>	<u>2,230,064</u>

Included in the above is interest income accrued on impaired financial assets of HK\$21,840,206 (First half of 2011: HK\$17,378,830), including unwinding of discounts on loan impairment losses of HK\$14,186,919 (First half of 2011: HK\$15,687,904).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

7 Net fee and commission income

	30 Jun 2012	30 Jun 2011
	HK\$'000	HK\$'000
Loans, overdrafts and guarantees	266,095	182,484
Securities and brokerage	63,346	82,791
Trade finance	204,893	156,314
Credit cards	83,734	64,037
Remittance	30,573	17,040
Insurance	12,328	14,280
Other retail and commercial banking services	8,255	19,944
Securities arrangement fee	29,260	6,733
Others	46,325	17,721
	<hr/>	<hr/>
Fee and commission income	744,809	561,344
Fee and commission expense	(131,720)	(93,570)
	<hr/>	<hr/>
Net fee and commission income	613,089	467,774
	<hr/> <hr/>	<hr/> <hr/>

Of which:

Net fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are neither held for trading nor designated at fair value through profit or loss	470,988	338,798
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Net fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	17,979	5,397
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30 Jun 2012	30 Jun 2011
HK\$'000	HK\$'000

Of which:

Fee and commission income by product line constituting not less than 10% of the total amount of fee and commission income:		
- syndication loan	134,782	120,973
- bill refinancing	115,222	76,973
- credit card	83,734	64,037
- securities and brokerage	63,346	82,791

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

8 Net trading income

	30 Jun 2012	30 Jun 2011
	HK\$'000	HK\$'000
Equity investments	21,549	26,633
Debt securities — financial assets held for trading	2,289	2,241
— available-for-sale financial investments	(28,930)	(3,453)
Derivatives	(38,187)	(2,925)
Foreign exchange	73,092	210,074
	29,813	232,570
Gain/(loss) from hedging activities		
Fair value hedges		
- Net (loss)/gain on hedged items attributable to the hedged risk	(21,332)	23,825
- Net gain/(loss) on hedging instruments	21,700	(26,008)
	368	(2,183)
Total net trading income	30,181	230,387

There is no trading income on the gain of financial liabilities measured at amortised cost for first half of 2012 (First half of 2011: Nil).

9 Net loss on financial assets and liabilities designated at fair value through profit or loss

	30 Jun 2012	30 Jun 2011
	HK\$'000	HK\$'000
Financial assets designated at fair value through profit or loss	(2,851)	(26,503)
Financial liabilities designated at fair value through profit or loss	—	4,807
Total net loss on financial assets and liabilities designated at fair value through profit or loss	(2,851)	(21,696)

10 Dividend income from financial investments

	30 Jun 2012	30 Jun 2011
	HK\$'000	HK\$'000
Dividend income from listed financial assets held for trading	1,188	—
Dividend income from listed available-for-sale financial investments	—	2,206
Dividend income from unlisted available-for-sale financial investments	3,550	1,998
Total dividend income from financial investments	4,738	4,204

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

11 Other operating income

	30 Jun 2012 HK\$'000	30 Jun 2011 HK\$'000
Management fee income	3,000	3,625
Rental income	15	14
Rental income from investment properties	1,268	1,158
Less: Direct operating expenses arising from investment properties that generated rental income during the period	(104)	(73)
Others	<u>4,766</u>	<u>4,891</u>
Total other operating income	<u><u>8,945</u></u>	<u><u>9,615</u></u>

12 Operating expenses

	30 Jun 2012 HK\$'000	30 Jun 2011 HK\$'000
Staff costs		
- Salaries and other costs	503,277	396,000
- Retirement benefit costs	<u>22,465</u>	<u>19,590</u>
	<u>525,742</u>	<u>415,590</u>
Premises and equipment expenses, excluding depreciation and amortisation		
- Rental of premises	164,310	133,369
- Others	<u>41,676</u>	<u>41,909</u>
	<u>205,986</u>	<u>175,278</u>
Depreciation and amortisation expenses	39,053	33,142
Auditors' remuneration	2,980	2,762
General administration expenses	23,427	23,891
Business promotion expenses	31,073	17,194
Communication expenses	24,871	21,345
Other operating expenses	<u>115,299</u>	<u>82,540</u>
Total operating expenses	<u><u>968,431</u></u>	<u><u>771,742</u></u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

13 Charge for impairment losses on loans and advances

	30 Jun 2012 HK\$'000	30 Jun 2011 HK\$'000
Charge for impairment losses on loans and advances		
Individually assessed		
- New allowances	90,114	110,455
- Releases	(13,448)	(27,136)
- Recoveries	(1,407)	(3,516)
Net charge for impairment losses on individually assessed loans and advances	<u>75,259</u>	<u>79,803</u>
Collectively assessed		
- New allowances	113,125	169,938
- Releases	—	(4,906)
Net charge for impairment losses on collectively assessed loans and advances	<u>113,125</u>	<u>165,032</u>
Net charge to the income statement	<u><u>188,384</u></u>	<u><u>244,835</u></u>

14 Tax

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable for overseas subsidiaries have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

	30 Jun 2012 HK\$'000	30 Jun 2011 HK\$'000
Current tax — Hong Kong profits tax for the period	253,713	281,027
— Overseas tax for the period	268,338	134,448
Underprovision in respect of prior years	1,162	769
Deferred taxation relating to the origination and reversal of temporary differences	<u>(212)</u>	<u>(28,210)</u>
	<u><u>523,001</u></u>	<u><u>388,034</u></u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

14 Tax (continued)

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

	30 Jun 2012	30 Jun 2011
	HK\$'000	HK\$'000
Profit before tax	2,506,604	1,927,529
Calculated at a tax rate of 16.5% (2011: 16.5%)	413,590	318,042
Effect of different tax rates in other countries	166,627	88,694
Income not subject to tax	(62,401)	(34,913)
Expenses not deductible for tax purposes	5,486	17,327
Adjustments in respect of current tax of previous periods	1,219	769
Share of tax of an associate	(1,463)	(1,713)
Taxation of partnership	(57)	(172)
Tax charge	<u>523,001</u>	<u>388,034</u>

15 Interim dividend

At a meeting held on 28 August 2012, the Board has not recommended the payment of any interim dividend for the six months ended 30 June 2012 (First half of 2011: Nil).

16 Earnings per share

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

	30 Jun 2012	30 Jun 2011
Profit attributable to equity holders of the Bank (HK\$'000)	1,983,603	1,539,495
Weighted average number of ordinary shares in issue (thousands)	1,731,415	1,352,062
Basic earnings per share (HK\$)	<u>1.15</u>	<u>1.14</u>

Diluted earnings per share amount for the periods ended 30 June 2012 and 30 June 2011 were the same as basic earnings per share, as the Group had no potential dilutive ordinary shares in issue during those periods.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

17 Cash and balances with banks and other financial institutions

	30 Jun 2012	31 Dec 2011
	HK\$'000	HK\$'000
Cash on hand	399,742	508,873
Balances with central banks	6,961,861	23,208,894
Balances with other banks and financial institutions	4,054,689	20,810,374
Placements with banks and other financial institutions maturing within one month	<u>57,940,484</u>	<u>67,587,154</u>
	<u>69,356,776</u>	<u>112,115,295</u>

18 Placements with and advances to banks and other financial institutions

	30 Jun 2012	31 Dec 2011
	HK\$'000	HK\$'000
Placements with and advances to banks and other financial institutions maturing between one and twelve months	<u>21,458,664</u>	<u>9,860,804</u>

In respect of reverse repurchase transactions, the fair value of collateral held by the Group which were permitted to be sold or repledged amounted to HK\$6,418,514,000 (The amount of the Reverse Repo) as at 30 June 2012 (31 December 2011: HK\$1,466,819,000). No collateral has been actually sold or repledged by the Group as at 30 June 2012 and 31 December 2011. The transactions are conducted on terms that are usual and customary to standard lending activities.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

19 Financial assets held for trading

	30 Jun 2012	31 Dec 2011
	HK\$'000	HK\$'000
Debt securities, at fair value:		
Listed in Hong Kong	34,969	35,156
Unlisted	25,783	26,196
	<u>60,752</u>	<u>61,352</u>
Equity securities, at fair value:		
Listed in Hong Kong	178,183	181,036
Unlisted	47,025	—
	<u>225,208</u>	<u>181,036</u>
Total financial assets held for trading	<u>285,960</u>	<u>242,388</u>
Financial assets held for trading comprise the following items:		
Other debt securities	60,752	61,352
Equity securities	225,208	181,036
	<u>285,960</u>	<u>242,388</u>
Financial assets held for trading are analysed by category of issuer as follows:		
Central governments and central banks	25	25
Banks and other financial institutions	250,966	207,207
Corporate entities	34,969	35,156
	<u>285,960</u>	<u>242,388</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

20 Financial assets designated at fair value through profit or loss

	30 Jun 2012 HK\$'000	31 Dec 2011 HK\$'000
Debt securities, at fair value:		
Listed in Hong Kong	81,562	80,629
Listed outside Hong Kong	261,011	443,067
Unlisted	<u>184,414</u>	<u>185,535</u>
Total financial assets designated at fair value through profit or loss	<u>526,987</u>	<u>709,231</u>
Financial assets designated at fair value through profit or loss comprise the following item:		
Other debt securities	<u>526,987</u>	<u>709,231</u>
Financial assets designated at fair value through profit or loss are analysed by category of issuer as follows:		
Public sector entities	121,929	123,234
Banks and other financial institutions	—	180,469
Corporate entities	<u>405,058</u>	<u>405,528</u>
	<u>526,987</u>	<u>709,231</u>

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

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

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

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

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

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

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

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

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

21 Derivative financial instruments (continued)

The following tables summarise the contractual/notional amounts of each significant type of derivative financial instrument as at 30 June 2012 and 31 December 2011:

As at 30 June 2012	Contractual/ notional amount HK\$'000	Fair value assets HK\$'000	Fair value liabilities HK\$'000
1) Derivatives held for trading			
a) Foreign exchange derivatives			
- Currency forwards	267,002,602	1,313,206	(1,162,122)
- OTC currency options purchased	16,189,536	187,496	—
- OTC currency options written	16,630,200	—	(174,345)
- Structured foreign exchange instruments	557,256	28,230	(28,230)
Total foreign exchange derivatives		1,528,932	(1,364,697)
b) Interest rate derivatives			
- Interest rate swaps	40,531,360	532,653	(509,001)
- Quanto swaps	12,016,961	5,071	—
- Interest rate futures	864,772	10	(73)
Total interest rate derivatives		537,734	(509,074)
c) Equity derivatives			
- Equity options	41,134	386	(386)
Total equity derivatives		386	(386)
Total derivative assets/(liabilities) held for trading		2,067,052	(1,874,157)
2) Derivatives held for hedging			
a) Derivatives designated as fair value hedges			
- Interest rate swaps	6,594,968	—	(371,587)
- Cross currency swaps	544,615	10,986	(30,804)
		10,986	(402,391)
b) Derivatives designated as cash flow hedges			
- Interest rate swaps	8,103,314	474,916	(91,653)
- Cross currency swaps	—	—	—
		474,916	(91,653)
Total derivative assets/(liabilities) held for hedging		485,902	(494,044)
3) Derivatives not qualified as hedges for accounting purposes but which are managed in conjunction with the financial instruments designated at fair value through profit or loss			
- Interest rate swaps	867,824	187	(40,057)
Total derivative assets/(liabilities) not qualified as hedges		187	(40,057)
Total recognised derivative assets/(liabilities)		2,553,141	(2,408,258)

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

As at 31 December 2011	Contractual/ notional amount HK\$'000	Fair value assets HK\$'000	Fair value liabilities HK\$'000
1) Derivatives held for trading			
a) Foreign exchange derivatives			
- Currency forwards	248,598,417	1,151,790	(1,046,031)
- OTC currency options purchased	5,680,470	40,592	—
- OTC currency options written	5,658,614	—	(31,987)
- Structured foreign exchange instruments	399,489	<u>21,282</u>	<u>(21,281)</u>
Total foreign exchange derivatives		1,213,664	(1,099,299)
b) Interest rate derivatives			
- Interest rate swaps	45,977,775	490,898	(477,221)
- Quanto swaps	5,266,416	12,595	—
- Interest rate futures	—	—	—
Total interest rate derivatives		<u>503,493</u>	<u>(477,221)</u>
c) Equity derivatives			
- Equity options	77,384	<u>228</u>	<u>(228)</u>
Total equity derivatives		<u>228</u>	<u>(228)</u>
Total derivative assets/(liabilities) held for trading		<u>1,717,385</u>	<u>(1,546,748)</u>
2) Derivatives held for hedging			
a) Derivatives designated as fair value hedges			
- Interest rate swaps	7,207,594	—	(410,498)
- Cross currency swaps	958,069	<u>5,282</u>	<u>(75,167)</u>
		5,282	(485,665)
b) Derivatives designated as cash flow hedges			
- Interest rate swaps	8,318,165	352,499	(89,817)
- Cross currency swaps	403,978	<u>24</u>	<u>—</u>
		<u>352,523</u>	<u>(89,817)</u>
Total derivative assets/(liabilities) held for hedging		<u>357,805</u>	<u>(575,482)</u>
3) Derivatives not qualified as hedges for accounting purposes but which are managed in conjunction with the financial instruments designated at fair value through profit or loss			
- Interest rate swaps	869,111	<u>1,343</u>	<u>(52,352)</u>
Total derivative assets/(liabilities) not qualified as hedges		<u>1,343</u>	<u>(52,352)</u>
Total recognised derivative assets/(liabilities)		<u>2,076,533</u>	<u>(2,174,582)</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

21 Derivative financial instruments (continued)

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

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

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

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

	30 Jun 2012	30 Jun 2011
	HK\$'000	HK\$'000
Gain/(loss) arising from fair value hedge, net:		
- Hedging instruments	21,700	(26,008)
- Hedged items attributable to the hedged risk	<u>(21,332)</u>	<u>23,825</u>
	<u>368</u>	<u>(2,183)</u>

Cash flow hedge consists of interest rate swaps and cross-currency interest rate swaps entered into that are used to protect the Group against exposures to variability of floating-rate assets and liabilities. Gains and losses on the effective portion of the swaps are initially recognised directly in equity, in the cash flow hedge reserve, and are transferred to the income statement when the forecast cash flows affect the income statement. The gains and losses on ineffective portions of such derivatives are recognised immediately in the income statement. During the period, there was no ineffectiveness recognised in the income statement that arose from cash flow hedges (2011: Nil).

Below is a schedule indicating as at 30 June 2012 and 31 December 2011, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss:

	Within 1 year	1-3 years	3-8 years	Over 8 years
30 June 2012	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Cash inflows (assets)	25	49	99	8
Cash outflows (liabilities)	<u>(10)</u>	<u>(9)</u>	<u>(5)</u>	<u>(1)</u>
Net cash flows	15	40	94	7
31 December 2011				
Cash inflows (assets)	21	41	103	19
Cash outflows (liabilities)	<u>(44)</u>	<u>(69)</u>	<u>(39)</u>	<u>(1)</u>
Net cash flows	(23)	(28)	64	18

During the period, realised gain amounting to HK\$36,556,000 previously recognised in equity under the cash flow hedge reserve was transferred to the income statement and included in the net interest income (First half of 2011: Realised gain of HK\$35,076,000).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

21 Derivative financial instruments (continued)

There were no transactions for which cash flow hedge accounting had to be ceased in 2012 as a result of the highly probable cash flows no longer being expected to occur.

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

	30 Jun 2012		31 Dec 2011	
	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000
Contingent liabilities and commitments	—	12,587,453	—	14,930,572
Exchange rate contracts	996,108	2,100,369	1,033,765	2,098,713
Interest rate contracts	1,012,837	868,918	857,335	779,267
Equity contracts	386	324	228	510
	<u>2,009,331</u>	<u>15,557,064</u>	<u>1,891,328</u>	<u>17,809,062</u>

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

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

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

	30 Jun 2012 HK\$'000	31 Dec 2011 HK\$'000
Advances to customers	187,230,823	166,777,362
Advances to banks and other financial institutions	71,284,730	36,568,309
Trade bills	29,029,458	34,598,400
Gross loans and advances to customers, banks and other financial institutions	287,545,011	237,944,071
Accrued interest	1,069,542	1,109,286
	<u>288,614,553</u>	<u>239,053,357</u>
Less: impairment allowances		
- Individually assessed	(826,949)	(769,238)
- Collectively assessed	(906,987)	(795,443)
	<u>286,880,617</u>	<u>237,488,676</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

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

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

	30 Jun 2012 HK\$'000	31 Dec 2011 HK\$'000
Gross impaired loans and advances	1,313,124	1,249,184
Impairment allowances made in respect of such loans	826,949	769,238
Gross impaired loans and advances as a percentage of total gross loans and advances	0.46%	0.52%
Market value of collateral	<u>493,306</u>	<u>506,965</u>

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

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

There were no impaired advances to banks and other financial institutions as at 30 June 2012 and 31 December 2011; nor were there any individual impairment allowances made for them on these two dates.

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

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

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

	Gross advances HK\$'000	% of advances to customers	Market value of collateral HK\$'000	Amount of secured balance HK\$'000	Amount of unsecured balance HK\$'000	Individual impairment allowance HK\$'000
As at 30 Jun 2012						
Six months or less but over three months	50,055	0.0	—	—	50,055	27,427
One year or less but over six months	111,374	0.1	10,000	3,166	108,208	101,757
Over one year	1,022,264	0.5	181,770	178,300	843,964	668,252
	<u>1,183,693</u>	<u>0.6</u>	<u>191,770</u>	<u>181,466</u>	<u>1,002,227</u>	<u>797,436</u>
As at 31 Dec 2011						
Six months or less but over three months	12,919	0.0	39,972	11,346	1,573	2,515
One year or less but over six months	685,970	0.4	85,888	29,582	656,388	386,328
Over one year	357,896	0.2	301,537	232,118	125,778	188,006
	<u>1,056,785</u>	<u>0.6</u>	<u>427,397</u>	<u>273,046</u>	<u>783,739</u>	<u>576,849</u>

The criteria for eligible collateral are as follows:

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

The eligible collaterals are mainly properties, deposits and shares.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

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

(c) Other overdue assets

	30 Jun 2012 Accrued interest HK\$'000	30 Jun 2012 Other assets HK\$'000	31 Dec 2011 Accrued interest HK\$'000	31 Dec 2011 Other assets HK\$'000
Six months or less but over three months	1,000	7,608	714	25,202
One year or less but over six months	—	33,525	—	7,006
Over one year	89,584	759	72,360	—
	<u>90,584</u>	<u>41,892</u>	<u>73,074</u>	<u>32,208</u>

Other assets refer to trade bills and receivables.

(d) Rescheduled advances

	30 Jun 2012 HK\$'000	As % of advances to customers	31 Dec 2011 HK\$'000	As % of advances to customers
Rescheduled advances (excluding loans overdue over three months)	<u>2,130</u>	<u>0.00</u>	<u>76,144</u>	<u>0.05</u>

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

There were no advances to banks and other financial institutions which were overdue; nor were there any rescheduled advances to banks and other financial institutions as at 30 June 2012 and 31 December 2011.

(e) Repossessed assets

At 30 June 2012, the Group has no repossessed assets (31 December 2011: HK\$3,550,000). These are properties which the Group has acquired access to or control of (e.g., through legal actions or voluntary actions by the borrowers concerned) for releasing in full or in part the obligations of the borrowers.

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

In respect of reverse repurchase transactions, the fair value of collateral held by the Group which were permitted to be sold or repledged amounted to HK\$2,580,398,000 (The amount of the Reverse Repo) as at 30 June 2012 (31 December 2011: HK\$1,849,476,000). No collateral has been actually sold or repledged by the Group as at 30 June 2012 and 31 December 2011. The transactions are conducted on terms that are usual and customary to standard lending activities.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

23 Available-for-sale financial investments

	30 Jun 2012 HK\$'000	31 Dec 2011 HK\$'000
Debt securities:		
Listed in Hong Kong	5,165,003	4,181,019
Listed outside Hong Kong	16,478,652	18,972,699
Unlisted	<u>12,081,146</u>	<u>12,569,498</u>
	<u>33,724,801</u>	<u>35,723,216</u>
Equity securities:		
Listed in Hong Kong	337,144	466,199
Unlisted	<u>83,788</u>	<u>83,994</u>
	<u>420,932</u>	<u>550,193</u>
Total available-for-sale financial investments	<u>34,145,733</u>	<u>36,273,409</u>
Market value of listed securities	<u>21,980,799</u>	<u>23,619,917</u>
Debt securities after taking into account impairment losses comprise the following items:		
Treasury bills	361,171	—
Certificates of deposit held	616,587	2,523,577
Other debt securities	<u>32,747,043</u>	<u>33,199,639</u>
	<u>33,724,801</u>	<u>35,723,216</u>
Available-for-sale financial investments are analysed by category of issuer as follows:		
Central governments and central banks	1,445,133	1,373,603
Public sector entities	427,002	421,593
Banks and other financial institutions	19,921,204	22,243,581
Corporate entities	12,351,717	12,233,955
Others	<u>677</u>	<u>677</u>
	<u>34,145,733</u>	<u>36,273,409</u>

There was no individual impairment loss made to the Group's available-for-sale financial investments during the period (First half of 2011: Nil).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

24 Held-to-maturity financial investments

	30 Jun 2012	31 Dec 2011
	HK\$'000	HK\$'000
Debt securities:		
Unlisted	<u>1,163,886</u>	<u>1,164,239</u>
Total held-to-maturity financial investments	<u>1,163,886</u>	<u>1,164,239</u>
Debt securities after taking into account impairment losses comprise the following items:		
Treasury bills	<u>1,163,886</u>	<u>1,164,239</u>
Held-to-maturity financial investments are analysed by category of issuer as follows:		
Central governments and central banks	<u>1,163,886</u>	<u>1,164,239</u>

25 Investment properties

	30 Jun 2012	31 Dec 2011
	HK\$'000	HK\$'000
Carrying amount at 1 January	75,816	53,765
Additions during the period/year	—	11,586
Transfer out during the period/year	(17,326)	—
Net revaluation gain	<u>8,601</u>	<u>10,465</u>
Carrying amount at 30 June/31 December	<u>67,091</u>	<u>75,816</u>

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

	Bank premises and properties HK\$'000	Leasehold improvements HK\$'000	Furniture and equipment HK\$'000	Total HK\$'000
At 31 December 2011 and 1 January 2012:				
Cost or valuation	514,772	258,326	277,258	1,050,356
Accumulated depreciation and impairment	<u>(132,219)</u>	<u>(146,811)</u>	<u>(177,832)</u>	<u>(456,862)</u>
Net book value at 31 December 2011 and 1 January 2012	<u>382,553</u>	<u>111,515</u>	<u>99,426</u>	<u>593,494</u>
Transfer in from investment property	17,326	—	—	17,326
Additions	—	24,267	22,421	46,688
Disposals	—	(7,380)	(2,043)	(9,423)
Revaluation	19,616	—	—	19,616
Depreciation provided during the period	(11,475)	(9,383)	(13,619)	(34,477)
Exchange rate and other adjustments	<u>(4,506)</u>	<u>(165)</u>	<u>2,822</u>	<u>(1,849)</u>
Net book value at 30 June 2012	<u>403,514</u>	<u>118,854</u>	<u>109,007</u>	<u>631,375</u>
At 30 June 2012:				
Cost or valuation	526,271	249,037	289,984	1,065,292
Accumulated depreciation and impairment	<u>(122,757)</u>	<u>(130,183)</u>	<u>(180,977)</u>	<u>(433,917)</u>
Net book value at 30 June 2012	<u>403,514</u>	<u>118,854</u>	<u>109,007</u>	<u>631,375</u>
The analysis of cost or valuation of the above assets is as follows:				
At 30 June 2012:				
At cost	—	249,037	289,984	539,021
At valuation	<u>403,514</u>	<u>—</u>	<u>—</u>	<u>403,514</u>
	<u>403,514</u>	<u>249,037</u>	<u>289,984</u>	<u>942,535</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

26 Property, plant and equipment (continued)

	Bank premises and properties HK\$'000	Leasehold improvements HK\$'000	Furniture and equipment HK\$'000	Total HK\$'000
At 31 December 2010 and 1 January 2011:				
Cost or valuation	439,319	214,142	236,187	889,648
Accumulated depreciation and impairment	(95,902)	(133,318)	(158,577)	(387,797)
Net book value at 31 December 2010 and 1 January 2011	<u>343,417</u>	<u>80,824</u>	<u>77,610</u>	<u>501,851</u>
Additions	—	48,431	44,442	92,873
Transfer out to investment property	(11,586)	—	—	(11,586)
Disposals	—	(145)	(210)	(355)
Revaluation	65,578	—	—	65,578
Depreciation provided during the year	(16,303)	(17,595)	(23,246)	(57,144)
Exchange rate and other adjustments	1,447	—	830	2,277
Net book value at 31 December 2011	<u>382,553</u>	<u>111,515</u>	<u>99,426</u>	<u>593,494</u>
At 31 December 2011:				
Cost or valuation	514,772	258,326	277,258	1,050,356
Accumulated depreciation and impairment	(132,219)	(146,811)	(177,832)	(456,862)
Net book value at 31 December 2011	<u>382,553</u>	<u>111,515</u>	<u>99,426</u>	<u>593,494</u>
The analysis of cost or valuation of the above assets is as follows:				
At 31 December 2011:				
At cost	—	258,326	277,258	535,584
At valuation	<u>382,553</u>	<u>—</u>	<u>—</u>	<u>382,553</u>
	<u>382,553</u>	<u>258,326</u>	<u>277,258</u>	<u>918,137</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

27 Other assets

	30 Jun 2012 HK\$'000	31 Dec 2011 HK\$'000
Interest receivable	716,032	668,333
Prepayments	206,654	195,538
Settlement accounts	3,675,156	655,261
Margin deposit paid	509,260	520,830
Interest in a partnership	235,529	446,304
Factoring receivables	432,962	508,097
Others	694,088	129,005
	<u>6,469,681</u>	<u>3,123,368</u>

28 Deposits from customers

	30 Jun 2012 HK\$'000	31 Dec 2011 HK\$'000
Demand deposits and current accounts	20,494,271	36,617,976
Savings deposits	50,048,530	40,332,662
Time, call and notice deposits	191,475,204	185,671,425
	<u>262,018,005</u>	<u>262,622,063</u>

29 Deferred income tax

Deferred income tax is calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5% (2011: 16.5%).

The movements in the deferred income tax liabilities accounts are as follows:

	30 Jun 2012 HK\$'000	31 Dec 2011 HK\$'000
At 1 January	(9,502)	(114,831)
Credited to income statement	212	11,933
(Debited)/credited to equity	(111,400)	86,850
Exchange and other adjustments	3,921	6,546
At 30 June/31 December	<u>(116,769)</u>	<u>(9,502)</u>

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

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

29 Deferred income tax (continued)

	30 Jun 2012 HK\$'000	31 Dec 2011 HK\$'000
Deferred income tax assets, net		
to be recovered after more than 12 months	89,338	133,619
to be recovered within 12 months	<u>—</u>	<u>3,104</u>
	<u>89,338</u>	<u>136,723</u>
Deferred income tax liabilities, net		
to be settled after more than 12 months	(203,307)	(146,225)
to be settled within 12 months	<u>(2,800)</u>	<u>—</u>
	<u>(206,107)</u>	<u>(146,225)</u>
Deferred income tax assets/(liabilities), net	<u>(116,769)</u>	<u>(9,502)</u>

30 Subordinated debts measured at amortised cost

	30 Jun 2012		31 Dec 2011	
	HK\$'000	Interest rate %	HK\$'000	Interest rate %
Subordinated floating rate notes				
- with a final maturity on 29 June 2016	620,464	0.961%	621,504	1.581%
- with a final maturity on 20 October 2018 (callable on 21 October 2013)	1,551,160	1.311%	1,553,760	1.431%
- perpetual (callable on 10 December 2012)	1,000,000	0.903%	1,000,000	0.88%
- perpetual (callable on 9 July 2013)	930,696	0.961%	932,256	1.081%
- perpetual (callable on 30 June 2016)	<u>1,551,160</u>	<u>1.061%</u>	<u>1,553,760</u>	<u>1.181%</u>
	<u>5,653,480</u>		<u>5,661,280</u>	
Subordinated fixed rate notes				
- with a final maturity on 30 November 2020	3,851,302	5.125%	3,856,180	5.125%
- with a final maturity on 4 November 2021 (callable on 5 November 2016)	<u>1,819,849</u>	<u>6%</u>	<u>1,839,238</u>	<u>6%</u>
	<u>5,671,151</u>		<u>5,695,418</u>	
	<u>11,324,631</u>		<u>11,356,698</u>	

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

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

30 Subordinated debts measured at amortised cost (continued)

On 4 November 2011, the Bank issued subordinated notes with aggregate nominal amount of RMB1,500 million, bearing a fixed interest rate of 6% per annum to institutional investors. The notes were issued at the price fixed at par of the nominal amount with maturity due on 4 November 2021. The notes were listed on Singapore Exchange Securities Trading Limited.

The Bank has not had any default of principal or interest or other breaches with respect to the subordinated debts during the period (2011: Nil).

31 Other liabilities

	30 Jun 2012	31 Dec 2011
	HK\$'000	HK\$'000
Interest payable	1,588,970	1,385,382
Salaries and welfare payable	193,103	199,756
Settlement accounts	298,290	275,608
Margin deposit received	949,506	277,853
Factoring payables	432,962	508,097
Others	918,539	536,930
	<u>4,381,370</u>	<u>3,183,626</u>

The Group and the Bank have not had any default of principal, interest or other breaches with respect to their liabilities during the period (2011: Nil).

32 Share capital

	Number of	Ordinary	Ordinary
	shares	shares	share
	(in thousands)	HK\$'000	premium
		HK\$'000	HK\$'000
At 1 January 2012 and 30 June 2012	<u>1,731,415</u>	<u>3,462,830</u>	<u>14,529,002</u>
At 1 January 2011	1,352,061	2,704,123	9,187,768
Allotment of new shares	379,354	758,707	5,341,294
Share issue expenses	—	—	(60)
At 31 December 2011	<u>1,731,415</u>	<u>3,462,830</u>	<u>14,529,002</u>

The total number of authorised ordinary shares is 2,580 million shares (2011: 2,580 million shares) with a par value of HK\$2 per share (2011: HK\$2 per share) and 500 million ordinary shares (2011: 500 million shares) with a par value of RMB2 per share (2011: RMB2 per share). All issued shares are fully paid.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

33 Reserves

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

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

As at 30 June 2012, the Group has earmarked a “Regulatory Reserve” of HK\$3,549,961,000 (31 December 2011: HK\$2,892,690,000) from retained earnings. The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purpose. Movements in the reserve are made directly through retained earnings and in consultation with the Hong Kong Monetary Authority.

The consolidated profit attributable to equity holders of the Group includes a profit of HK\$1,461,362,000 (31 December 2011: HK\$2,456,892,000) which has been dealt with in the accounts of the Bank.

34 Related party transactions

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

a. Ultimate holding company

	Six months ended	
	30 Jun 2012	30 Jun 2011
	HK\$'000	HK\$'000
Interest income	934,492	366,694
Interest expense	544,769	273,337
Other operating income ^{1,2}	114,152	93,317
Other operating expenses ^{3,4}	64,144	12,404
	30 Jun 2012	31 Dec 2011
	HK\$'000	HK\$'000
Amounts due from	69,290,259	59,487,703
Amounts due to	67,868,491	56,181,569

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

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

The transactions with the ultimate holding company included the issuance of certificates of deposit and subordinated floating rate notes, which were both fully subscribed by the ultimate holding company and its branches. As at 30 June 2012, the Bank has issued certificates of deposit with a nominal value of US\$1,400,000,000 to the ultimate holding company (First half of 2011: certificates of deposit with a nominal value of HK\$2,500,000,000 and US\$1,170,000,000).

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

Other material transactions

- i. Undertaking from the ultimate holding company

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

Simultaneously on 3 July 2001, the ultimate holding company and the Bank entered into a guarantee agreement whereby the ultimate holding company agreed to guarantee to the extent of HK\$9,000,000,000, being the payment obligations of certain customers whose “large exposures” were transferred to the Bank pursuant to the business transfer agreement and to indemnify the Bank in respect of any losses incurred if any obligation of such customers becomes unenforceable. There are no on-balance sheet large exposures of the Bank covered by this guarantee as at 30 June 2012 (First half of 2011: HK\$ Nil).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

34 Related party transactions (continued)

ii. Sub-participation of loans

During the period, the Bank entered into various capital market transactions with the Branch, which include arranging participation/sub-participation in loans, acquiring and disposing of interests in syndicated or individual loans, subscribing to and/or issuing of debt securities and tax efficient financing. These transactions included sub-participation in loans of the Bank by the ultimate holding company and/or the Branch for a total of HK\$63,487,808,000 (First half of 2011: HK\$56,090,683,000). For both the first half of 2012 and 2011, there was no sub-participation in loans of the Branch by the Bank. The total fee attributable to the above transactions of approximately HK\$51,860,000 (First half of 2011: HK\$38,091,000) was paid by the Bank to the Branch. These transactions were priced based either on the terms of the underlying loan agreement, if applicable, or prevailing market rates if such comparable rates were available, or on terms that were no less favourable than those available to other independent loan members.

b. Fellow subsidiaries

	Six months ended	
	30 Jun 2012	30 Jun 2011
	HK\$'000	HK\$'000
Interest income	9,438	17,660
Interest expense	5,640	3,282
Other operating income	2,576	510
	30 Jun 2012	31 Dec 2011
	HK\$'000	HK\$'000
Amounts due from	1,791,666	889,974
Amounts due to	3,990,282	5,900,739

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

34 Related party transactions (continued)

c. Associates

	Six months ended	
	30 Jun 2012 HK\$'000	30 Jun 2011 HK\$'000
Interest income	1,873	2,077
Interest expense	108	20
	30 Jun 2012	31 Dec 2011
	HK\$'000	HK\$'000
Amounts due from	137,144	146,155
Amounts due to	13,847	25,620

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

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

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

	Six months ended	
	30 Jun 2012 HK\$'000	30 Jun 2011 HK\$'000
Interest income	93,172	64,905
Interest expense	5,207	11,580
	30 Jun 2012	31 Dec 2011
	HK\$'000	HK\$'000
Amounts due from	19,173,716	43,810,067
Amounts due to	129,743	853,970

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

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

34 Related party transactions (continued)

e. Key management personnel remuneration

Remuneration for key management personnel is as follows:

	Six months ended	
	30 Jun 2012	30 Jun 2011
	HK\$'000	HK\$'000
Employee benefits	10,370	10,227

f. Material transactions with key management personnel

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

	Six months ended	
	30 Jun 2012	30 Jun 2011
	HK\$'000	HK\$'000
Interest income	2	11
Interest expense	126	79

	Six months ended	
	30 Jun 2012	31 Dec 2011
	HK\$'000	HK\$'000
Amounts due from	93	276
Amounts due to	29,177	26,656

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

35 Off-balance sheet exposures

(a) Contingent liabilities and commitments

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

	30 Jun 2012	30 Jun 2012	31 Dec 2011	31 Dec 2011
	Contractual	Credit risk	Contractual	Credit risk
	amount	weighted	amount	weighted
	HK\$'000	amount	HK\$'000	amount
		HK\$'000		HK\$'000
Direct credit substitutes	5,252,069	2,512,143	12,730,146	5,810,820
Transaction-related contingencies	72,731	11,552	84,014	11,438
Trade-related contingencies	7,908,922	1,499,637	9,338,278	1,715,321
Forward forward deposits placed	3,734,046	746,809	2,736,007	547,201
Other commitments				
- Unconditionally cancellable	91,817,717	—	79,125,622	—
- With original maturity of less than one year	3,010,915	399,210	812,569	151,291
- With original maturity of over one year	15,068,451	7,418,102	13,753,887	6,694,501
	<u>126,864,851</u>	<u>12,587,453</u>	<u>118,580,523</u>	<u>14,930,572</u>

(b) Capital commitments

Capital commitments for property, plant and equipment outstanding as at 30 June 2012/31 December 2011 not provided for in the financial statements are as follows:

	30 Jun 2012	31 Dec 2011
	HK\$'000	HK\$'000
Expenditure contracted, but not provided for	<u>71,092</u>	<u>78,612</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

35 Off-balance sheet exposures (continued)

(c) Operating lease commitments

The Group had future aggregate minimum lease payments under non-cancellable operating leases as at 30 June 2012/31 December 2011 as follows:

	30 Jun 2012	31 Dec 2011
	HK\$'000	HK\$'000
Land and buildings		
- Not later than one year	316,948	349,124
- Later than one year and not later than five years	455,756	493,593
- More than five years	17,704	—
	<u>790,408</u>	<u>842,717</u>

(d) Operating lease arrangements

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

At 30 June 2012, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 Jun 2012	31 Dec 2011
	HK\$'000	HK\$'000
Within one year	2,160	2,263
In the second to fifth years, inclusive	600	1,723
	<u>2,760</u>	<u>3,986</u>

During the period, the Group had no unrecognised contingent rentals receivable (2011: Nil).

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

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

1 Capital adequacy and capital base

The capital ratios as at 30 June 2012 and 31 December 2011 were computed in accordance with the Banking (Capital) Rules (the “Capital Rules”) issued by the Hong Kong Monetary Authority under Section 98A of the Hong Kong Banking Ordinance for the implementation of the “Basel II” with effect from 1 January 2007. In view of the Capital Rules, the Bank has adopted the “standardised (credit risk) approach” for the calculation of the risk-weighted assets for credit risk, “basic indicator approach” for the calculation of the operational risk and the “standardised (market risk) approach” for the calculation of market risk. Under the Capital Rules, the basis of consolidation in calculating the capital ratios follows that of the financial reporting with the exclusion of subsidiaries which are “regulated financial entities” (e.g., insurance and securities companies) as defined by the Capital Rules. Accordingly, the investment costs of these unconsolidated subsidiaries are deducted from the capital base. There is no capital shortfall of these unconsolidated subsidiaries. Unconsolidated subsidiaries include UB China Business Management Co. Ltd., ICBC (Asia) Futures Company Limited (formerly known as ICBC (Asia) Investment Holdings Limited), ICBC (Asia) Bullion Company Limited, ICBC (Asia) Securities Limited, ICBC (Asia) Trustee Company Limited, ICBC (Asia) Asset Management Company Limited, ICBC (Asia) Investment Management Company Limited and ICBC (Asia) Wa Pei Nominees Limited.

	30 Jun 2012	31 Dec 2011
Core capital ratio	9.3%	10.0%
Capital adequacy ratio	14.7%	15.9%

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

1 Capital adequacy and capital base (continued)

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

	30 Jun 2012	31 Dec 2011
	HK\$'000	HK\$'000
Core capital:		
Paid-up ordinary share capital	3,462,830	3,462,830
Share premium	14,529,002	14,529,002
Reserves	6,669,506	3,908,559
Income statement	1,936,067	3,111,531
Deduct: Goodwill	(980,154)	(980,154)
Other intangible assets	(43,662)	(15,871)
50% of total unconsolidated investments and other deductions	(373,420)	(358,312)
	25,200,169	23,657,585
Eligible supplementary capital:		
Fair value gains on the revaluation of land and buildings	135,805	123,119
Fair value gains on the revaluation of available-for-sale equities and debt securities	103,604	—
Unrealised fair value gains arising from equities and debt securities designated at fair value through profit or loss	12,652	14,174
Collective impairment allowances and regulatory reserve	3,396,577	2,978,662
Perpetual subordinated debts	3,481,856	3,486,016
Subordinated debts measured at amortised cost	7,718,682	7,870,682
Deduct: 50% of total unconsolidated investments and other deductions	(373,420)	(358,312)
	14,475,756	14,114,341
Total capital base after deductions	39,675,925	37,771,926
Risk-weighted assets		
Credit risk	250,800,736	219,594,836
Market risk	10,415,038	9,015,500
Operational risk	10,510,375	9,682,600
Deduct: Portion of regulatory reserve for general banking risks and collective provisions which is not included in supplementary capital	(1,060,371)	(709,471)
Total risk-weighted assets	270,665,778	237,583,465

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)
2 Liquidity ratio

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

	30 Jun 2012	30 Jun 2011
Average liquidity ratio for the six months ended	<u>48.1%</u>	<u>40.8%</u>

3 Segmental information

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

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

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

30 June 2012	Gross advances to customers, banks and other financial institution HK\$'000	Overdue advances for over three months HK\$'000	Impaired loans and advances HK\$'000	Individual impairment allowances HK\$'000	Collective impairment allowances HK\$'000
Hong Kong	84,573,842	265,761	350,219	223,016	271,276
Mainland China	195,755,138	293,032	293,027	110,251	616,477
Macau	1,303,206	—	—	—	3,515
Asia Pacific Region excluding Hong Kong, Mainland China and Macau	2,310,276	458,516	458,516	313,113	3,283
Others	3,602,549	208,276	211,362	180,569	12,436
	<u>287,545,011</u>	<u>1,225,585</u>	<u>1,313,124</u>	<u>826,949</u>	<u>906,987</u>

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

3 Segmental information (continued)

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

	Gross advances to customers, banks and other financial institution HK\$'000	Overdue advances for over three months HK\$'000	Impaired loans and advances HK\$'000	Individual impairment allowances HK\$'000	Collective impairment allowances HK\$'000
31 December 2011					
Hong Kong	77,513,630	204,313	357,851	210,879	404,768
Mainland China	151,196,198	229,420	229,417	72,815	346,484
Macau	1,404,216	—	—	—	6,471
Asia Pacific Region excluding Hong Kong, Mainland China and Macau	4,487,921	454,792	454,792	309,431	16,610
Others	3,342,106	200,468	207,124	176,113	21,110
	<u>237,944,071</u>	<u>1,088,993</u>	<u>1,249,184</u>	<u>769,238</u>	<u>795,443</u>

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

(b) Cross-border claims

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

	Banks and other financial institutions HK\$ million	Public sector entities HK\$ million	Others HK\$ million	Total HK\$ million
30 June 2012				
Asia Pacific excluding Hong Kong	166,140	15,499	109,130	290,769
Europe	12,525	—	949	13,474
31 December 2011				
Asia Pacific excluding Hong Kong	139,548	13,519	95,542	248,609
Europe	13,034	—	815	13,849

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

(c) Non-bank Mainland exposures

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

	On-balance sheet exposure HK\$'000	Contingent liabilities HK\$'000	FX and derivatives contract HK\$'000	Total exposures HK\$'000	Individually assessed allowances HK\$'000
30 June 2012					
Type of counterparties					
(a) ITICs and their subsidiaries	547,989	—	—	547,989	—
(b) Red-chip companies and their subsidiaries	8,157,534	89,540	—	8,247,074	—
(c) H-shares companies and their subsidiaries	1,637,103	946,146	57,285	2,640,534	—
(d) Other state, provincial or municipal government owned entities and their subsidiaries	19,338,346	1,069,692	51,503	20,459,541	—
(e) Other entities incorporated or established in Mainland China	4,327,953	530,563	—	4,858,516	—
(f) Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	14,674,736	150,799	37,442	14,862,977	109,106
(g) Other counterparties where the exposure is considered by the Bank to be non-bank Mainland China exposure	<u>11,141,465</u>	<u>5,322,907</u>	<u>191,046</u>	<u>16,655,418</u>	<u>838</u>
	59,825,126	8,109,647	337,276	68,272,049	109,944
Companies and individuals for purchasing properties in Mainland China under					
(a) to (g)	2,829,729	—	—	2,829,729	—
(h) Exposures incurred by banking subsidiary in Mainland China	35,337,842	14,362,727	—	49,700,569	109,834

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

(c) Non-bank Mainland exposures (continued)

	On-balance sheet exposure HK\$'000	Contingent liabilities HK\$'000	FX and derivatives contract HK\$'000	Total exposures HK\$'000	Individually assessed allowances HK\$'000
31 December 2011					
Type of counterparties					
(a) ITICs and their subsidiaries	647,972	—	—	647,972	—
(b) Red-chip companies and their subsidiaries	7,401,884	253,699	687	7,656,270	—
(c) H-shares companies and their subsidiaries	881,394	649,437	64,919	1,595,750	—
(d) Other state, provincial or municipal government owned entities and their subsidiaries	8,752,094	217,902	—	8,969,996	—
(e) Other entities incorporated or established in Mainland China	1,021,961	4,746	—	1,026,707	—
(f) Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	17,370,160	204,725	51,556	17,626,441	109,192
(g) Other counterparties where the exposure is considered by the Bank to be non-bank Mainland China exposure	<u>14,837,886</u>	<u>3,370,821</u>	<u>331,187</u>	<u>18,539,894</u>	<u>834</u>
	50,913,351	4,701,330	448,349	56,063,030	110,026
Companies and individuals for purchasing properties in Mainland China under (a) to (g)	2,804,907	—	—	2,804,907	—
(h) Exposures incurred by banking subsidiary in Mainland China	25,665,818	11,873,085	—	37,538,903	71,981

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)
4 Loans and advances to customers, banks and other financial institutions

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

	30 Jun 2012	30 Jun 2012	31 Dec 2011	31 Dec 2011
	Gross	% of secured	Gross	% of secured
	advances	advances	advances	advances
	HK\$'000		HK\$'000	
Loans for use in Hong Kong				
Industrial, commercial and financial				
- Property development	13,099,665	18.54%	13,632,321	32.61%
- Property investment	14,240,583	85.78%	16,626,352	78.37%
- Financial concerns	12,134,819	12.78%	6,310,659	2.52%
- Stockbrokers	914,000	56.30%	91,236	94.39%
- Wholesale and retail trade	17,133,054	17.17%	15,330,630	22.68%
- Civil engineering works	257,521	62.52%	252,734	91.32%
- Manufacturing	4,636,997	35.36%	4,316,256	47.22%
- Transport and transport equipment	13,955,308	55.11%	11,690,080	60.10%
- Information technology	1,205,622	3.28%	1,429,489	2.97%
- Recreational activities	2,312,171	76.57%	42,435	96.80%
- Hotels, boarding houses and catering	15,418	80.36%	2,491,142	78.18%
- Others	15,350,978	9.80%	8,116,021	23.45%
Individuals				
- Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	511,482	95.45%	524,822	95.50%
- Loans for the purchase of other residential properties	12,222,268	98.67%	11,342,083	99.77%
- Credit card advances	130,880	0.00%	135,925	0.00%
- Others	2,643,380	61.05%	2,060,983	87.36%
Trade finance	100,587,279	92.48%	71,366,945	50.21%
Loans for use outside Hong Kong	76,193,586	31.79%	72,183,958	25.30%
	<u>287,545,011</u>	56.99%	<u>237,944,071</u>	42.92%

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

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

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

	30 Jun 2012	31 Dec 2011
	HK\$'000	HK\$'000
(a) Trade finance		
Individually impaired loans	117,157	110,402
Overdue loans and advances over three months	41,896	—
Individual impairment allowances	61,140	61,087
Collective impairment allowances	142,617	130,083
New impairment allowances charged to the income statement	13,843	142,253
Impaired loans and advances written off during the period/year	—	—
(b) Loans for use outside Hong Kong		
Individually impaired loans	1,074,983	998,521
Overdue loans and advances over three months	1,069,277	921,322
Individual impairment allowances	713,198	667,273
Collective impairment allowances	467,592	410,170
New impairment allowances charged to the income statement	114,671	386,502
Impaired loans and advances written off during the period/year	—	97,784

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)
5 Currency concentration

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

	US\$	RMB	GBP	AUD	Other foreign currencies	Total
30 June 2012	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-structural position						
Spot assets	181,888,144	126,394,498	836,363	4,934,886	6,701,292	320,755,183
Spot liabilities	(138,785,759)	(120,633,577)	(825,312)	(4,984,194)	(7,767,064)	(272,995,906)
Forward purchases	107,399,272	67,920,897	400,828	2,575,670	12,863,636	191,160,303
Forward sales	(154,234,903)	(69,464,273)	(385,615)	(2,183,284)	(11,626,007)	(237,894,082)
Net option position	331,016	37,500	(188)	(253,991)	(117,009)	(2,672)
Net long/(short) position	<u>(3,402,230)</u>	<u>4,255,045</u>	<u>26,076</u>	<u>89,087</u>	<u>54,848</u>	<u>1,022,826</u>
Net structural position	188,105	3,289,414	—	—	—	3,477,519
31 December 2011						
	US\$	RMB	GBP	AUD	Other foreign currencies	Total
31 December 2011	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-structural position						
Spot assets	152,934,813	107,337,281	1,617,590	3,585,986	5,349,306	270,824,976
Spot liabilities	(114,471,984)	(99,381,227)	(1,497,735)	(4,532,706)	(6,042,824)	(225,926,476)
Forward purchases	98,146,189	67,641,586	114,584	2,125,576	11,657,331	179,685,266
Forward sales	(140,460,012)	(71,435,309)	(199,416)	(1,289,488)	(10,933,196)	(224,317,421)
Net option position	(7,483)	—	(80)	(817)	9,155	775
Net long/(short) position	<u>(3,858,477)</u>	<u>4,162,331</u>	<u>34,943</u>	<u>(111,449)</u>	<u>39,772</u>	<u>267,120</u>
Net structural position	188,420	2,834,173	—	—	—	3,022,593

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