



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 2013**

TABLE OF CONTENTS

	Page
Interim Results and Financial Review	2
Consolidated Income Statement	4
Consolidated Statement of Comprehensive Income	5
Consolidated Statement of Financial Position	6
Consolidated Statement of Changes in Equity	7
Condensed Consolidated Statement of Cash Flows	9
Notes to the Interim Financial Disclosure Statements	10
Supplementary Financial Information	54

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 2013. 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 2013, and the consolidated statement of financial position as at 30 June 2013 of the Group, all of which are unaudited, along with selected explanatory notes are set out on pages 4 to 53 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 2013 was HK\$2,446 million. This represents a 23.33% increase over the same period last year (first half of 2012: HK\$1,984 million). Basic earnings per share for the six months ended 30 June 2013 were HK\$1.18 (first half of 2012: HK\$ 1.15). Return on average assets and return on average equity were 1.07% and 11.95% respectively (first half of 2012: 0.96% and 13.04% respectively).

Interim Dividend

The Board has not recommended the payment of interim dividend for the six months ended 30 June 2013 (2012 interim dividend: Nil).

Financial Review

In the first half of 2013, the Group achieved satisfactory results. Consolidated profit attributable to equity holders was HK\$2,446 million, representing an increase of HK\$462 million or 23.33% over HK\$1,984 million achieved for the corresponding period in 2012.

Net interest income increased HK\$591 million or 21.84% to HK\$3,298 million. Net fee and commission income increased HK\$111 million or 18.09% to HK\$724 million.

Non-interest income increased HK\$223 million or 29.73% to HK\$973 million from HK\$750 million for the corresponding period in 2012. The ratio of non-interest income to total operating income was 22.77%, up 1.07 percentage points compared with 21.70% for the corresponding period in 2012.

Operating expenses increased by HK\$104 million or 10.67% to HK\$1,072 million, compared with HK\$968 million for the corresponding period in 2012. The cost to income ratio was 25.09%, down 2.91 percentage points compared with the corresponding period in 2012.

The impairment losses on loans and advances for the period were HK\$141 million, out of which HK\$9 million was made as provision write-back for individual assessment and HK\$150 million was made as additional provision for collective assessment.

INTERIM RESULTS AND FINANCIAL REVIEW

Statement of Financial Position

The total assets of the Group amounted to HK\$523,797 million as at 30 June 2013, representing an increase of HK\$98,116 million or 23.05% over the financial position as at 31 December 2012.

Customer deposits amounted to HK\$319,874 million as at 30 June 2013, representing an increase of HK\$61,726 million or 23.91%, compared to HK\$258,148 million as at 31 December 2012. Loans and advances also increased by HK\$53,124 million or 20.10% to HK\$317,426 million as at 30 June 2013 compared to HK\$264,302 million as at 31 December 2012.

Total securities investment amounted to HK\$71,991 million as at 30 June 2013, which represents an increase of HK\$22,586 million or 45.71% compared to HK\$49,405 million as at 31 December 2012.

Total certificates of deposit issued decreased by HK\$10,748 million or 33.5% to HK\$21,324 million as at 30 June 2013, compared to HK\$32,072 million as at 31 December 2012.

Capital and Liquidity Management

The Group's capital adequacy ratio decreased to 13.5% as at 30 June 2013 from 15.5% as at 31 December 2012. The average liquidity ratio amounted to 39.2% (average for the first half of 2012: 48.1%).

Asset Quality

Impaired loans and advances increased by HK\$180 million to HK\$1,422 million as at 30 June 2013, compared with HK\$1,242 million as at 31 December 2012. The impaired loan ratio was 0.45% as at 30 June 2013 (31 December 2012: 0.47%).

As at 30 June 2013, the cumulative loan impairment allowances amounted to HK\$1,969 million (31 December 2012: HK\$1,823 million), which included HK\$774 million (31 December 2012: HK\$788 million) of individual impairment allowance and HK\$1,195 million (31 December 2012: HK\$1,035 million) of collective impairment allowance.

Hong Kong, 26 August 2013

**CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2013
(UNAUDITED)**

	Notes	Six months ended (Restated)		Change %
		30 Jun 2013 HK\$'000	30 Jun 2012 HK\$'000	
Interest income	(6)	6,101,717	5,785,216	5%
Interest expense	(6)	(2,803,557)	(3,078,388)	-9%
Net interest income	(6)	3,298,160	2,706,828	22%
Fee and commission income	(7)	870,210	744,809	17%
Fee and commission expense	(7)	(146,214)	(131,720)	11%
Net fee and commission income	(7)	723,996	613,089	18%
Net trading income	(8)	239,790	125,792	91%
Net loss on financial assets and liabilities designated at fair value through profit or loss	(9)	(7,171)	(2,851)	152%
Dividend income from financial investments	(10)	4,832	4,738	2%
Other operating income	(11)	11,184	8,945	25%
Operating income		4,270,791	3,456,541	24%
Operating expenses	(12)	(1,071,746)	(968,431)	11%
Operating profit before impairment losses		3,199,045	2,488,110	29%
Charge for impairment losses on loans and advances	(13)	(140,687)	(188,384)	-25%
Charge for impairment losses on available-for-sale financial investments		(676)	-	-
Operating profit after impairment losses		3,057,682	2,299,726	33%
Revaluation gain on investment properties		2,700	8,600	-69%
Net loss from disposal/reversal of revaluation deficits of property, plant and equipment		(193)	(6,927)	-97%
Gain on disposal of loans and advances		-	111	-
Net gain on disposal of available-for-sale financial investments		11,077	196,226	-94%
Operating profit		3,071,266	2,497,736	23%
Share of profit of an associate		10,572	8,868	19%
Profit before tax		3,081,838	2,506,604	23%
Income tax expense	(14)	(635,515)	(523,001)	22%
Profit for the period and attributable to equity holders of the Bank		2,446,323	1,983,603	23%
Earnings per share – Basic and diluted	(16)	HK\$1.18	HK\$1.15	3%

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2013
(UNAUDITED)**

	<u>Six months ended</u>		Change %
	<u>30 Jun 2013</u> HK\$'000	<u>30 Jun 2012</u> HK\$'000	
Profit for the period	<u>2,446,323</u>	<u>1,983,603</u>	23%
Item that will not be reclassified to income statement:			
Revaluation surplus on bank premises	111,214	19,590	468%
Income tax effect	<u>(18,350)</u>	<u>(3,232)</u>	468%
	92,864	16,358	468%
Items that may be reclassified subsequently to income statement:			
Change of fair value of hedging instruments under cash flow hedges	(248,693)	121,643	-304%
Income tax effect	<u>41,034</u>	<u>(20,071)</u>	304%
	(207,659)	101,572	-304%
Change in fair value reserve of available-for-sale financial investments	(1,022,758)	546,100	-287%
Income tax effect	<u>152,151</u>	<u>(88,097)</u>	273%
	(870,607)	<u>458,003</u>	-290%
Exchange differences arising from translation of results of a foreign subsidiary	<u>270,104</u>	<u>(11,366)</u>	2476%
Other comprehensive income for the period, net of tax	<u>(715,298)</u>	<u>564,567</u>	-227%
Total comprehensive income for the period, net of tax	<u>1,731,025</u>	<u>2,548,170</u>	-32%
Attributable to:			
Equity holders of the Bank	<u>1,731,025</u>	<u>2,548,170</u>	-32%

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2013**

	Notes	Unaudited 30 Jun 2013 HK\$'000	Audited 31 Dec 2012 HK\$'000	Change %	Unaudited 30 Jun 2012 HK\$'000	Change %
Assets						
Cash and balances with banks and other financial institutions	(17)	101,801,273	86,032,984	18%	69,356,776	47%
Placements with banks and other financial institutions	(18)	20,923,339	17,338,642	21%	21,458,664	-2%
Financial assets held for trading	(19)	269,116	243,875	10%	285,960	-6%
Financial assets designated at fair value through profit or loss	(20)	418,784	525,646	-20%	526,987	-21%
Derivative financial instruments	(21)	3,480,449	3,108,266	12%	2,553,141	36%
Loans and advances to customers, banks and other financial institutions	(22)	317,425,945	264,302,370	20%	286,880,617	11%
Financial investments:		71,302,885	48,635,952	47%	35,309,619	102%
– Available-for-sale	(23)	70,138,922	47,471,602	48%	34,145,733	105%
– Held-to-maturity	(24)	1,163,963	1,164,350	0%	1,163,886	0%
Investment in an associate		238,777	228,205	5%	222,535	7%
Goodwill and other intangible assets		1,076,639	1,070,191	1%	1,045,272	3%
Investment properties	(25)	56,123	53,423	5%	67,091	-16%
Property, plant and equipment	(26)	874,602	756,262	16%	631,375	39%
Deferred income tax assets	(29)	18,618	11,515	62%	–	–
Other assets	(27)	5,910,391	3,373,855	75%	6,469,681	-9%
Total assets		<u>523,796,941</u>	<u>425,681,186</u>	23%	<u>424,807,718</u>	23%
Liabilities						
Deposits from banks and other financial institutions		109,015,962	72,862,914	50%	58,702,156	86%
Derivative financial instruments	(21)	3,663,608	2,764,240	33%	2,408,258	52%
Deposits from customers	(28)	319,873,846	258,148,071	24%	262,018,005	22%
Certificates of deposit issued at amortised cost		21,324,443	32,072,363	-34%	45,934,609	-54%
Debt securities in issue measured at amortised cost		16,774,216	9,395,863	79%	7,642,973	119%
Current income tax liabilities		678,602	262,062	159%	649,305	5%
Deferred income tax liabilities	(29)	60,426	253,075	-76%	116,769	-48%
Subordinated debts measured at amortised cost	(30)	5,740,500	5,706,008	1%	11,324,631	-49%
Other liabilities	(31)	5,033,274	4,315,551	17%	4,381,370	15%
Total liabilities		<u>482,164,877</u>	<u>385,780,147</u>	25%	<u>393,178,076</u>	22%
Equity						
Share capital	(32)	4,129,497	4,129,497	0%	3,462,830	19%
Retained earnings		15,638,503	13,418,933	17%	11,447,675	37%
Other reserves	(33)	21,864,064	22,352,609	-2%	16,719,137	31%
Total equity		<u>41,632,064</u>	<u>39,901,039</u>	4%	<u>31,629,642</u>	32%
Total equity and liabilities		<u>523,796,941</u>	<u>425,681,186</u>	23%	<u>424,807,718</u>	23%

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2013
(UNAUDITED)**

Note	Bank								
	Share capital	Ordinary share premium	Bank premises revaluation reserve	Investment revaluation reserve	Cash flow hedge reserve	Exchange reserve	General reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2013	4,129,497	19,462,335	425,684	796,610	349,348	227,417	1,091,215	13,418,933	39,901,039
Profit for the period	-	-	-	-	-	-	-	2,446,323	2,446,323
Other comprehensive income for the period:									
Change in fair value of available-for-sale financial investments	-	-	-	(1,004,917)	-	-	-	-	(1,004,917)
Reserve realised on disposal of available-for-sale financial investments	-	-	-	(17,841)	-	-	-	-	(17,841)
Changes in fair value of cash flow hedge	-	-	-	-	(248,693)	-	-	-	(248,693)
Revaluation surplus on bank premises	-	-	111,214	-	-	-	-	-	111,214
Change in deferred tax	(29)	-	(18,350)	152,151	41,034	-	-	-	174,835
Exchange differences	-	-	-	-	-	270,104	-	-	270,104
Total comprehensive income for the period	-	-	92,864	(870,607)	(207,659)	270,104	-	2,446,323	1,731,025
Partial transfer of retained earnings to general reserve	-	-	-	-	-	-	226,753	(226,753)	-
At 30 June 2013	<u>4,129,497</u>	<u>19,462,335</u>	<u>518,548</u>	<u>(73,997)</u>	<u>141,689</u>	<u>497,521</u>	<u>1,317,968</u>	<u>15,638,503</u>	<u>41,632,064</u>

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

Note	Bank								Total HK\$'000
	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	-	-	(3,232)	(88,097)	(20,071)	-	-	-	(111,400)
Exchange differences	-	-	-	-	-	(11,367)	1	-	(11,366)
Total comprehensive income for the period	-	-	16,358	458,003	101,572	(11,367)	1	1,983,603	2,548,170
Partial transfer of retained earnings to general reserve	-	-	-	-	-	-	228,527	(228,527)	-
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>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2013
(UNAUDITED)**

	Six months ended	
	30 Jun 2013 HK\$'000	30 Jun 2012 HK\$'000
Net cash flows from/(used in) operating activities	5,127,477	(39,433,694)
Net cash flows used in investing activities	(66,489)	(59,236)
Net cash flows from financing activities	7,218,794	1,810,565
Effects of foreign exchange differences	<u>332,887</u>	<u>64,051</u>
Net increase/(decrease) in cash and cash equivalents	12,612,669	(37,618,314)
Cash and cash equivalents at 1 January	<u>89,897,235</u>	<u>111,942,389</u>
Cash and cash equivalents at 30 June	<u><u>102,509,904</u></u>	<u><u>74,324,075</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 2013 HK\$'000	30 Jun 2012 HK\$'000
Cash and balances with banks and other financial institutions	34,284,401	11,416,292
Placements with banks and other financial institutions	<u>68,225,503</u>	<u>62,907,783</u>
	<u><u>102,509,904</u></u>	<u><u>74,324,075</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 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 2012 except for the adoption of the following HKFRSs and HKASs issued up to 30 June 2013 which are pertinent to the Group’s operations and relevant to these interim financial disclosure statements.

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 2012.

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 2012.

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 and a trust fund, 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
- 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.
- Greater China Fund

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

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

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group’s financial statements:

- Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*
- HKFRS 10, *Consolidated financial statements*
- HKFRS 12, *Disclosure of interests in other entities*
- HKFRS 13, *Fair value measurement*
- *Annual Improvements to HKFRSs 2009-2011 Cycle*
- Amendments to HKFRS 7 – *Disclosures – Offsetting financial assets and financial liabilities*

Amendments to HKAS 1, Presentation of financial statements – Presentation of items of other comprehensive income

The amendments to HKAS 1 require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The Group’s presentation of other comprehensive income in these financial statements has been modified accordingly.

HKFRS 10, Consolidated financial statements

HKFRS 10 replaces the requirements in HKAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and HK-SIC 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

HKFRS 12, Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity’s interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards. Since those disclosure requirements only apply to a full set of financial statements, the Group has not made additional disclosures in this interim financial report as a result of adopting HKFRS 12.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**3.1 Impact of new/revised Hong Kong Financial Reporting Standards (“HKFRSs”) (continued)****HKFRS 13, Fair value measurement**

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and nonfinancial instruments. Some of the disclosures are specifically required for financial instruments in the interim financial reports. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group’s assets and liabilities.

Annual Improvements to HKFRSs 2009-2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, HKAS 34 has been amended to clarify that total assets for a particular reportable segment are required to be disclosed only if the amounts are regularly provided to the chief operating decision maker (CODM) and only if there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements. The amendment also requires the disclosure of segment liabilities if the amounts are regularly provided to the CODM and there has been a material change in the amounts compared with the last annual financial statements. The amendment does not have any impact on the segment disclosure of the Group.

Amendments to HKFRS 7 – Disclosures – Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32, *Financial instruments: Presentation* and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

The adoption of the amendments does not have an impact on the Group’s interim financial report because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of HKFRS 7.

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 Financial risk management

4.1 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 2013	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	Undated HK\$'000	Total HK\$'000
Assets								
Cash and balances with banks and other financial institutions	26,199,861	67,516,872	-	-	-	-	8,084,540	101,801,273
Placements with banks and other financial institutions	-	-	10,433,019	10,490,320	-	-	-	20,923,339
Financial assets held for trading	-	-	16,413	22,659	16,266	6,855	206,923	269,116
Financial assets designated at fair value through profit or loss	-	-	-	198,184	220,600	-	-	418,784
Derivative financial instruments	154,793	394,410	674,563	720,465	1,143,430	392,788	-	3,480,449
Loans and advances to customers, banks and other financial institutions	32,026,155	27,014,289	54,285,459	80,540,232	90,271,453	33,288,357	-	317,425,945
Available-for-sale financial investments								
– treasury bills	-	-	-	-	-	-	-	-
– equity securities	-	-	-	-	-	-	328,855	328,855
– certificate of deposits held	-	-	-	3,335,989	1,762,606	-	-	5,098,595
– other debt securities	77,588	787,080	807,101	12,154,783	47,394,849	3,481,919	8,152	64,711,472
Held-to-maturity financial investments								
– treasury bills	-	-	-	1,163,963	-	-	-	1,163,963
Investment in an associate	-	-	-	-	-	-	238,777	238,777
Goodwill and other intangible assets	-	-	-	-	-	-	1,076,639	1,076,639
Investment properties	-	-	-	-	-	-	56,123	56,123
Property, plant and equipment	-	-	-	-	-	-	874,602	874,602
Other assets, including deferred tax assets	585,397	3,191,859	1,642,520	301,183	150,566	-	57,484	5,929,009
Total assets	59,043,794	98,904,510	67,859,075	108,927,778	140,959,770	37,169,919	10,932,095	523,796,941
Liabilities								
Deposits from banks and other financial institutions	21,269,215	42,804,504	32,951,266	11,525,614	465,363	-	-	109,015,962
Derivative financial instruments	96,544	563,029	678,771	851,242	1,205,996	268,026	-	3,663,608
Deposits from customers	95,454,354	96,467,319	52,327,490	59,870,312	14,235,662	1,518,709	-	319,873,846
Certificates of deposit issued	-	462,648	13,346,689	6,086,037	1,429,069	-	-	21,324,443
Debt securities in issue measured at amortised cost	-	6,710	4,113,277	11,675,505	978,724	-	-	16,774,216
Subordinated debts measured at amortised cost	-	-	-	-	1,885,492	3,855,008	-	5,740,500
Other liabilities, including current and deferred tax liabilities	70,085	870,961	3,414,350	1,021,857	14,212	-	380,837	5,772,302
Total liabilities	116,890,198	141,175,171	106,831,843	91,030,567	20,214,518	5,641,743	380,837	482,164,877
Net liquidity gap	(57,846,404)	(42,270,661)	(38,972,768)	17,897,211	120,745,252	31,528,176	10,551,258	41,632,064

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

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

At 31 December 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	Undated HK\$'000	Total HK\$'000
Assets								
Cash and balances with banks and other financial institutions	19,496,980	60,559,349	-	-	-	-	5,976,655	86,032,984
Placements with banks and other financial institutions	-	-	8,980,698	8,357,944	-	-	-	17,338,642
Financial assets held for trading	-	-	-	38,476	16,102	7,270	182,027	243,875
Financial assets designated at fair value through profit or loss	-	-	-	101,463	424,183	-	-	525,646
Derivative financial instruments	130,942	174,632	237,179	758,440	1,012,694	794,379	-	3,108,266
Loans and advances to customers, banks and other financial institutions	26,251,157	18,412,974	37,158,645	75,924,234	74,550,811	32,004,549	-	264,302,370
Available-for-sale financial investments	-	-	-	147,800	-	-	-	147,800
- treasury bills	-	-	-	-	-	-	428,332	428,332
- equity securities	-	-	-	-	-	-	-	-
- certificates of deposits held	-	-	-	-	1,473,086	-	-	1,473,086
- other debt securities	-	2,995,324	2,926,288	3,149,512	31,398,379	4,944,929	7,952	45,422,384
Held-to-maturity financial investments	-	-	699,780	464,570	-	-	-	1,164,350
- treasury bills	-	-	-	-	-	-	228,205	228,205
Investment in an associate	-	-	-	-	-	-	1,070,191	1,070,191
Goodwill and other intangible assets	-	-	-	-	-	-	53,423	53,423
Investment properties	-	-	-	-	-	-	756,262	756,262
Property, plant and equipment	-	-	-	-	-	-	-	-
Other assets, including deferred tax assets	9,082	874,225	305,905	1,198,606	174,903	-	822,649	3,385,370
Total assets	45,888,161	83,016,504	50,308,495	90,141,045	109,050,158	37,751,127	9,525,696	425,681,186
Liabilities								
Deposits from banks and other financial institutions	15,943,438	24,753,567	16,459,911	15,240,893	465,105	-	-	72,862,914
Derivative financial instruments	13,386	149,278	228,829	657,665	1,227,306	487,776	-	2,764,240
Deposits from customers	68,984,556	98,980,142	49,740,947	36,822,478	3,617,728	2,220	-	258,148,071
Certificates of deposit issued	-	1,533,911	6,885,106	22,123,711	1,529,635	-	-	32,072,363
Debt securities in issue	-	39,888	1,871,622	6,477,728	1,006,625	-	-	9,395,863
Subordinated debts measured at amortised cost	-	-	-	-	1,855,349	3,850,659	-	5,706,008
Other liabilities, including current and deferred tax liabilities	40,321	562,450	1,229,939	1,951,037	189,436	55	857,450	4,830,688
Total liabilities	84,981,701	126,019,236	76,416,354	83,273,512	9,891,184	4,340,710	857,450	385,780,147
Net liquidity gap	(39,093,540)	(43,002,732)	(26,107,859)	6,867,533	99,158,974	33,410,417	8,668,246	39,901,039

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.2 Fair values of financial assets and liabilities

Financial instruments measured at fair value using a valuation technique

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques.

OTC (i.e. non-exchange traded) derivatives classify in Level 2 are valued using valuation models. For many vanilla derivative products, such as forward exchange contracts, interest rate swaps and options, the modelling approaches used are standard across the industry. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the end of the reporting period.

For more complex derivative products classify in Level 2, inputs to valuation models are determined from observable market data wherever possible, including prices available from exchanges, dealers, brokers or providers of consensus pricing. Certain inputs may not be observable in the market directly, but can be determined from observable prices via model calibration procedures. Examples of inputs that are generally observable include foreign exchange spot and forward rates, benchmark interest rate curves and volatility surfaces for commonly traded option products.

For debt securities classify in Level 2 (where quoted market price from an active market is unavailable), fair value is determined by reference to quoted market prices for similar instruments.

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a “Day 1” profit) in “net trading income”. In cases where data which is not observable is used, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.2 Fair values of financial assets and liabilities (continued)

Determination of fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.2 Fair values of financial assets and liabilities (continued)

30 June 2013	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial assets				
Derivative financial instruments				
Forward foreign exchange contracts	–	2,560,089	–	2,560,089
Structured foreign exchange contracts	–	104,097	–	104,097
Currency swaps	–	153,553	–	153,553
FX options	–	47,201	–	47,201
Interest rate swaps	–	614,341	–	614,341
Interest rate futures	–	–	–	–
Equity swaps	–	–	–	–
Equity options	–	1,168	–	1,168
	<u>–</u>	<u>3,480,449</u>	<u>–</u>	<u>3,480,449</u>
Financial assets held for trading				
Debts securities	62,193	–	–	62,193
Equities	206,923	–	–	206,923
	<u>269,116</u>	<u>–</u>	<u>–</u>	<u>269,116</u>
Financial assets designated at fair value through profit or loss				
Debts securities	418,784	–	–	418,784
	<u>418,784</u>	<u>–</u>	<u>–</u>	<u>418,784</u>
Available-for-sale financial investments				
Debts securities	36,238,818	33,571,248	–	69,810,066
Equities	322,626	–	–	322,626
	<u>36,561,444</u>	<u>33,571,248</u>	<u>–</u>	<u>70,132,692</u>
Total financial assets	<u>37,249,344</u>	<u>37,051,697</u>	<u>–</u>	<u>74,301,041</u>
Financial liabilities				
Derivative financial instruments				
Forward foreign exchange contracts	–	2,756,573	–	2,756,573
Structured foreign exchange contracts	–	107,066	–	107,066
Currency swaps	–	146,340	–	146,340
FX options	–	46,851	–	46,851
Interest rate swaps	–	605,610	–	605,610
Interest rate futures	–	–	–	–
Equity swaps	–	–	–	–
Equity options	–	1,168	–	1,168
Total financial liabilities	<u>–</u>	<u>3,663,608</u>	<u>–</u>	<u>3,663,608</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
4 Financial risk management (continued)
4.2 Fair values of financial assets and liabilities (continued)

31 December 2012	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial assets				
Derivative financial instruments				
Forward foreign exchange contracts	–	2,024,375	–	2,024,375
Structured foreign exchange contracts	–	14,725	–	14,725
Currency swaps	–	2,267	–	2,267
FX options	–	47,496	–	47,496
Interest rate swaps	–	1,013,538	–	1,013,538
Interest rate futures	–	49	–	49
Equity swaps	–	3,617	–	3,617
Equity options	–	2,199	–	2,199
	<u>–</u>	<u>3,108,266</u>	<u>–</u>	<u>3,108,266</u>
Financial assets held for trading				
Debts securities	61,848	–	–	61,848
Equities	182,027	–	–	182,027
	<u>243,875</u>	<u>–</u>	<u>–</u>	<u>243,875</u>
Financial assets designated at fair value through profit or loss				
Debts securities	424,183	101,463	–	525,646
	<u>424,183</u>	<u>101,463</u>	<u>–</u>	<u>525,646</u>
Available-for-sale financial investments				
Debts securities	37,780,796	9,249,932	4,589	47,035,317
Equities	422,102	–	–	422,102
	<u>38,202,898</u>	<u>9,249,932</u>	<u>4,589</u>	<u>47,457,419</u>
Total financial assets	<u>38,870,956</u>	<u>12,459,661</u>	<u>4,589</u>	<u>51,335,206</u>
Financial liabilities				
Derivative financial instruments				
Forward foreign exchange contracts	–	1,775,280	–	1,775,280
Structured foreign exchange contracts	–	13,455	–	13,455
Currency swaps	–	29,601	–	29,601
FX options	–	44,602	–	44,602
Interest rate swaps	–	895,375	–	895,375
Interest rate futures	–	111	–	111
Equity swaps	–	3,617	–	3,617
Equity options	–	2,199	–	2,199
	<u>–</u>	<u>2,764,240</u>	<u>–</u>	<u>2,764,240</u>
Total financial liabilities	<u>–</u>	<u>2,764,240</u>	<u>–</u>	<u>2,764,240</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.2 Fair values of financial assets and liabilities (continued)

Movements in level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amounts of Level 3 financial assets which are recorded at fair value:

	At 1 January 2013 HK\$'000	Total gains/(losses) recorded in profit or loss HK\$'000	Total gains/(losses) recorded in equity HK\$'000	At 30 June 2013 HK\$'000
Financial assets				
Available-for-sale financial investments				
Debts securities	4,589	–	(4,589)	–
Total level 3 financial assets	4,589	–	(4,589)	–

	At 1 January 2012 HK\$'000	Total gains/(losses) recorded in profit or loss HK\$'000	Total gains/(losses) recorded in equity HK\$'000	At 31 December 2012 HK\$'000
Financial assets				
Available-for-sale financial investments				
Debts securities	3,968	–	621	4,589
Total level 3 financial assets	3,968	–	621	4,589

Gains/losses on Level 3 financial instruments included in the income statement for the period/year comprise:

2013	Unrealised losses HK\$'000	Unrealised gains HK\$'000	Total HK\$'000
Total gains/losses included in income statement for the period	–	–	–
2012	Unrealised losses HK\$'000	Unrealised gains HK\$'000	Total HK\$'000
Total gains/losses included in income statement for the year	–	–	–

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.2 Fair values of financial assets and liabilities (continued)

During the half year ended 30 June 2013 and the year ended 31 December 2012, there was no transfer into or out of Level 3.

Significant transfers between Level 1 and 2

The following tables show significant transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets and liabilities which are recorded at fair value:

	Transfers from level 2 to level 1	
	2013	2012
	HK\$'000	HK\$'000
Available-for-sale financial investments		
Debts securities	–	416,085
Financial assets designated at fair value through profit and loss		
Debts securities	–	82,272

The above financial assets were transferred from Level 2 to Level 1 as they have been actively traded during the year ended 31 December 2012 and fair values were no longer obtained using valuation techniques by using observable market inputs. And there were no financial instruments transfer from Level 2 to Level 1 during the half year ended 30 June 2013.

During the half year ended 30 June 2013 and the year ended 31 December 2012, there was no financial instruments transfer from Level 1 to Level 2.

Transfers between levels of the fair value hierarchy are deemed to occur at the end of the reporting period.

5 Segment reporting

5.1 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.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

5 Segment reporting (continued)

5.1 Class of business (continued)

30 June 2013	Corporate and investment banking	Commercial banking	Retail banking	Global markets and trading	Institutional banking	Chinese Mercantile Bank	Unallocated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net interest income	713,770	967,274	341,236	351,994	150,833	664,443	108,610	3,298,160
Fee and commission income	182,000	307,622	260,646	9	54,038	64,137	1,758	870,210
Fee and commission expense	(30,314)	(11,817)	(99,034)	–	–	(6,075)	1,026	(146,214)
Net fee and commission income	151,686	295,805	161,612	9	54,038	58,062	2,784	723,996
Net trading income/(expense)	22,024	115,325	26,013	18,789	10,833	(22,241)	69,047	239,790
Net gain on financial assets and liabilities designated at fair value through profit or loss	–	–	–	(7,171)	–	–	–	(7,171)
Dividend income from financial Investments	–	–	–	–	–	–	4,832	4,832
Other operating income	145	51	216	2	–	4,602	6,168	11,184
Operating income	887,625	1,378,455	529,077	363,623	215,704	704,866	191,441	4,270,791
Operating expenses	(82,822)	(220,076)	(412,182)	(104,352)	(53,706)	(192,160)	(6,448)	(1,071,746)
Operating profit before impairment losses	804,803	1,158,379	116,895	259,271	161,998	512,706	184,993	3,199,045
Charge for impairment losses on loans and advances	(30,394)	(55,367)	(10,081)	105	(18,492)	(21,550)	(4,908)	(140,687)
Charge for impairment losses on available-for-sale financial investments	–	–	–	(676)	–	–	–	(676)
Operating profit after impairment losses	774,409	1,103,012	106,814	258,700	143,506	491,156	180,085	3,057,682
Revaluation gain on investment properties	–	–	–	–	–	–	2,700	2,700
Net loss from disposal/reversal of revaluation deficits of property, plant and equipment	–	(3)	(152)	–	–	–	(38)	(193)
Gain on disposal of loans and advances	–	–	–	–	–	–	–	–
Net gain on disposal of available-for-sale financial investments	–	–	–	5,882	–	5,195	–	11,077
Operating profit	774,409	1,103,009	106,662	264,582	143,506	496,351	182,747	3,071,266
Share of profit of an associate	–	–	–	–	–	–	10,572	10,572
Profit before tax	774,409	1,103,009	106,662	264,582	143,506	496,351	193,319	3,081,838
Segment assets	87,064,989	121,943,151	34,517,539	169,466,514	31,778,871	98,782,143	(22,687,943)	520,865,264
Investment in an associate	–	–	–	–	–	–	238,777	238,777
Unallocated assets	–	–	–	–	–	–	2,692,900	2,692,900
Total assets	87,064,989	121,943,151	34,517,539	169,466,514	31,778,871	98,782,143	(19,756,266)	523,796,941
Segment liabilities	86,302,937	124,257,574	35,018,597	142,387,971	46,809,742	92,252,009	(16,217,675)	510,811,155
Unallocated liabilities	–	–	–	–	–	–	(28,646,278)	(28,646,278)
Total liabilities	86,302,937	124,257,574	35,018,597	142,387,971	46,809,742	92,252,009	(44,863,953)	482,164,877
Capital expenditure	43	77	30,458	164	5,520	3,332	31,727	71,321
Depreciation and amortisation charges	92	405	14,259	1,602	287	20,657	21,875	59,177

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
5 Segment reporting (continued)
5.1 Class of business (continued)

(Restated) 30 June 2012	Corporate and investment banking	Commercial banking	Retail banking	Global markets and trading	Institutional banking	Chinese Mercantile Bank	Unallocated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net interest income	497,651	923,125	281,998	145,041	138,303	607,626	113,084	2,706,828
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	(48,649)	3,311	3,455	21,528	125,792
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)
Gain on disposal of loans and advances	–	111	–	–	–	–	–	111
Net (loss)/gain on disposal of available-for-sale financial investments	–	–	–	(143,802)	–	–	340,028	196,226
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)

5.2 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 2013

	Hong Kong HK\$'000	Asia Pacific (excluding Hong Kong) HK\$'000	Consolidated HK\$'000
Operating income (net of interest expense)	3,412,495	858,296	4,270,791
Profit before tax	2,433,019	648,819	3,081,838
Total assets	425,018,509	98,778,432	523,796,941
Total liabilities	389,918,648	92,246,229	482,164,877
Contingent liabilities and commitments	192,651,570	18,724,331	211,375,901
Capital expenditure during the period	67,989	3,332	71,321

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

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

6 Net interest income

	30 Jun 2013	(Restated) 30 Jun 2012
	HK\$'000	HK\$'000
Interest income on:		
Cash and balances with banks and other financial institutions	290,272	387,765
Placements with banks and other financial institutions	377,763	571,612
Loans and advances to customers, banks and other financial institutions	4,387,095	4,260,318
Financial investments – available-for-sale	1,032,398	544,387
Financial investments – held-to-maturity	843	1,037
	<u>6,088,371</u>	<u>5,765,119</u>
Financial assets held for trading	1,121	925
Financial assets designated at fair value through profit or loss	12,225	19,172
	<u>6,101,717</u>	<u>5,785,216</u>
Interest expense on:		
Deposits from banks and other financial institutions	545,604	306,972
Deposits from customers	1,776,814	2,080,113
Certificates of deposit issued	131,650	314,330
Debt securities in issue measured at amortised cost	112,387	75,228
Subordinated debts measured at amortised cost	157,597	189,194
Others	79,505	112,374
	<u>2,803,557</u>	<u>3,078,211</u>
Financial liabilities designated at fair value through profit or loss	–	177
	<u>2,803,557</u>	<u>3,078,388</u>
Net interest income	<u><u>3,298,160</u></u>	<u><u>2,706,828</u></u>

Included in the above is interest income accrued on impaired financial assets of HK\$14,398,789 (First half of 2012: HK\$21,840,206), including unwinding of discounts on loan impairment losses of HK\$7,999,299 (First half of 2012: HK\$14,186,919).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

7 Net fee and commission income

	30 Jun 2013	30 Jun 2012
	HK\$'000	HK\$'000
Loans, overdrafts and guarantees	343,503	266,095
Securities and brokerage	72,945	63,346
Trade finance	184,238	204,893
Credit cards	118,036	83,734
Remittance	31,487	30,573
Insurance	17,853	12,328
Other retail and commercial banking services	7,394	8,255
Securities arrangement fee	21,902	29,260
Others	72,852	46,325
	<u> </u>	<u> </u>
Fee and commission income	870,210	744,809
Fee and commission expense	(146,214)	(131,720)
	<u> </u>	<u> </u>
Net fee and commission income	<u>723,996</u>	<u>613,089</u>
Of which:		
Net fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are neither held for trading nor designated at fair value through profit or loss	527,741	470,988
Net fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	9,641	17,979
	<u> </u>	<u> </u>
	30 Jun 2013	30 Jun 2012
	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	161,706	134,782
– credit card	118,036	83,734
– term loan	108,484	33,277
– bill refinancing	77,550	115,222

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

8 Net trading income

	30 Jun 2013 HK\$'000	(Restated) 30 Jun 2012 HK\$'000
Equity investments	9,733	21,549
Debt securities – financial assets held for trading	432	2,289
– available-for-sale financial investments	(4,113)	(28,930)
Derivatives	58,306	57,424
Foreign exchange	<u>172,502</u>	<u>73,092</u>
	236,860	125,424
Gain/(loss) from hedging activities		
Fair value hedges		
– Net loss on hedged items attributable to the hedged risk	(112,486)	(21,332)
– Net gain on hedging instruments	<u>115,416</u>	<u>21,700</u>
	2,930	368
Total net trading income	<u>239,790</u>	<u>125,792</u>

There is no gain or loss on financial liabilities measured at amortised cost which is included in total net trading income for first half of 2013 (First half of 2012: Nil).

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

	30 Jun 2013 HK\$'000	30 Jun 2012 HK\$'000
Financial assets designated at fair value through profit or loss	(7,171)	(2,851)
Financial liabilities designated at fair value through profit or loss	<u>–</u>	<u>–</u>
Total net loss on financial assets and liabilities designated at fair value through profit or loss	<u>(7,171)</u>	<u>(2,851)</u>

10 Dividend income from financial investments

	30 Jun 2013 HK\$'000	30 Jun 2012 HK\$'000
Dividend income from listed financial assets held for trading	1,332	1,188
Dividend income from unlisted available-for-sale financial investments	<u>3,500</u>	<u>3,550</u>
Total dividend income from financial investments	<u>4,832</u>	<u>4,738</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

11 Other operating income

	30 Jun 2013 HK\$'000	30 Jun 2012 HK\$'000
Management fee income	3,000	3,000
Rental income	21	15
Rental income from investment properties	1,326	1,268
Less: Direct operating expenses arising from investment properties that generated rental income during the period	(48)	(104)
Others	<u>6,885</u>	<u>4,766</u>
Total other operating income	<u><u>11,184</u></u>	<u><u>8,945</u></u>

12 Operating expenses

	30 Jun 2013 HK\$'000	30 Jun 2012 HK\$'000
Staff costs		
– Salaries and other costs	529,718	503,277
– Retirement benefit costs	<u>30,152</u>	<u>22,465</u>
	<u>559,870</u>	<u>525,742</u>
Premises and equipment expenses, excluding depreciation and amortisation		
– Rental of premises	180,323	164,310
– Others	<u>42,649</u>	<u>41,676</u>
	<u>222,972</u>	<u>205,986</u>
Depreciation and amortisation expenses	59,177	39,053
Auditors' remuneration	2,912	2,980
General administration expenses	28,631	23,427
Business promotion expenses	32,388	31,073
Communication expenses	32,756	24,871
Other operating expenses	<u>133,040</u>	<u>115,299</u>
Total operating expenses	<u><u>1,071,746</u></u>	<u><u>968,431</u></u>

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

	30 Jun 2013	30 Jun 2012
	HK\$'000	HK\$'000
Charge for impairment losses on loans and advances		
Individually assessed		
– New allowances	12,720	90,114
– Releases	(15,749)	(13,448)
– Recoveries	(6,544)	(1,407)
Net (write-back)/charge for impairment losses on individually assessed loans and advances	<u>(9,573)</u>	<u>75,259</u>
Collectively assessed		
– New allowances	<u>150,260</u>	<u>113,125</u>
Net charge for impairment losses on collectively assessed loans and advances	<u>150,260</u>	<u>113,125</u>
Net charge to the income statement	<u>140,687</u>	<u>188,384</u>

14 Taxation

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 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 2013	30 Jun 2012
	HK\$'000	HK\$'000
Current tax – Provision for Hong Kong profits tax for the period	424,301	253,713
– Provision for overseas tax for the period	235,205	268,338
(Overprovision)/underprovision in respect of prior years	(112)	1,162
Deferred taxation relating to the origination and reversal of temporary differences	<u>(23,879)</u>	<u>(212)</u>
	<u>635,515</u>	<u>523,001</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

14 Taxation (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 2013 HK\$'000	30 Jun 2012 HK\$'000
Profit before tax	3,081,838	2,506,604
Calculated at a tax rate of 16.5% (2012: 16.5%)	508,502	413,590
Effect of different tax rates in other countries	123,096	166,627
Income not subject to tax	(6,837)	(62,401)
Expenses not deductible for tax purposes	12,610	5,486
Adjustments in respect of tax of previous periods	(112)	1,219
Share of tax of an associate	(1,744)	(1,463)
Taxation of partnership	—	(57)
Tax charge	<u>635,515</u>	<u>523,001</u>

15 Interim dividend

At a meeting held on 26 August 2013, the Board has not recommended the payment of interim dividend for the six months ended 30 June 2013 (First half of 2012: 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 2013	30 Jun 2012
Profit attributable to equity holders of the Bank (HK\$'000)	2,446,323	1,983,603
Weighted average number of ordinary shares in issue (thousands)	2,064,748	1,731,415
Basic earnings per share (HK\$)	HK\$1.18	HK\$1.15

Diluted earnings per share amount for the periods ended 30 June 2013 and 30 June 2012 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 2013	31 Dec 2012
	HK\$'000	HK\$'000
Cash on hand	538,330	489,830
Balances with central banks	27,589,954	15,997,434
Balances with other banks and financial institutions	6,156,117	8,986,343
Placements with banks and other financial institutions maturing within one month	67,516,872	60,559,377
	<u>101,801,273</u>	<u>86,032,984</u>

18 Placements with banks and other financial institutions

	30 Jun 2013	31 Dec 2012
	HK\$'000	HK\$'000
Placements with banks and other financial institutions maturing between one and twelve months	<u>20,923,339</u>	<u>17,338,642</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\$3,510,102,417 (the amount of the Reverse Repo) as at 30 June 2013 (31 December 2012: Nil). No collateral has been actually sold or repledged by the Group as at 30 June 2013 and 31 December 2012. The transactions are conducted on terms that are usual and customary to standard lending activities.

19 Financial assets held for trading

	30 Jun 2013	31 Dec 2012
	HK\$'000	HK\$'000
Debt securities, at fair value:		
Listed in Hong Kong	35,698	35,754
Unlisted	26,495	26,094
	<u>62,193</u>	<u>61,848</u>
Equity securities, at fair value:		
Listed in Hong Kong	206,923	182,027
Total financial assets held for trading	<u>269,116</u>	<u>243,875</u>
Financial assets held for trading are analysed by category of issuer as follows:		
Banks and other financial institutions	233,418	208,121
Corporate entities	35,698	35,754
	<u>269,116</u>	<u>243,875</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

20 Financial assets designated at fair value through profit or loss

	30 Jun 2013 HK\$'000	31 Dec 2012 HK\$'000
Debt securities, at fair value:		
Listed in Hong Kong	81,576	82,272
Listed outside Hong Kong	175,803	261,063
Unlisted	<u>161,405</u>	<u>182,311</u>
Total financial assets designated at fair value through profit or loss	<u><u>418,784</u></u>	<u><u>525,646</u></u>
Financial assets designated at fair value through profit or loss are analysed by category of issuer as follows:		
Public sector entities	118,650	120,511
Corporate entities	<u>300,134</u>	<u>405,135</u>
	<u><u>418,784</u></u>	<u><u>525,646</u></u>

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.

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

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.

The following tables summarise the contractual/notional amounts of each significant type of derivative financial instrument as at 30 June 2013 and 31 December 2012:

As at 30 June 2013	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	362,661,462	2,704,444	(2,902,179)
– OTC currency options purchased	5,405,402	47,201	–
– OTC currency options written	5,357,300	–	(46,851)
– Structured foreign exchange instruments	1,237,057	<u>104,097</u>	<u>(107,066)</u>
Total foreign exchange derivatives		2,855,742	(3,056,096)
b) Interest rate derivatives			
– Interest rate swaps	66,442,678	390,772	(308,250)
– Interest rate futures	6,248,183	–	–
Total interest rate derivatives		390,772	(308,250)
c) Equity derivatives			
– Equity options	32,596	1,168	(1,168)
– Equity swaps	–	–	–
Total equity derivatives		<u>1,168</u>	<u>(1,168)</u>
Total derivative assets/(liabilities) held for trading		<u>3,247,682</u>	<u>(3,365,514)</u>
2) Derivatives held for hedging			
a) Derivatives designated as fair value hedges			
– Interest rate swaps	5,566,453	–	(218,172)
– Cross currency swaps	544,693	<u>9,198</u>	<u>(735)</u>
		9,198	(218,907)
b) Derivatives designated as cash flow hedges			
– Interest rate swaps	6,676,957	<u>223,569</u>	<u>(55,468)</u>
		<u>223,569</u>	<u>(55,468)</u>
Total derivative assets/(liabilities) held for hedging		<u>232,767</u>	<u>(274,375)</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	558,497	–	(23,719)
Total derivative assets/(liabilities) not qualified as hedges		–	(23,719)
Total recognised derivative assets/(liabilities)		<u>3,480,449</u>	<u>(3,663,608)</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

21 Derivative financial instruments (continued)

As at 31 December 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	291,868,004	2,024,375	(1,775,280)
– OTC currency options purchased	6,938,674	47,496	–
– OTC currency options written	6,727,931	–	(44,602)
– Structured foreign exchange instruments	477,786	<u>14,725</u>	<u>(13,455)</u>
Total foreign exchange derivatives		2,086,596	(1,833,337)
b) Interest rate derivatives			
– Interest rate swaps	59,338,111	518,118	(462,055)
– Interest rate futures	8,454,343	<u>49</u>	<u>(111)</u>
Total interest rate derivatives		518,167	(462,166)
c) Equity derivatives			
– Equity options	228,217	2,199	(2,199)
– Equity swaps	67,699	<u>3,617</u>	<u>(3,617)</u>
Total equity derivatives		<u>5,816</u>	<u>(5,816)</u>
Total derivative assets/(liabilities) held for trading		<u>2,610,579</u>	<u>(2,301,319)</u>
2) Derivatives held for hedging			
a) Derivatives designated as fair value hedges			
– Interest rate swaps	5,803,475	–	(323,568)
– Cross currency swaps	544,299	<u>2,267</u>	<u>(29,601)</u>
		2,267	(353,169)
b) Derivatives designated as cash flow hedges			
– Interest rate swaps	8,099,579	<u>495,420</u>	<u>(78,995)</u>
		<u>495,420</u>	<u>(78,995)</u>
Total derivative assets/(liabilities) held for hedging		<u>497,687</u>	<u>(432,164)</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	503,068	–	(30,757)
Total derivative assets/(liabilities) not qualified as hedges		–	<u>(30,757)</u>
Total recognised derivative assets/(liabilities)		<u>3,108,266</u>	<u>(2,764,240)</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 2013	30 Jun 2012
	HK\$'000	HK\$'000
Gain/(loss) arising from fair value hedge, net:		
– Hedging instruments	115,416	21,700
– Hedged items attributable to the hedged risk	(112,486)	(21,332)
	<u>2,930</u>	<u>368</u>

Cash flow hedge consists of 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 (2012: Nil).

Below is a schedule indicating as at 30 June 2013 and 31 December 2012, 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 2013	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Cash inflows (assets)	17	32	49	–
Cash outflows (liabilities)	(3)	(4)	(4)	–
Net cash flows	14	28	45	–
31 December 2012				
Cash inflows (assets)	19	37	64	–
Cash outflows (liabilities)	(4)	(5)	(4)	–
Net cash flows	15	32	60	–

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

21 Derivative financial instruments (continued)

During the period, realised gain amounting to HK\$45,240,000 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 2012: Realised gain of HK\$36,556,000).

There were no transactions for which cash flow hedge accounting had to be ceased in the first half of 2013 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 2013		31 Dec 2012	
	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000
Contingent liabilities and commitments	–	13,690,796	–	20,104,803
Exchange rate contracts				
– Forwards	2,494,985	4,014,586	2,315,902	2,431,007
– Swaps	172,141	588,235	119,087	256,148
– Options	65,689	190,827	25,056	87,508
	<u>2,732,815</u>	<u>4,793,648</u>	<u>2,460,045</u>	<u>2,774,663</u>
Interest rate contracts				
– Swaps	617,424	663,469	1,013,538	901,776
– Futures	2,094	30,407	–	–
	<u>619,518</u>	<u>693,876</u>	<u>1,013,538</u>	<u>901,776</u>
Equity contracts				
– Swaps	–	–	3,617	7,679
– Options	1,168	429	2,199	1,809
	<u>1,168</u>	<u>429</u>	<u>5,816</u>	<u>9,488</u>
	<u>3,353,501</u>	<u>19,178,749</u>	<u>3,479,399</u>	<u>23,790,730</u>

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

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
22 Loans and advances to customers, banks and other financial institutions
22.1 Loans and advances to customers, banks and other financial institutions

	30 Jun 2013	31 Dec 2012
	HK\$'000	HK\$'000
Advances to customers	225,997,552	203,558,979
Advances to banks and other financial institutions	30,242,014	19,373,612
Trade bills	<u>62,349,941</u>	<u>42,260,284</u>
Gross loans and advances to customers, banks and other financial institutions	318,589,507	265,192,875
Accrued interest	<u>805,030</u>	<u>932,059</u>
	<u>319,394,537</u>	<u>266,124,934</u>
Less: impairment allowances		
– Individually assessed	(773,842)	(788,258)
– Collectively assessed	<u>(1,194,750)</u>	<u>(1,034,306)</u>
	<u>317,425,945</u>	<u>264,302,370</u>
	30 Jun 2013	31 Dec 2012
	HK\$'000	HK\$'000
Gross impaired loans and advances	1,421,572	1,241,741
Impairment allowances made in respect of such loans	773,842	788,258
Gross impaired loans and advances as a percentage of total gross loans and advances	0.45%	0.47%
Market value of collateral	<u>964,027</u>	<u>811,244</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 2013 and 31 December 2012; 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)

22.2 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 2013						
Six months or less but over three months	58,903	0.0	10,156	6,072	52,831	34,644
One year or less but over six months	10,475	0.0	4,586	4,188	6,287	3,856
Over one year	<u>661,879</u>	<u>0.3</u>	<u>251,166</u>	<u>245,029</u>	<u>416,850</u>	<u>480,143</u>
	<u><u>731,257</u></u>	<u><u>0.3</u></u>	<u><u>265,908</u></u>	<u><u>255,289</u></u>	<u><u>475,968</u></u>	<u><u>518,643</u></u>
As at 31 Dec 2012						
Six months or less but over three months	4,721	0.0	8,706	1,018	3,703	2,017
One year or less but over six months	110,229	0.1	764	764	109,465	102,054
Over one year	<u>563,761</u>	<u>0.3</u>	<u>166,762</u>	<u>160,961</u>	<u>402,800</u>	<u>405,084</u>
	<u><u>678,711</u></u>	<u><u>0.4</u></u>	<u><u>176,232</u></u>	<u><u>162,743</u></u>	<u><u>515,968</u></u>	<u><u>509,155</u></u>

The criteria for eligible collateral are as follows:

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

The eligible collaterals are mainly properties, deposits and shares.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

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

22.3 Other overdue assets

	30 Jun 2013 Accrued interest HK\$'000	30 Jun 2013 Other assets HK\$'000	31 Dec 2012 Accrued interest HK\$'000	31 Dec 2012 Other assets HK\$'000
Six months or less but over three months	6,013	–	2,818	48,711
One year or less but over six months	–	–	2,708	7,000
Over one year	<u>132,940</u>	<u>11,533</u>	<u>107,728</u>	<u>4,526</u>
	<u>138,953</u>	<u>11,533</u>	<u>113,254</u>	<u>60,237</u>

Other assets refer to trade bills and receivables.

22.4 Rescheduled advances

	30 Jun 2013 HK\$'000	As % of advances to customers	31 Dec 2012 HK\$'000	As % of advances to customers
Rescheduled advances (excluding loans overdue over three months)	<u>1,838</u>	<u>0.00</u>	<u>2,115</u>	<u>0.00</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 note 22.2 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 2013 and 31 December 2012.

22.5 Repossessed assets

At 30 June 2013, the Group has no repossessed assets (31 December 2012: Nil). These are properties which the Group has acquired access to or control of (e.g., through legal actions or voluntary actions by the borrowers concerned) for releasing in full or in part the obligations of the borrowers.

22.6 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\$2,324,251,029 (the amount of the Reverse Repo) as at 30 June 2013 (31 December 2012: HK\$1,600,913,000). No collateral has been actually sold or repledged by the Group as at 30 June 2013 and 31 December 2012. 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 2013 HK\$'000	31 Dec 2012 HK\$'000
Debt securities:		
Listed in Hong Kong	8,800,387	6,495,716
Listed outside Hong Kong	32,117,733	21,989,895
Unlisted	<u>28,891,946</u>	<u>18,557,659</u>
	<u>69,810,066</u>	<u>47,043,270</u>
Equity securities:		
Listed in Hong Kong	322,626	422,102
Unlisted	<u>6,230</u>	<u>6,230</u>
	<u>328,856</u>	<u>428,332</u>
Total available-for-sale financial investments	<u>70,138,922</u>	<u>47,471,602</u>
Market value of listed securities	<u>41,240,746</u>	<u>28,907,713</u>
Debt securities after taking into account impairment losses comprise the following items:		
Treasury bills	–	147,800
Certificates of deposit held	5,098,595	1,473,086
Other debt securities	<u>64,711,471</u>	<u>45,422,384</u>
	<u>69,810,066</u>	<u>47,043,270</u>
Available-for-sale financial investments are analysed by category of issuer as follows:		
Central governments and central banks	1,065,667	1,841,265
Public sector entities	927,945	973,695
Banks and other financial institutions	38,224,291	30,827,901
Corporate entities	29,920,342	13,828,064
Others	<u>677</u>	<u>677</u>
	<u>70,138,922</u>	<u>47,471,602</u>

Movement in individual impairment allowances on available-for-sale financial investments

	30 Jun 2013 HK\$'000	31 Dec 2012 HK\$'000
At 1 January	77,512	–
Charge for the period/year	676	77,512
Write-off during the period/year	<u>(676)</u>	<u>–</u>
At 30 June/31 December	<u>77,512</u>	<u>77,512</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

24 Held-to-maturity financial investments

	30 Jun 2013	31 Dec 2012
	HK\$'000	HK\$'000
Debt securities: Unlisted	<u>1,163,963</u>	<u>1,164,350</u>
Total held-to-maturity financial investments	<u>1,163,963</u>	<u>1,164,350</u>
Debt securities after taking into account impairment losses comprise the following items:		
Treasury bills	<u>1,163,963</u>	<u>1,164,350</u>
Held-to-maturity financial investments are analysed by category of issuer as follows:		
Central governments and central banks	<u>1,163,963</u>	<u>1,164,350</u>

The securities are mainly held for liquidity management purpose.

25 Investment properties

	30 Jun 2013	31 Dec 2012
	HK\$'000	HK\$'000
Carrying amount at 1 January	53,423	75,816
Transfer out during the period/year	–	(17,389)
Disposals	–	(18,000)
Net revaluation gain	<u>2,700</u>	<u>12,996</u>
Carrying amount at 30 June/31 December	<u>56,123</u>	<u>53,423</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 2012 and 1 January 2013:				
Cost or valuation	678,890	262,829	300,464	1,242,183
Accumulated depreciation and impairment	<u>(150,168)</u>	<u>(143,040)</u>	<u>(192,713)</u>	<u>(485,921)</u>
Net book value at 31 December 2012 and 1 January 2013	<u>528,722</u>	<u>119,789</u>	<u>107,751</u>	<u>756,262</u>
Transfer in from investment property	–	–	–	–
Additions	2,203	26,166	25,017	53,386
Disposals	–	(17)	(1,037)	(1,054)
Revaluation	111,244	–	–	111,244
Depreciation provided during the period	(18,645)	(13,494)	(13,194)	(45,333)
Exchange rate and other adjustments	<u>783</u>	<u>–</u>	<u>(686)</u>	<u>97</u>
Net book value at 30 June 2013	<u>624,307</u>	<u>132,444</u>	<u>117,851</u>	<u>874,602</u>
At 30 June 2013:				
Cost or valuation	786,378	284,936	316,974	1,388,288
Accumulated depreciation and impairment	<u>(162,071)</u>	<u>(152,492)</u>	<u>(199,123)</u>	<u>(513,686)</u>
Net book value at 30 June 2013	<u>624,307</u>	<u>132,444</u>	<u>117,851</u>	<u>874,602</u>
The analysis of cost or valuation of the above assets is as follows:				
At 30 June 2013:				
At cost	–	284,936	316,974	601,910
At valuation	<u>624,307</u>	<u>–</u>	<u>–</u>	<u>624,307</u>
	<u>624,307</u>	<u>284,936</u>	<u>316,974</u>	<u>1,226,217</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 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>
Additions	–	37,273	39,245	76,518
Transfer in from investment property	17,389	–	–	17,389
Disposals	–	(5,608)	(2,314)	(7,922)
Revaluation	156,872	–	–	156,872
Depreciation provided during the year	(22,791)	(23,391)	(29,650)	(75,832)
Exchange rate and other adjustments	<u>(5,301)</u>	<u>–</u>	<u>1,044</u>	<u>(4,257)</u>
Net book value at 31 December 2012	<u>528,722</u>	<u>119,789</u>	<u>107,751</u>	<u>756,262</u>
At 31 December 2012:	678,890	262,829	300,464	1,242,183
Cost or valuation				
Accumulated depreciation and impairment	<u>(150,168)</u>	<u>(143,040)</u>	<u>(192,713)</u>	<u>(485,921)</u>
Net book value at 31 December 2012	<u>528,722</u>	<u>119,789</u>	<u>107,751</u>	<u>756,262</u>
The analysis of cost or valuation of the above assets is as follows:				
At 31 December 2012:				
At cost	–	262,829	300,464	563,293
At valuation	<u>528,722</u>	<u>–</u>	<u>–</u>	<u>528,722</u>
	<u>528,722</u>	<u>262,829</u>	<u>300,464</u>	<u>1,092,015</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

27 Other assets

	30 Jun 2013 HK\$'000	31 Dec 2012 HK\$'000
Interest receivable	1,181,005	873,614
Prepayments	184,082	210,043
Settlement accounts	3,333,933	1,176,284
Margin deposit paid	591,948	369,551
Partnership	–	233,410
Factoring receivables	327,706	335,101
Others	291,717	175,852
	<u>5,910,391</u>	<u>3,373,855</u>

28 Deposits from customers

	30 Jun 2013 HK\$'000	31 Dec 2012 HK\$'000
Demand deposits and current accounts	45,488,420	22,106,941
Savings deposits	47,676,598	46,221,026
Time, call and notice deposits	226,708,828	189,820,104
	<u>319,873,846</u>	<u>258,148,071</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% (2012: 16.5%).

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

	30 Jun 2013 HK\$'000	31 Dec 2012 HK\$'000
At 1 January	(241,560)	(9,502)
Credited to income statement	23,879	20,664
Credited/(debited) to equity	174,835	(256,395)
Exchange and other adjustments	1,038	3,673
	<u>(41,808)</u>	<u>(241,560)</u>
At 30 June/31 December	<u>(41,808)</u>	<u>(241,560)</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)

The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	30 Jun 2013	31 Dec 2012
	HK\$'000	HK\$'000
Net deferred income tax assets recognised in the consolidated statement of financial position	18,618	11,515
Net deferred income tax liabilities recognised in the consolidated statement of financial position	<u>(60,426)</u>	<u>(253,075)</u>
At 30 June/31 December	<u>(41,808)</u>	<u>(241,560)</u>
	30 Jun 2013	31 Dec 2012
	HK\$'000	HK\$'000
Deferred income tax assets, net		
to be recovered after more than 12 months	145,061	121,065
to be recovered within 12 months	<u>–</u>	<u>–</u>
	<u>145,061</u>	<u>121,065</u>
Deferred income tax liabilities, net		
to be settled after more than 12 months	(186,869)	(361,581)
to be settled within 12 months	<u>–</u>	<u>(1,044)</u>
	<u>(186,869)</u>	<u>(362,625)</u>
Deferred income tax liabilities, net	<u>(41,808)</u>	<u>(241,560)</u>

30 Subordinated debts measured at amortised cost

	30 Jun 2013		31 Dec 2012	
	Interest rate		Interest rate	
	HK\$'000	%	HK\$'000	%
Subordinated fixed rate notes				
– with a final maturity on 30 November 2020	3,855,008	5.125%	3,850,659	5.125%
– with a final maturity on 4 November 2021 (callable on 5 November 2016)	<u>1,885,492</u>	6%	<u>1,855,349</u>	6%
	<u>5,740,500</u>		<u>5,706,008</u>	

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

The Bank has not had any default of principal or interest or other breaches with respect to the subordinated debts during the period (2012: Nil).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

31 Other liabilities

	30 Jun 2013 HK\$'000	31 Dec 2012 HK\$'000
Interest payable	1,621,900	1,704,640
Salaries and welfare payable	202,689	263,813
Settlement accounts	1,401,674	1,612,881
Margin deposit received	670,462	270,477
Factoring payables	327,706	335,101
Others	808,843	128,639
	<u>5,033,274</u>	<u>4,315,551</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 (2012: Nil).

32 Share capital

	Number of shares (in thousands)	Ordinary shares HK\$'000	Ordinary share premium HK\$'000
At 1 January 2013 and 30 June 2013	<u>2,064,748</u>	<u>4,129,497</u>	<u>19,462,335</u>
At 1 January 2012	1,731,415	3,462,830	14,529,002
Allotment of new shares	333,333	666,667	4,933,333
Share issue expenses	—	—	—
At 31 December 2012	<u>2,064,748</u>	<u>4,129,497</u>	<u>19,462,335</u>

The total number of authorised ordinary shares is 2,580 million shares (2012: 2,580 million shares) with a par value of HK\$2 per share (2012: HK\$2 per share) and 500 million ordinary shares (2012: 500 million shares) with a par value of RMB2 per share (2012: RMB2 per share). All issued shares are fully paid and rank equally in terms of voting rights and dividends.

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 represents 10% of the profit after tax appropriation and 1% of the book value of risk assets as required by law and regulation in PRC. This reserve is used to offset accumulated losses or increase in capital.

As at 30 June 2013, the Group has earmarked a “Regulatory Reserve” of HK\$3,743,387,000 (31 December 2012: HK\$3,076,184,000) 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\$1,903,708,000 (31 December 2012: HK\$3,026,999,000) 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.

34.1 Ultimate holding company

	Six months ended	
	30 Jun 2013	30 Jun 2012
	HK\$'000	HK\$'000
Interest income	436,777	934,492
Interest expense	436,563	544,769
Other operating income ^{1,2}	35,448	114,152
Other operating expenses ^{3,4}	52,178	64,144
	30 Jun 2013	31 Dec 2012
	HK\$'000	HK\$'000
Amounts due from	87,288,770	50,853,639
Amounts due to	86,616,429	79,378,804

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

34 Related party transactions (continued)

34.1 Ultimate holding company (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, and amendment and restatement agreement to the memorandum of Understanding dated 21 December 2012, 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 23 May 2012, 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 2013, the Bank has issued certificates of deposit with a nominal value of US\$1,600,000,000 and CNY500,000,000 to the ultimate holding company (First half of 2012: certificates of deposit with a nominal value of US\$1,400,000,000).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**34 Related party transactions (continued)****34.1 Ultimate holding company (continued)****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 2013 (First half of 2012: HK\$ Nil).

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\$72,542,740,000 (First half of 2012: HK\$63,487,808,000). For both the first half of 2013 and 2012, there was no sub-participation in loans of the Branch by the Bank. The total fee attributable to the above transactions of approximately HK\$41,303,000 (First half of 2012: HK\$51,860,000) 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.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

34 Related party transactions (continued)

34.2 Fellow subsidiaries

	Six months ended	
	30 Jun 2013	30 Jun 2012
	HK\$'000	HK\$'000
Interest income	16,807	9,438
Interest expense	9,150	5,640
Other operating income	4,936	2,576
	30 Jun 2013	31 Dec 2012
	HK\$'000	HK\$'000
Amounts due from	1,080,112	1,717,982
Amounts due to	1,029,868	6,275,034

34.3 Associates

	Six months ended	
	30 Jun 2013	30 Jun 2012
	HK\$'000	HK\$'000
Interest income	1,738	1,873
Interest expense	40	108
	30 Jun 2013	31 Dec 2012
	HK\$'000	HK\$'000
Amounts due from	124,143	138,088
Amounts due to	54,813	23,094

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

34 Related party transactions (continued)

34.4 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 (the "PRC") are included:

- The Ministry of Finance 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 2013	30 Jun 2012
	HK\$'000	HK\$'000
Interest income	133,703	93,172
Interest expense	32,944	5,207
Other operating income	1,817	-
	30 Jun 2013	31 Dec 2012
	HK\$'000	HK\$'000
Amounts due from	18,313,366	21,519,668
Amounts due to	2,571,448	1,854,911

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.

34.5 Key management personnel remuneration

Remuneration for key management personnel is as follows:

	Six months ended	
	30 Jun 2013	30 Jun 2012
	HK\$'000	HK\$'000
Employee benefits	22,569	10,370

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

34 Related party transactions (continued)

34.6 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 2013	30 Jun 2012
	HK\$'000	HK\$'000
Interest income	–	2
Interest expense	220	126
	30 Jun 2013	31 Dec 2012
	HK\$'000	HK\$'000
Loans and advances	–	–
Deposits	46,536	36,900

35 Transferred financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets.

Repurchase transactions and securities lending transactions

Transferred financial assets that do not qualify for derecognition mainly include debt securities held by counterparties as collateral under repurchase agreements and debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities sold under agreements to repurchase in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may in certain circumstances require or be required to pay additional cash collateral. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, it recognises a financial liability for cash received as collateral.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
35 Transferred financial assets (continued)

The following table analyses the carrying amount of the abovementioned financial assets transferred to third parties that did not qualify for derecognition and their associated financial liabilities:

	30 Jun 2013		31 Dec 2012	
	Carrying amount of transferred assets HK\$'000	Carrying amount of associated liabilities HK\$'000	Carrying amount of transferred assets HK\$'000	Carrying amount of associated liabilities HK\$'000
Repurchase agreements	–	–	246,542	246,655
Securities lending agreements	3,179,204	3,176,676	984,536	966,887

Discounted bills transactions

The Group enters into discounted bills transactions in the normal course of business by which it transfers discounted bills to third parties in the PRC with recourse term which would give rise to the Group's continuing involvement in the transferred assets. As at 30 June 2013, the Group had no retained obligation on PRC discounted bills transferred but not matured (31 December 2012 HK\$345 million).

36 Off-balance sheet exposures
36.1 Contingent liabilities and commitments

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

	30 Jun 2013	30 Jun 2013	31 Dec 2012	31 Dec 2012
	Contractual amount HK\$'000	Credit risk weighted amount HK\$'000	Contractual amount HK\$'000	Credit risk weighted amount HK\$'000
Direct credit substitutes	12,557,258	5,537,932	5,623,882	2,437,155
Transaction-related contingencies	46,892	7,547	73,495	12,203
Trade-related contingencies	12,267,899	2,313,524	10,814,130	1,914,141
Forward deposits placed	998,125	199,625	14,464,223	2,892,845
Other commitments				
– Unconditionally cancellable	172,935,534	–	137,169,563	–
– With original maturity of less than one year	889,514	177,903	1,588,111	310,411
– With original maturity of over one year	11,680,679	5,454,265	27,862,347	12,538,048
	<u>211,375,901</u>	<u>13,690,796</u>	<u>197,595,751</u>	<u>20,104,803</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

36 Off-balance sheet exposures (continued)

36.2 Capital commitments

Capital commitments for property, plant and equipment outstanding as at 30 June 2013 and 31 December 2012 not provided for in the financial statements are as follows:

	30 Jun 2013	31 Dec 2012
	HK\$'000	HK\$'000
Expenditure contracted, but not provided for	<u>42,799</u>	<u>46,090</u>

36.3 Operating lease commitments

The Group had future aggregate minimum lease payments under non-cancellable operating leases as at 30 June 2013 and 31 December 2012 as follows:

	30 Jun 2013	31 Dec 2012
	HK\$'000	HK\$'000
Land and buildings		
– Not later than one year	323,749	333,078
– Later than one year and not later than five years	353,753	360,229
– More than five years	<u>–</u>	<u>2,702</u>
	<u>677,502</u>	<u>696,009</u>

36.4 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 2013, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 Jun 2013	31 Dec 2012
	HK\$'000	HK\$'000
Within one year	<u>614</u>	<u>1,697</u>

During the period, the Group had no unrecognised contingent rentals receivable (2012: Nil).

37 Comparative amounts

During the period, management reviewed the presentation of “interest income/expense from trading interest rate swaps” in the income statement and determined that it is more appropriate to classify the item as Net Trading Income rather than Net Interest Income as previously disclosed. The amount was reclassified as Net Trading Income in the current period and accordingly the comparative figure amounted to HK\$95,611,000 was reclassified from Net Interest Income to Net Trading Income to conform with the current period’s presentation.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

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

1 Capital adequacy and capital base

Capital adequacy ratios were compiled in accordance with the Banking (Capital) Rules (the “Capital Rules”) issued by the HKMA. The ratios as of 30th June, 2013 were compiled in accordance with the amended Capital Rules effective from 1st January, 2013 for the implementation of the “Basel III” capital accord, whereas the ratios as of 31st December, 2012 were compiled in accordance with the “pre-amended Capital Rules” as in force immediately before 1st January, 2013. 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.

The basis of consolidation for financial accounting purposes is in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), as described in Note 2 on the notes to the interim financial disclosure statements. Subsidiaries included in the consolidation for regulatory purposes are specified in a notice from the HKMA in accordance with section 3C(1) of the Capital Rules.

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.

A list of these unconsolidated subsidiaries is shown below:

	Principal activities	At 30 June 2013	
		Total assets HK\$'000	Total equity HK\$'000
ICBC (Asia) Asset Management Company Limited	Provision of asset management services	824	820
ICBC (Asia) Bullion Company Limited	Inactive	7,967	7,967
ICBC (Asia) Futures Company Limited	Provision of futures business	102,641	102,641
ICBC (Asia) Investment Management Company Limited	Provision of asset management services	16,849	14,301
ICBC (Asia) Securities Limited	Provision of securities brokerage services	890,254	551,633
ICBC (Asia) Trustee Company Limited	Provision of trustee services	4,426	4,323
ICBC (Asia) Wa Pei Nominees Limited	Inactive	–	–
UB China Business Management Co. Ltd.	Inactive	–	–
Greater China Fund	Trust fund	326,686	316,015

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

1 Capital adequacy and capital base (continued)

As at 30 June 2013, there are no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation but the method of consolidation differs. There are also no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation.

The Group operates a subsidiary in other countries and territories where capital is governed by local rules and there may be restrictions on the transfer of regulatory capital and funds between members of the Group.

	30 Jun 2013 HK\$'000
Common Equity Tier 1 (“CET1”) Capital	
CET1 capital instruments	4,129,496
Share premium arising from CET1 capital instruments	19,462,335
Retained earnings	14,930,389
of which: unaudited profit or loss of the current financial year and profit or loss of the immediately preceding financial year pending audit completion	2,391,445
Disclosed reserves	2,530,739
of which: available-for-sale investment reserve	(63,410)
CET1 Capital before deductions	41,052,959
Deduct:	
Cumulative cash flow hedge reserves that relate to the hedging of financial instruments that are not fair valued on the balance sheet	(169,688)
Cumulative fair value gains arising from the revaluation of land and buildings	(639,095)
Regulatory reserve for general banking risk	(3,743,387)
Goodwill (net of related deferred tax liability)	(980,154)
Other intangible assets (net of related deferred tax liability)	(75,030)
Debit valuation adjustments in respect of derivative contracts	(23,471)
CET1 Capital after deductions	35,422,134
Tier 2 (“TIER 2”) Capital	
Tier 2 capital instruments issued and share premium	5,354,999
of which: amount that is subject to phase out	3,469,507
Reserve attributable to fair value gains on revaluation of holdings of land and buildings	287,593
Regulatory reserve for general banking risks and collective provisions included in Tier 2 Capital (Limited to 1.25% of risk-weighted amount)	3,734,927
TIER 2 Capital before deductions	9,377,519
Deductions	-
TIER 2 Capital after deductions	9,377,519
Total capital base after deductions	44,799,653

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

1 Capital adequacy and capital base (continued)

	30 Jun 2013
Risk-weighted assets	HK\$'000
Credit risk	301,143,418
Market risk	20,382,963
Operational risk	12,856,413
Deduct: Portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 capital	(1,203,210)
Portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 capital	(351,502)
Total risk-weighted assets	<u>332,828,082</u>
	30 Jun 2013
CET1 capital ratio	10.6%
Tier 1 capital ratio	10.6%
Total capital ratio	13.5%

To comply with the Banking (Disclosure) Rules, the Group will establish a new section “Regulatory Capital Disclosure” on its website to house all the information relating to the disclosure of regulatory capital instruments and the reconciliation to the Group’s published interim financial disclosure statements.

The disclosure will be published on its website (www.icbcasia.com) according to the Banking (Disclosure) Rules and will include the following information:

- A description of the main features and the full terms and conditions of the Group’s CET1 capital, Additional Tier 1 capital, Tier 2 capital.
- A detailed breakdown of the Group’s CET1 capital, Additional Tier 1 capital, Tier 2 capital and regulatory deductions, using the standard template as specified by the HKMA.
- A full reconciliation between the Group’s accounting and regulatory balance sheets, using the standard template as specified by the HKMA.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

1 Capital adequacy and capital base (continued)

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

	31 Dec 2012 HK\$'000
Core capital:	
Paid-up ordinary share capital	4,129,496
Share premium	19,462,335
Reserves	7,035,346
Income statement	3,918,373
Deduct: Goodwill	(980,154)
Other intangible assets	(68,582)
50% of total unconsolidated investments and other deductions	<u>(157,887)</u>
Total core capital	33,338,927
Eligible supplementary capital:	
Fair value gains on the revaluation of land and buildings	173,994
Fair value gains on the revaluation of available-for-sale equities and debt securities	431,706
Unrealised fair value gains arising from equities and debt securities designated at fair value through profit or loss	12,152
Collective impairment allowances and regulatory reserve	3,468,746
Subordinated debts measured at amortised cost	5,706,008
Deduct: 50% of total unconsolidated investments and other deductions	<u>(157,887)</u>
Total supplementary capital	<u>9,634,719</u>
Total capital base after deductions	<u><u>42,973,646</u></u>
Risk-weighted assets	
Credit risk	251,456,780
Market risk	14,428,488
Operational risk	11,614,413
Deduct: Portion of regulatory reserve for general banking risks and collective provisions which is not included in supplementary capital	<u>(641,745)</u>
Total risk-weighted assets	<u><u>276,857,936</u></u>
	31 Dec 2012
Core capital ratio	12.0%
Capital adequacy ratio	15.5%

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 2013	30 Jun 2012
Average liquidity ratio for the six months ended	<u>39.16%</u>	<u>48.10%</u>

3 Segmental information
3.1 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 2013	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	101,655,992	235,071	913,481	446,946	388,649
Mainland China	203,213,915	287,035	287,376	107,217	768,401
Macau	1,204,583	-	-	-	2,513
Asia Pacific Region excluding Hong Kong, Mainland China and Macau	2,518,693	-	-	-	5,887
Others	<u>9,996,324</u>	<u>220,684</u>	<u>220,715</u>	<u>219,679</u>	<u>29,300</u>
	<u>318,589,507</u>	<u>742,790</u>	<u>1,421,572</u>	<u>773,842</u>	<u>1,194,750</u>

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

3 Segmental information (continued)

3.1 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 2012					
Hong Kong	86,894,844	223,645	249,622	203,381	334,157
Mainland China	166,360,406	302,509	775,495	365,312	665,165
Macau	949,291	–	–	–	2,755
Asia Pacific Region excluding Hong Kong, Mainland China and Macau	1,497,708	–	–	–	5,594
Others	9,490,626	212,794	216,624	219,565	26,635
	<u>265,192,875</u>	<u>738,948</u>	<u>1,241,741</u>	<u>788,258</u>	<u>1,034,306</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.

3.2 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 2013				
Asia Pacific excluding Hong Kong	<u>198,265</u>	<u>20,506</u>	<u>114,616</u>	<u>333,387</u>
31 December 2012				
Asia Pacific excluding Hong Kong	<u>134,720</u>	<u>15,022</u>	<u>112,387</u>	<u>262,129</u>

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)
3 Segmental information (continued)
3.3 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 2013					
Type of counterparties					
(a) ITICs and their subsidiaries	885,486	–	–	885,486	–
(b) Red-chip companies and their subsidiaries	18,179,335	733,718	–	18,913,053	–
(c) H-shares companies and their subsidiaries	5,103,744	602,213	590,038	6,295,995	–
(d) Other state, provincial or municipal government owned entities and their subsidiaries	28,335,859	1,049,756	116,083	29,501,698	–
(e) Other entities incorporated or established in Mainland China	13,459,998	3,164,037	234,011	16,858,046	–
(f) Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	14,401,664	–	22,959	14,424,623	332,048
(g) Other counterparties where the exposure is considered by the Bank to be non-bank Mainland China exposure	<u>15,354,739</u>	<u>391,498</u>	<u>116,482</u>	<u>15,862,719</u>	<u>–</u>
	95,720,825	5,941,222	1,079,573	102,741,620	332,048
Companies and individuals for purchasing properties in Mainland China under					
(a) to (g)	2,584,163	–	–	2,584,163	–
(h) Exposures incurred by banking subsidiary in Mainland China	70,470,355	10,754,498	–	81,224,853	107,068

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

3 Segmental information (continued)

3.3 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 2012					
Type of counterparties					
(a) ITICs and their subsidiaries	707,241	–	–	707,241	–
(b) Red-chip companies and their subsidiaries	15,279,768	369,078	–	15,648,846	–
(c) H-shares companies and their subsidiaries	3,637,236	547,850	221,907	4,406,993	–
(d) Other state, provincial or municipal government owned entities and their subsidiaries	24,660,745	775,585	30,187	25,466,517	–
(e) Other entities incorporated or established in Mainland China	9,243,665	1,869,326	90,017	11,203,008	–
(f) Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	8,990,088	57,913	33,075	9,081,076	329,206
(g) Other counterparties where the exposure is considered by the Bank to be non-bank Mainland China exposure	<u>13,585,061</u>	<u>346,664</u>	<u>126,419</u>	<u>14,058,144</u>	<u>838</u>
	76,103,804	3,966,416	501,605	80,571,825	330,044
Companies and individuals for purchasing properties in Mainland China under (a) to (g)	2,721,927	–	–	2,721,927	–
(h) Exposures incurred by banking subsidiary in Mainland China	40,517,239	15,860,198	–	56,377,437	131,718

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 2013	30 Jun 2013	31 Dec 2012	31 Dec 2012
	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	16,883,657	22.13%	15,325,353	17.34%
– Property investment	15,959,864	71.37%	13,911,996	85.75%
– Financial concerns	7,189,367	18.96%	7,309,593	22.48%
– Stockbrokers	2,323,786	44.21%	1,131,547	55.28%
– Wholesale and retail trade	16,863,510	20.16%	14,887,411	21.95%
– Civil engineering works	255,136	58.64%	259,954	58.30%
– Manufacturing	6,653,188	33.91%	4,738,874	38.66%
– Transport and transport equipment	14,532,907	43.88%	14,526,284	46.83%
– Electricity and gas	275,895	0.00%	–	–
– Information technology	10,455,907	0.59%	8,731,777	0.62%
– Recreational activities	19,155	82.19%	19,309	83.85%
– Hotels, boarding houses and catering	2,794,880	79.34%	2,353,875	73.89%
– Others	23,705,873	6.57%	21,485,772	6.71%
Individuals				
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	486,134	94.99%	481,771	95.43%
– Loans for the purchase of other residential properties	12,259,176	99.06%	12,152,130	99.31%
– Credit card advances	158,115	0.00%	157,030	0.00%
– Others	3,363,338	72.87%	2,921,484	65.01%
Trade finance	87,163,438	89.73%	71,589,313	90.66%
Loans for use outside Hong Kong	<u>97,246,181</u>	<u>32.72%</u>	<u>73,209,402</u>	<u>32.10%</u>
	<u>318,589,507</u>	<u>49.80%</u>	<u>265,192,875</u>	<u>50.90%</u>

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

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

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

	30 Jun 2013	31 Dec 2012
	HK\$'000	HK\$'000
(a) Trade finance		
Individually impaired loans	97,976	134,257
Overdue loans and advances over three months	92,540	134,498
Individual impairment allowances	75,012	102,374
Collective impairment allowances	179,662	152,836
New impairment allowances (write back)/charged to the income statement	(223)	65,010
Impaired loans and advances written off during the period/year	–	–
(b) Loans for use outside Hong Kong		
Individually impaired loans	1,202,416	1,037,445
Overdue loans and advances over three months	597,536	563,390
Individual impairment allowances	656,031	645,659
Collective impairment allowances	626,575	532,593
New impairment allowances charged to the income statement	111,241	121,039
Impaired loans and advances written off during the period/year	1,562	23,836

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
June 2013	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-structural position						
Spot assets	192,169,793	153,698,478	152,385	2,284,796	4,737,906	353,043,358
Spot liabilities	(180,840,282)	(133,962,523)	(708,008)	(5,398,048)	(6,628,875)	(327,537,736)
Forward purchases	156,588,013	64,522,565	1,462,959	6,962,939	45,934,223	275,470,699
Forward sales	(179,545,615)	(72,323,846)	(877,096)	(3,803,823)	(44,031,685)	(300,582,065)
Net option position	17,780	(13,325)	(2,489)	(2,028)	(3,901)	(3,963)
Net long/(short) position	<u>(11,610,311)</u>	<u>11,921,349</u>	<u>27,751</u>	<u>43,836</u>	<u>7,668</u>	<u>390,293</u>
Net structural position	188,132	4,340,272	–	–	–	4,528,404
December 2012						
	US\$	RMB	GBP	AUD	Other foreign currencies	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-structural position						
Spot assets	165,157,382	120,886,282	748,854	2,482,647	7,218,732	296,493,897
Spot liabilities	(147,791,510)	(111,067,141)	(713,922)	(4,394,065)	(7,264,953)	(271,231,591)
Forward purchases	126,290,176	53,998,588	916,962	28,473,490	33,229,182	242,908,398
Forward sales	(150,619,161)	(55,733,826)	(921,894)	(26,562,920)	(33,071,948)	(266,909,749)
Net option position	41,616	(15,859)	(328)	27,060	(70,300)	(17,811)
Net long/(short) position	<u>(6,921,497)</u>	<u>8,068,044</u>	<u>29,672</u>	<u>26,212</u>	<u>40,713</u>	<u>1,243,144</u>
Net structural position	187,996	3,776,062	–	–	–	3,964,058

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