ICBC 工銀亚洲

Stock Code : 349

Interim Report 2010

穿梭兩地

成就機遇

HONG KONG

CHINA

Industrial and Commercial Bank of China (Asia) Limited
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Management's Discussion and Analysis

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 unaudited condensed consolidated interim report of the Bank and its subsidiaries (the "Group") for the six months ended 30 June 2010. The consolidated income statement, consolidated statement of comprehensive income, condensed consolidated statement of cash flows and condensed consolidated statement of changes in equity of the Group for the six months ended 30 June 2010, and the consolidated statement of financial position as at 30 June 2010 of the Group, all of which are unaudited, along with notes to the condensed interim accounts, are set out on pages 10 to 56 of this report.

Interim Results

The Board is pleased to announce that the unaudited consolidated profit attributable to the equity holders of the Bank for the six months ended 30 June 2010 was HK$1,229 million. This represents a 32% increase over the same period last year (first half of 2009: HK$929 million). Basic earnings per share for the six months ended 30 June 2010 were HK$0.93 (first half of 2009: HK$0.72). Return on average assets and return on average equity were 1.0% and 13.7% respectively (first half of 2009: 1.0% and 13.0% respectively).

Interim Dividend

The Board is pleased to declare an interim dividend of HK$0.37 per ordinary share for the six months ended 30 June 2010 (2009 interim dividend: HK$0.28). The interim dividend will be payable in cash to shareholders whose names appear on the Register of Members of the Bank at the close of business on Tuesday, 14 September 2010.

The dividend warrants will be sent to shareholders by ordinary mail on or about Friday, 15 October 2010.

Closure of Register of Members

The Register of Members of the Bank will be closed from Thursday, 9 September 2010 to Tuesday, 14 September 2010, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the above interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Bank's Share Registrars, Tricor Tengis Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Wednesday, 8 September 2010.

Financial Review

In the first half of 2010, the Group achieved satisfactory results. Consolidated profit attributable to equity holders was HK$1,229 million, representing an increase of HK$300 million or 32% over HK$929 million achieved for the corresponding period in 2009.

Net interest income increased HK$235 million or 16% to HK$1,725 million. The growth was mainly attributable to a 24% increase in average interest-earning assets.

Non-interest income increased HK$24 million or 5% to HK$553 million from HK$529 million for the corresponding period in 2009. The increase was mainly attributable to increase of fee and commission income as well as gains from foreign exchange trading. The ratio of non-interest income to total operating income decreased to 24%, compared with 26% for the corresponding period in 2009.

Operating expenses decreased by HK$16 million or 2% to HK$680 million, compared with HK$696 million for the corresponding period in 2009. The cost to income ratio decreased from 34.4% in 2009 to 29.8% in 2010.

The impairment losses on loans and advances and held-to-maturity financial investments for the period were HK$210 million, out of which HK$83 million was made as additional provision for individual assessment and HK$127 million was made as additional provision for collective assessment.

Management's Discussion and Analysis *(continued)*

Statement of Financial Position

The total assets of the Group amounted to HK$255,807 million as at 30 June 2010, representing an increase of HK$39,856 million or 18% over the financial position as at 31 December 2009.

Customer deposits amounted to HK$180,679 million as at 30 June 2010, representing an increase of HK$19,517 million or 12%, as compared to HK$161,162 million as at 31 December 2009. Loans and advances also increased by HK$37,568 million or 26% to HK$184,593 million as at 30 June 2010 as compared to HK$147,025 million as at 31 December 2009.

Our total securities investment amounted to HK$36,944 million as at 30 June 2010, which represents an increase of HK$1,938 million or 6% as compared to HK$35,006 million as at 31 December 2009.

Total certificates of deposits issued increased HK$4,894 million or 204% to HK$7,289 million as at 30 June 2010, as compared to HK$2,395 million as at 31 December 2009.

Capital and Liquidity Management

The Group's capital adequacy ratio decreased to 13.4% as at 30 June 2010 from 14.9% as at 31 December 2009. The average liquidity ratio amounted to 41.5% (average for the first half of 2009: 38.0%).

Asset Quality

Impaired loans and advances decreased by HK$147 million to HK$1,212 million as at 30 June 2010, compared with HK$1,359 million as at 31 December 2009. The impaired loan ratio was 0.65% as at 30 June 2010 (31 December 2009: 0.92%).

As at 30 June 2010, the cumulative loan impairment allowances aggregated to HK$1,040 million (31 December 2009: HK$895 million), which included HK$458 million (31 December 2009: HK$442 million) of individual impairment allowance and HK$582 million (31 December 2009: HK$453 million) of collective impairment allowance.

Total overdue advances as at 30 June 2010 amounted to HK$1,018 million, of which around 50% (the "Overdue Advance") was due by a borrower in Dubai and was part of a syndication loan in which the Group participated. The Overdue Advance is fully secured but overdue between three to six months due to an ongoing negotiation with respect to the restructuring of the Overdue Advance with the borrower. Negotiation on the loan-restructuring with the syndicate Banks is progressing and a proposal that involves no reduction in the principal amount or interest rate is in advance stage.

Business Review

We summarise below the performance of our key business operations during the first half of 2010.

Retail Banking

Our Retail Banking business achieved satisfactory performance during the first half of 2010.

We strive to grow our customer base and to strengthen our deposit and lending business. Through our continuous cooperation with Industrial and Commercial Bank of China Limited ("ICBC"), the account opening witnessing service for new customers referred by ICBC has been extended from Shenzhen to other major cities including Beijing, Shanghai and Chongqing, and to other provinces in Southern China (Guangdong, Fujian and Hainan), Central China (Hubei and Hunan), Eastern China (Jiangsu and Zhejiang), Northern China (Shangdong and Shaanxi) and South-western China (Sichuan and Guangxi). Such service allows customers of ICBC to open bank accounts with our bank on the spot through the witnessing service provided by staff of around 800 designated branches in Mainland China. The result of our customer acquisition plan through referral from ICBC is very encouraging.

In April 2010, our Kwun Tong Branch has been relocated as part of our branch network rationalisation strategy, with the addition of an "Elite Club" Wealth Management Centre and a securities trading service centre in the new branch.

Management's Discussion and Analysis *(continued)*

Mortgage Business

Local banks continue to compete fiercely for new mortgage business through rate-cut in order to maintain their respective market shares. Nevertheless, we succeeded in growing our mortgage loan portfolio by approximately 14% during the first half of 2010 as compared to the end of last year, despite intensive competition in the market. Due to the persistent price cutting particularly for HIBOR based mortgage products, we have decided to slow down our loan growth target for our mortgage business in view of the inherent interest rate risk for the bank.

Securities and Brokerage

Due to the general slow down of stock market activities this year, our securities and brokerage business experienced a slight decline in the level of commission and fee income as compared to the first half of 2009. However, through competitive marketing campaigns, we achieved a continuous growth in our customer base.

Wealth Management

Our sales of wealth management products recorded satisfactory growth as compared to the corresponding period last year.

In April 2010, we launched our first "Wealth Management Expo" which attracted more than 2,000 participants for a number of investment related seminars held in one day. Apart from presenting the traditional investment topics, the "Expo" also aimed to enhance customer experience by including life-style orientated talks such as wine tasting, precious stone and valuable arts collecting, as well healthcare advice.

Private Banking

We have achieved a remarkable increase in the size of assets under management for our private banking customers during the first half of 2010. In particular, the account opening witnessing service was extended to private banking customers of ICBC in Mainland China, which greatly facilitates our cooperation with ICBC on cross border business for such elite group of customers.

Bancassurance

Sale of insurance products recorded outstanding growth during the first half of 2010. We continued to focus on life insurance products, as well as broadening our range of general insurance products for distribution through our electronic banking channel.

Hire Purchase

Net profit margin for taxi and public light bus financing continued to narrow as a result of keen competition among banks. Nonetheless, our market share for such business remained steady.

Global Markets & Trading

We continued to strengthen the cross referral mechanism between Global Markets & Trading and other business departments for the sales of treasury products. We refocused on traditional products like foreign exchange business to better meet customers' demand. In addition, we increased the variety of RMB related products to fulfil the requirement of our customers to cope with the rapid development of RMB banking business in Hong Kong.

The market value of our bond portfolio gradually improved during the first half of 2010 as compared with the end of 2009 as a result of the tightening of credit spreads when the global financial markets recover.

Management's Discussion and Analysis *(continued)*

Global Markets & Trading *(continued)*

In addition, following the establishment of a structured derivatives and derivatives trading team last year, a new treasury system for structured products was also installed in January 2010, which enhanced our capability for risk calculation, derivatives pricing and the marked-to-market process. We aim to launch more types of treasury products through product innovation going forward, while continuing to improve our overall risk management mechanism.

Commercial Banking

In the first half of 2010, our Commercial Banking business recorded strong growth in profitability contributed mainly from its portfolio of small and medium-sized enterprises ("SMEs") in Hong Kong. In addition, we maintained a low level of loan impairment provision through our robust credit management process.

Volume of trade finance for the first half of 2010 surged significantly over the corresponding period last year due to the launch of a number of new products since the beginning of this year. Key product development includes the financing programs relating to the cross-border RMB trade settlement business. With the anticipated extension of the cross-border RMB trade settlement program to an increasing number of cities and provinces of Mainland China in the second half of 2010, cross-border trade volume is expected to increase significantly. We are also committed to working closely with ICBC branches and Chinese Mercantile Bank to develop new products to cater for the business need of our clients.

Corporate and Investment Banking

The performance of our Corporate and Investment Banking business during the first half of 2010 was promising.

In the first half of 2010, we took part in a number of major syndicated loan transactions, including acting as the bookrunner and mandated lead arranger in (i) the US$250 million term loan facility for China Huiyuan Juice Group Limited; and (ii) the US$450 million term loan facility for Poly (Hong Kong) Investments Ltd; and acting as mandated lead arranger in (i) the HK$18.12 billion term loan facility for Sun Hung Kai Properties Limited; and (ii) the HK$16 billion term loan facility for Hong Kong Telecommunications (HKT) Ltd.

We pursue actively in commodity trade finance, an area of strong growth this year. There is also an increasing demand for RMB related structured trade and cash management solutions from our corporate clients and, in order to capture such business opportunities, we have launched a series of RMB products under the brand of 「跨境通」 covering remittance, exchange, trade finance, loan and cash management.

Institutional Banking

Our Institutional Banking business achieved very strong growth during the first half of 2010, especially for the trade finance related business conducted in cooperation with various branches of ICBC. Total outstanding exposure for such advances, as guaranteed by ICBC, reached HK$24,514 million as at 30 June 2010, as compared to HK$9,268 million as at the end of 2009. We continued to focus on broadening our customer base, specifically targeting institutional clients in areas such as Eastern Europe and Asia other than Mainland China. At the same time, we also placed considerable effort on transactional banking product enhancement so as to provide better and more comprehensive services to our customers.

Asset Management Business

We experienced a slow down in the sales of our own branded investment funds during the first half of 2010, attributable mainly to the lack of confidence of most local investors to make long term commitment amid the prevailing turbulent conditions of the financial markets. To cope with this situation, we continued to explore other business opportunities, including the cooperation with the asset management unit of ICBC, with a view to broadening the scope of our income base. As a result, ICBC (Asia) Investment Management Company Limited entered into an arrangement to provide investment advisory service to ICBC relating to the Qualified Domestic Institutional Investors ("QDII") scheme, which marks an important step in strengthening our cooperation with ICBC with regard to the asset management business.

Management's Discussion and Analysis *(continued)*

Credit Card Business

There was a continued growth of credit card business in the first half year of 2010. The number of cards in circulation, total card spending, card outstanding balance and merchant business turnover recorded steady growth when compared with the results for the corresponding period in 2009. Our main focus remains on card acquisition. We aim at developing multi-channels for marketing, including building up our own direct sales team and also through cross selling by our branch network. Card utilisation programs are arranged by lining up with ICBC Head Office and its Macau Branch to develop card usage promotions in the Pearl River Delta Region. Our merchant sales team also works closely with external merchant partners to promote business growth. As a result, total card spending grew by approximately 30%, while merchant business turnover increased by approximately 60%, as compared to the same period for 2009. Meanwhile, both the delinquency and charge-off ratio stood at low levels.

Chinese Mercantile Bank

During the first half of 2010, Chinese Mercantile Bank ("CMB") pursued an active loan growth strategy, benefiting from the buoyant economic conditions in Mainland China. Total assets of CMB amounted to HK$19,410 million as at 30 June 2010, representing an increase of 52% as compared to the end of 2009. Total customers' loan and deposit balances as at 30 June 2010 amounted to HK$14,591 million and HK$8,693 million, respectively, representing an increase of 53% and 55% over the corresponding balances as at the end of 2009. However, due to additional provision made on doubtful loans granted in the past, CMB suffered from a substantial decline in its profitability. According to Hong Kong accounting standards, net profit for the six months ended 30 June 2010 was HK$58 million, as compared to HK$79 million for the corresponding period in 2009. Net interest income and net fee and commission income for the first half of 2010 were HK$194 million and HK$20 million, respectively, as compared to HK$115 million and HK$26 million for the corresponding period in 2009.

In March 2010, CMB obtained an approval to offer RMB banking services to Chinese citizens, which marks an important step in extending its scope of business in Mainland China.

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

As at 30 June 2010, the interests of the Directors and chief executives of the Bank in the shares, underlying shares and debentures of the Bank and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (the "Associated Corporations") as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Bank and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Ordinary shares of HK$2 each in the Bank

Name of Director	Capacity in which interests are held	Number of shares held	Total interests	Approximate % of total issued share capital
Dr. Jiang Jianqing	Beneficial owner	15,453	15,453	0.0011%
Mr. Zhang Yi	Beneficial owner	2,223	2,223	0.0002%
Mr. Yuen Kam Ho, George	Beneficial owner	19,293	19,293	0.0014%

All the interests stated above represent long positions. As at 30 June 2010, no short positions were recorded in the register required to be kept under Section 352 of the SFO.

Save as disclosed above, as at 30 June 2010, none of the Directors or chief executives of the Bank or their spouses or children under 18 years of age were granted, or had exercised, any rights to subscribe for any equity or debt securities of the Bank or any of its Associated Corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Bank and the Stock Exchange pursuant to the Model Code.

Management's Discussion and Analysis *(continued)*

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

As at 30 June 2010, so far as the Board was aware, the following persons (other than the Directors or chief executives of the Bank) were interested in 5% or more of the issued share capital or short positions in shares or underlying shares of the Bank which would fall to be disclosed to the Bank under Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept under Section 336 of the SFO:

Ordinary shares of HK$2 each in the Bank

Name of shareholder	Capacity in which interests are held	Number of shares held	Total interests	Approximate % of total issued share capital
Industrial and Commercial Bank of China Limited	Beneficial owner	984,364,740	984,364,740	72.81%
Central Huijin Investment Limited (Note)	Interest of controlled corporation	984,364,740	984,364,740	72.81%
Ministry of Finance of the People's Republic of China (Note)	Interest of controlled corporation	984,364,740	984,364,740	72.81%

Note: Industrial and Commercial Bank of China Limited ("ICBC") is the legal owner of 984,364,740 ordinary shares of the Bank. Each of Central Huijin Investment Limited ("Central Huijin") and Ministry of Finance of the People's Republic of China ("Ministry of Finance") is interested in such shares as a result of Central Huijin and Ministry of Finance being entitled to exercise, or control the exercise of, one-third or more of the voting power at general meetings of ICBC.

All the interests stated above represent long positions. As at 30 June 2010, no short positions were recorded in the register required to be kept under Section 336 of the SFO.

Save as disclosed above, as at 30 June 2010, the Bank had not been notified by any persons (other than the Directors or chief executives of the Bank) who had interests or short positions in the shares or underlying shares of the Bank which would fall to be disclosed to the Bank under the provisions of Part XV of the SFO or which were recorded in the register required to be kept under Section 336 of the SFO.

Compliance with the Banking (Disclosure) Rules

The Bank has fully complied with the applicable disclosure provisions as set out in the Banking (Disclosure) Rules.

Management's Discussion and Analysis *(continued)*

Corporate Governance

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

In the opinion of the Board, the Bank has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2010, except for the following deviations:

Under code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election.

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

Under code provision E.1.2, the chairman of the board should attend the annual general meeting.

The Chairman of the Bank was unable to attend the annual general meeting of the Bank held on 25 May 2010 due to other important business engagements. Nonetheless, the Board members (including the Chairman or the Alternate Chairman or the respective members of each of the Audit, Nomination and Remuneration Committees) attended the above annual general meeting to answer questions from shareholders.

The Bank considered that sufficient measures have been taken to ensure that the Bank's corporate governance practices are no less exacting than those in the code provisions as set out in the Code, details of which were set out in the Corporate Governance Report of the Bank's 2009 Annual Report.

Changes in Directors' Information Required to be Disclosed Pursuant to Rule 13.51B(1) of the Listing Rules

Changes in directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below:

1. Ms. Wang Lili, a Non-executive Director of the Bank, has been appointed as a Director of Industrial and Commercial Bank of China Limited, its shares are listed on the Stock Exchange and the Shanghai Stock Exchange, with effect from 21 April 2010.

2. Mr. Tsui Yiu Wa, Alec, an Independent Non-executive Director of the Bank, retired as an Independent Non-executive Director of Greentown China Holdings Limited with effect from 4 June 2010 and resigned as an Independent Non-executive Director of China Huiyuan Juice Group Limited with effect from 13 July 2010. Shares of both companies are listed on the Stock Exchange.

Save as disclosed above, there is no information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Model Code for Securities Transactions by Directors

The Bank has adopted the Model Code set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. The Bank confirms that, having made specific enquiry of all Directors, the Directors have complied with the required standard as set out in the Model Code for the period ended 30 June 2010.

Management's Discussion and Analysis *(continued)*

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

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

Audit Committee

During the period ended 30 June 2010, the Audit Committee of the Bank comprised three Independent Non-executive Directors, namely Professor Wong Yue Chim, Richard, S.B.S., J.P., Mr. Tsui Yiu Wa, Alec and Mr. Yuen Kam Ho, George and one Non-executive Director, namely Mr. Hu Hao. The Audit Committee meets on a quarterly basis to review the effectiveness of both the external and internal audit, internal controls and financial reporting.

Interim Financial Information

The Audit Committee of the Bank has reviewed the results of the Group for the six months ended 30 June 2010. The financial information in this interim report is unaudited and does not constitute statutory accounts.

Proposal to Privatise the Bank

On 10 August 2010, ICBC and the Bank jointly announced that ICBC had requested the Board to put forward to the scheme shareholders of the Bank a proposal for the privatisation of the Bank (the "Proposal"). Under the Proposal, the scheme shareholders will receive from ICBC cancellation consideration of HK$29.45 for every scheme share of the Bank cancelled. Please refer to the joint announcement dated 10 August 2010 issued by ICBC and the Bank for further details.

The interim cash dividend of HK$0.37 per ordinary share declared by the Bank will be paid to shareholders whose names appear on the Register of Members of the Bank at the close of business on Tuesday, 14 September 2010. Payment of the dividend shall not be conditional upon the Proposal becoming effective and the interim dividend will be paid in addition to the payment of the cancellation consideration by ICBC under the Proposal. In light of the Proposal, the Bank will not be offering a scrip dividend alternative to its shareholders.

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

Hong Kong, 25 August 2010

As at the date of this interim report, the Board comprises Mr. Chen Aiping, Mr. Wong Yuen Fai and Mr. Zhang Yi as Executive Directors, Dr. Jiang Jianqing, Ms. Wang Lili and Mr. Hu Hao as Non-Executive Directors and Professor Wong Yue Chim, Richard, S.B.S., J.P., Mr. Tsui Yiu Wa, Alec and Mr. Yuen Kam Ho, George as Independent Non-Executive Directors.

ICBC 工银亚洲

Consolidated Income Statement

FOR THE SIX MONTHS ENDED 30 JUNE 2010
(Unaudited)

	Notes	Six Months Ended 30 Jun 2010 HK$'000	Restated 30 Jun 2009 HK$'000	Change %
Interest income	(6)	**2,513,851**	2,322,494	8%
Interest expense	(6)	**(788,979)**	(832,462)	-5%
Net interest income	(6)	**1,724,872**	1,490,032	16%
Fee and commission income	(7)	**421,997**	348,439	21%
Fee and commission expense	(7)	**(64,156)**	(35,661)	80%
Net fee and commission income	(7)	**357,841**	312,778	14%
Net trading income	(8)	**163,299**	120,864	35%
Net gain on financial assets and liabilities designated at fair value through profit or loss	(9)	**18,037**	73,756	-76%
Dividend income from financial investments	(10)	**3,591**	3,517	2%
Other operating income	(11)	**10,650**	18,311	-42%
Operating income		**2,278,290**	2,019,258	13%
Operating expenses	(12)	**(679,802)**	(696,418)	-2%
Operating profit before impairment losses		**1,598,488**	1,322,840	21%
Charge for impairment losses on loans and advances	(13)	**(210,328)**	(224,605)	-6%
Write-back of impairment losses on held-to-maturity financial investments		**80**	1,126	-93%
Charge for impairment losses on available-for-sale financial investments		**—**	(42,870)	-100%
Operating profit after impairment losses		**1,388,240**	1,056,491	31%
Revaluation gain on investment properties		**1,275**	—	—
Net gain from disposal/reversal of revaluation deficits of property, plant and equipment		**2,271**	2,762	-18%
Net gain on disposal of available-for-sale financial investments		**58,529**	56,892	3%
Gain on disposal of loans and advances		**21,291**	—	-%
Operating profit		**1,471,606**	1,116,145	32%
Share of profit of an associate		**7,174**	10,881	-34%
Profit before tax		**1,478,780**	1,127,026	31%
Income tax expense	(14)	**(249,622)**	(198,183)	26%
Profit for the period and attributable to equity holders	(3.3)	**1,229,158**	928,843	32%
Earnings per share	(16)	**HK$0.93**	HK$0.72	29%

Consolidated Statement of Comprehensive Income

FOR THE SIX MONTHS ENDED 30 JUNE 2010
(Unaudited)

	Note	Six Months Ended 30 Jun 2010 HK$'000	Restated 30 Jun 2009 HK$'000	Change %
Profit for the period	(3.3)	**1,229,158**	928,843	32%
Revaluation surplus/(deficit) on bank premises		**12,896**	(417)	-3193%
Income tax effect		**2,273**	—	-%
		15,169	(417)	3738%
Change of fair value of hedging instruments under cash flow hedges		**(42,191)**	(1,780)	2270%
Income tax effect		**6,962**	(1,002)	-795%
		(35,229)	(2,782)	1166%
Change in fair value of reserve of available-for-sale financial investments		**(18,159)**	1,216,499	-101%
Transfer from available-for-sale financial investment reserve to the income statement on impairment		**—**	42,905	-100%
Income tax effect		**(2,622)**	(206,505)	-99%
		(20,781)	1,052,899	-102%
Exchange differences arising from translation of results of a foreign subsidiary		**20,781**	1,233	1585%
Other comprehensive income for the period, net of tax		**(20,060)**	1,050,933	-102%
Total comprehensive income for the period, net of tax	(3.3)	**1,209,098**	1,979,776	-39%
Attributable to:				
Equity holders of the bank		**1,209,098**	1,979,776	-39%

Consolidated Statement of Financial Position

AS AT 30 JUNE 2010

	Notes	Unaudited 30 Jun 2010 HK$'000	Restated 31 Dec 2009 HK$'000	Change %	Restated 30 Jun 2009 HK$'000	Change %
Assets						
Cash and balances with banks and other financial institutions	(17)	**27,424,822**	27,910,582	-2%	38,390,316	-29%
Placements with and advances to banks and other financial institutions	(18)	**1,549,249**	1,663,286	-7%	15,326,779	-90%
Financial assets held for trading	(19)	**197,876**	190,246	4%	45,849	332%
Financial assets designated at fair value through profit or loss	(20)	**944,553**	1,162,149	-19%	1,305,904	-28%
Derivative financial instruments	(21)	**2,006,609**	1,285,306	56%	1,348,166	49%
Loans and advances to customers, banks and other financial institutions	(22)	**184,592,521**	147,024,582	26%	128,814,577	43%
Financial investments:		**35,801,360**	33,653,175	6%	30,046,641	19%
- Available-for-sale	(23)	**34,596,813**	32,361,666	7%	28,404,433	22%
- Held-to-maturity	(24)	**1,204,547**	1,291,509	-7%	1,642,208	-27%
Investments in associates		**182,351**	175,177	4%	195,317	-7%
Goodwill and other intangible assets		**1,018,718**	1,020,893	0%	1,028,120	-1%
Investment properties	(25)	**47,488**	46,213	3%	40,126	18%
Property, plant and equipment	(3.3),(26)	**486,775**	514,191	-5%	498,360	-2%
Other assets	(27)	**1,554,306**	1,305,150	19%	1,310,067	19%
Total assets		**255,806,628**	215,950,950	18%	218,350,222	17%
Liabilities						
Deposits from banks and other financial institutions		**33,477,605**	20,176,700	66%	25,745,556	30%
Derivative financial instruments	(21)	**2,427,258**	1,403,832	73%	1,431,854	70%
Deposits from customers						
- At amortised cost	(28)	**180,678,728**	161,161,561	12%	159,849,555	13%
Certificates of deposit issued		**7,289,223**	2,394,546	204%	1,484,935	391%
- Designated at fair value through profit or loss		**1,086,547**	1,419,077	-23%	1,161,935	-6%
- At amortised cost		**6,202,676**	975,469	536%	323,000	1820%
Debt securities in issue		**202,351**	159,526	27%	3,122,645	-94%
- Designated at fair value through profit or loss		**101,175**	—	—	3,122,645	-97%
- At amortised cost		**101,176**	159,526	-37%	—	—
Current income tax liabilities		**1,752,548**	1,531,204	14%	36,535	4697%
Deferred income tax liabilities	(29)	**206,317**	224,386	-8%	102,471	101%
Subordinated debts measured at amortised cost	(30)	**8,589,790**	8,561,125	0%	8,556,348	0%
Other liabilities	(31)	**1,842,906**	2,070,476	-11%	1,996,521	-8%
Total liabilities		**236,466,726**	197,683,356	20%	202,326,420	17%
Equity						
Share capital	(32)	**2,704,123**	2,636,681	3%	2,598,476	4%
Retained earnings	(3.3),(33)	**5,610,900**	5,172,225	8%	3,981,150	41%
Other reserves	(33)	**11,024,879**	10,458,688	5%	9,444,176	17%
Total equity		**19,339,902**	18,267,594	6%	16,023,802	21%
Total equity and liabilities		**255,806,628**	215,950,950	18%	218,350,222	17%

Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30 JUNE 2010
(Unaudited)

	Notes	30 Jun 2010 HK$'000	Restated 30 Jun 2009 HK$'000
Total equity as at 1 January		**18,104,597**	13,937,778
Effect of adopting HKAS 17		**162,997**	152,384
		18,267,594	14,090,162
Profit for the period	(33)	**1,229,158**	928,843
Other comprehensive income		**(20,060)**	1,050,933
Total comprehensive income		**1,209,098**	1,979,776
Change in general reserve		**—**	(3,051)
Dividends paid during the period	(33)	**(751,454)**	(231,348)
Shares issued in lieu of dividends	(32)	**614,664**	188,263
Total equity as at 30 June		**19,339,902**	16,023,802

Condensed Consolidated Statement of Cash Flows

FOR THE SIX MONTHS ENDED 30 JUNE 2010
(Unaudited)

	Six Months Ended	
	30 Jun 2010 HK$'000	30 Jun 2009 HK$'000
Net cash flow (used in)/from operating activities	**(779,352)**	21,366,283
Net cash flow from/(used in) investing activities	**17,745**	(20,948)
Net cash flow used in financing activities	**(176,591)**	(137,906)
Effects of foreign exchange differences	**38,851**	(6,071)
Net (decrease)/increase in cash and cash equivalents	**(899,347)**	21,201,358
Cash and cash equivalents at 1 January	**28,708,709**	28,933,732
Cash and cash equivalents at 30 June	**27,809,362**	50,135,090

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

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

	30 Jun 2010 HK$'000	30 Jun 2009 HK$'000
Cash and balances with banks and other financial institutions	**10,929,251**	9,091,070
Placements with banks and other financial institutions	**16,880,111**	41,044,020
	27,809,362	50,135,090

Notes to the Condensed Interim Accounts

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 condensed consolidated interim report of the Group have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "*Interim Financial Reporting*", issued by Hong Kong Institute of Certified Public Accountants ("HKICPA"). These accounts also comply with the applicable disclosures provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and disclosure information required under the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority (the "HKMA").

The unaudited condensed consolidated interim accounts do not include all the information and disclosures required in the annual accounts, and should be read in conjunction with the Group's annual accounts for the year ended 31 December 2009.

The preparation of accounts 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 consolidated accounts for the year ended 31 December 2009.

2.2 Basis of consolidation

The consolidated accounts include the accounts of the Bank and all its subsidiaries, a controlled unit trust and attributable share of results and reserves of its associates. For regulatory reporting, the basis of consolidation is set out in Note 1 of the "Supplementary Financial Information" section.

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

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

Notes to the Condensed Interim Accounts *(continued)*

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

The accounting policies adopted in the preparation of the condensed interim report are consistent with those used in the preparation of the Group's audited accounts for the year ended 31 December 2009 except for the adoption of the following HKFRSs and HKASs issued up to 30 June 2010 which are pertinent to the Group's operations and relevant to these interim financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards - Additional Exemptions for First-time Adopters
HKFRS 1 (Revised)	First Time Adoption of Hong Kong Financial Reporting Standards
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment - Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 Amendment	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners
HK-Int 4 Amendment (Revised in December 2009)	Leases - Determination of the Length of Lease Term in respect of Hong Kong Land Leases

Apart from the above, the HKICPA has also issued Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording.

* Improvements to HKFRSs 2009 contains amendments to HKFRS 2, HKFRS 5, HKAS 1, HKAS 7, HKAS 17, HKAS 36, HKAS 38.

HKFRS 1 Amendments address the retrospective application of HKFRSs to particular situations (such as exempt entities using the full cost method from retrospective application of HKFRSs for oil and gas assets or existing leasing contracts from reassessing the classification of those contracts in accordance with HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease when the application of their other accounting requirements produced the same result) and are aimed at ensuring that entities applying HKFRSs will not face undue cost or effort in the transition process. The amendments do not have any material financial impact on the Group.

HKFRS 1 (Revised) was issued with an aim to improve the structure of the standard.The revised version of the standard does not make any changes to the substance of accounting by first-time adopters. The Group is not a first-time adopter of HKFRS.

HKFRS 2 Amendments clarify its scope and the accounting for group companies' cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when that entity has no obligation to settle the share-based payment transactions. The amendments do not have any material financial impact on the Group.

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. These changes, include, but are not limited to (i) introducing an option to measure non-controlling interests at fair value; (ii) recognising gains or losses from remeasuring to the fair value the interest in the acquiree held by the entity immediately before the business combination, in a step acquisition; (iii) expensing acquisition costs as incurred; (iv) recognising the fair value of contingent considerations at the acquisition date with subsequent changes generally reflected in the income statement; and (v) separately accounting for pre-existing relationships between the acquirer and acquiree.

Notes to the Condensed Interim Accounts *(continued)*

3.1 Impact of new/revised Hong Kong Financial Reporting Standards ("HKFRSs") *(continued)*

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments are made to HKAS 7 Statement of Cash Flows, HKAS 12 Income Taxes, HKAS 21 The Effects of Changes in Foreign Exchange Rates, HKAS 28 Investments in Associates and HKAS 31 Interests in Joint Ventures.

The amendment to HKAS 39 addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

HK(IFRIC)-Int 17 standardises practice in the accounting for all non-reciprocal distributions of non-cash assets to owners. This new interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments are made to HKAS 10 Events after the Reporting Period and HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations. While the adoption of the Interpretation has resulted in changes in accounting policy, the Interpretation does not have any material financial impact on the Group.

HK-Int 4 was revised in December 2009 as a consequence of the amendment to HKAS 17 made by Improvements to HKFRSs issued in May 2009. The amendment to HKAS 17 removes the specific guidance which stated that land held under a lease should be classified as an operating lease unless title to the land is expected to pass at the end of the lease term. The new guidance, paragraph 15A, indicates that entities should use judgement to decide whether the lease transfers the significant risks and rewards of ownership of the land in accordance with the criteria set out in HKAS 17. A lease of land is therefore classified as a finance lease if the lease transfers substantially all the risks and rewards incidental to ownership to the lessee. Following this amendment, the scope of this Interpretation has been expanded to cover all land leases, including those classified as finance leases. As a result, this Interpretation is applicable to all leases of properties accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40.

The adoption of HKAS 17 Amendment and HK-Int 4 has resulted in a change in the accounting policy, disclosure and presentation relating to leasehold land. A leasehold land has been re-classified from an operating lease to a finance lease, and the land lease is now stated at fair value and depreciated over the remaining period of the lease on straight line basis. The financial impact on the Group is detailed in note 3.3.

In May 2009, the HKICPA issued Improvements to HKFRSs which sets out amendments to HKFRSs, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

HKFRS 2 Share-based Payment: It revises the scope that transaction in which an entity acquires goods as part of the net assets acquired in a business combination, in a combination of entities or business under common controls, or the contribution of a business on the formation of a joint venture does not fall under the scope of this HKFRS.

HKFRS 5 Amendments clarify that an entity that is committed to a sale plan involving loss of control of a subsidiary shall have relevant disclosures when the subsidiary is a disposal group that meets the definition of a discontinued operation.

HKAS 7 Statement of Cash Flows: It specifies that only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as investing activities.

Notes to the Condensed Interim Accounts *(continued)*

3.1 Impact of new/revised Hong Kong Financial Reporting Standards ("HKFRSs") *(continued)*

HKAS 36 Impairment of Assets: It clarifies that each unit or group of units to which the goodwill is so allocated should not be larger than an operating segment before aggregation.

HKAS 38 Intangible Assets: It introduces amendments to the measurement of fair value of an intangible asset acquired in a business combination. Intangible assets acquired in business combination may be separable together with a related contract and an identifiable liability in addition to an identifiable asset. Additional consequential amendments to this HKAS arising from the revised HKFRS 3 are also incorporated.

Other than as further explained above regarding the impact of HK-Int 4 and HKAS 17 Amendment, the adoption of these new and revised HKFRSs has had no significant impact on the financial position or performance of the Group.

3.2 Issued but not yet effective HKFRSs

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

HKFRS 1 Amendment	Amendment to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards - Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters [1]
HKFRS 9	Financial Instruments [3]
HKAS 24 (Revised)	Related Party Disclosures [2]
HK(IFRIC)-Int 14 Amendments	Amendments to HK (IFRIC)-Int 14 Prepayments of a Minimum Funding Requirement [2]
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments [1]
HKAS 32 Amendment	Amendment to HKAS 32 Financial Instruments: Presentation - Classification of Rights Issues [4]

Apart from the above, the HKICPA has issued Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendments to HKFRS 3 and HKAS 27 which are effective for annual periods beginning on or after 1 July 2010, the amendments are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard or interpretation.

1 effective for annual periods beginning on or after 1 July 2010
2 effective for annual periods beginning on or after 1 January 2011
3 effective for annual periods beginning on or after 1 January 2013
4 effective for annual periods beginning on or after 1 February 2010

* Improvements to HKFRSs 2010 contain amendments to HKFRS 1, HKFRS 3, HKFRS 7, HKAS 1, HKAS 27, HKAS 34 and HK(IFRIC)-Int 13.

HKFRS 9 represents the completion of the first part of a three-part project to replace HKAS 39 Financial Instruments: Recognition and Measurement. HKFRS 9 uses a business model and contractual cash flow characteristics to determine whether a financial asset is measured at amortised cost or fair value, replacing the four category classification in HKAS 39. The approach is also based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets from 1 January 2013.

Notes to the Condensed Interim Accounts *(continued)*

3.2 Issued but not yet effective HKFRSs *(continued)*

HKAS 24 (Revised) simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Government-related entities are now defined as entities that are controlled, jointly controlled or significantly influenced by the government. The revised standard still requires disclosures that are important to users of financial statements but eliminates requirements to disclose information that is costly to gather and of less value to users. It achieves this balance by requiring disclosure about these transactions only if they are significant. The amendments are unlikely to have any material financial impact on the Group.

The amendment to HK(IFRIC)-Int 14 requires entities to recognise as an economic benefit any prepayment of minimum funding requirement contributions. As the Group has no defined benefit scheme, the amendment is unlikely to have any material financial impact on the Group.

HK(IFRIC)-Int 19 addresses the accounting by an entity when the terms of a financial liability are re-negotiated and resulted in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The Group expects to adopt the Interpretation from 1 January 2011. As the Group has not re-negotiated the terms of a financial liability and issued equity instruments to settle the financial liability, the Interpretation is unlikely to have any material financial impact on the Group.

The amendment to HKAS 32 addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. However, the amendment requires that, provided that certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. The amendment is unlikely to have any material financial impact on the Group.

In May 2010, the HKICPA issued Improvements to HKFRSs which sets out amendments to HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The Group expects to adopt the amendments to HKFRSs from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of them may result changes in accounting policy, none of these amendments are expected to have a material financial impact on the Group.

(a) HKFRS 1 Amendments: It addresses the presentation and disclosure requirements for entity which changes its accounting policies or its uses of the exemptions contained in this HKFRS. It also introduces the use of a revaluation basis as deemed cost and extends the use of the deemed cost exemption to entities with operations subject to rate regulation.

(b) HKFRS 3 Amendments: It states the transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised HKFRS. It explains the measurement principle for non-controlling interests in the acquiree for business combination. It also provides guidance on the accounting of share-based payment transactions of the acquiree or replacement of an acquiree's share-based payment transactions with share-based payment transactions of the acquirer in accordance with HKFRS 2 at the acquisition date.

(c) HKFRS 7 Amendments: It clarifies quantitative disclosure requirements for risks arising from financial instruments, and encourages accompanying narrative disclosures if the concentration of risk is not apparent from the quantitative disclosures. The requirements for disclosures of credit risk are clarified and reduced, which disclosures on carrying amounts of assets that will have been past due or impaired unless they have been renegotiated, as well as description of collateral held by the entity as security and other credit enhancements and estimates of their fair value, are no longer required.

(d) HKAS 1 (Revised) clarifies that entities may present the required reconciliations for each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

Notes to the Condensed Interim Accounts *(continued)*

3.2 Issued but not yet effective HKFRSs *(continued)*

(e) Transition requirements for amendments to HKAS 21, HKAS 28 and HKAS 31 as a result of HKAS 27 Consolidated and Separate Financial Statements are to be applied prospectively for annual periods beginning on or after 1 July 2010.

(f) HKAS 34 Amendments: It requires the updating of relevant information related to significant events and transactions in the most recent annual financial report. HKAS 34 now specifies events and transactions for which disclosures are required, and guidance has been added covering the application of the requirements for financial instruments.

(g) HK(IFRIC)-Int 13 clarifies that fair value of award credits should take account of expected forfeitures as well as the discounts or incentives that would otherwise be offered to customers who have not earned award credits from an initial sale.

3.3 Financial impact of the adoption of the amendment to HKAS 17

As explained in note 3.1 above, following the adoption of the amendment to HKAS 17, the corresponding prior year comparatives have been adjusted as follows:

	As reported HK$'000	**Adjustment HK$'000**	**Restated HK$'000**
Half year ended 30 June 2009			
Profit for the period	930,145	(1,302)	928,843
Total comprehensive income	1,981,078	(1,302)	1,979,776
As at 31 December 2009			
Property, plant and equipment	273,953	240,238	514,191
Bank premises revaluation reserve	56,198	172,687	228,885
Retained earnings	5,181,915	(9,690)	5,172,225
As at 30 June 2009			
Property, plant and equipment	272,277	226,083	498,360
Bank premises revaluation reserve	52,052	159,470	211,522
Retained earnings	3,989,538	(8,388)	3,981,150

Notes to the Condensed Interim Accounts *(continued)*

4 Analysis of assets and liabilities by remaining maturity

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

Group 30 June 2010	Repayable on demand HK$'000	Up to 1 month HK$'000	1-3 months HK$'000	3-12 months HK$'000	1-5 years HK$'000	Over 5 years HK$'000	Indefinite HK$'000	Total HK$'000
Assets								
Cash and balances with banks and other financial institutions	9,873,833	16,495,571	–	–	–	–	1,055,418	27,424,822
Placements with and advances to banks and other financial institutions	–	–	390,185	1,159,064	–	–	–	1,549,249
Financial assets held for trading	–	4,936	14,964	419	13,542	6,643	157,372	197,876
Financial assets designated at fair value through profit or loss	–	–	–	219,000	725,553	–	–	944,553
Derivative financial instruments	159,664	129,205	330,241	965,245	275,869	146,385	–	2,006,609
Loans and advances to customers, banks and other financial institutions	23,080,387	20,726,316	9,514,185	33,833,377	63,437,013	34,001,243	–	184,592,521
Available-for-sale financial investments								
– equity securities	–	–	–	–	–	–	1,515,792	1,515,792
– certificates of deposit held	–	–	–	733,516	989,430	–	–	1,722,946
– other debt securities	–	697,063	1,521,022	3,128,601	24,271,136	1,732,613	7,640	31,358,075
Held-to-maturity financial investments								
– treasury bills	–	–	–	1,145,621	–	–	–	1,145,621
– other debt securities	–	54,346	4,580	–	–	–	–	58,926
Investments in associates	–	–	–	–	–	–	182,351	182,351
Goodwill and other intangible assets	–	–	–	–	–	–	1,018,718	1,018,718
Investment properties	–	–	–	–	–	–	47,488	47,488
Property, plant and equipment	–	–	–	–	–	–	486,775	486,775
Other assets	9,088	587,218	99,801	252,201	104,960	–	501,038	1,554,306
Total assets	33,122,972	38,694,655	11,874,978	41,437,044	89,817,503	35,886,884	4,972,592	255,806,628
Liabilities								
Deposits from banks and other financial institutions	1,201,372	14,334,321	10,586,288	7,355,624	–	–	–	33,477,605
Derivative financial instruments	28,919	131,729	372,225	980,506	650,182	263,697	–	2,427,258
Deposits from customers	41,425,973	63,020,145	50,848,074	24,914,975	441,097	28,464	–	180,678,728
Certificates of deposit issued	–	150,306	49,759	3,469,740	3,619,418	–	–	7,289,223
Debt securities in issue	1,110	150,312	50,929	–	–	–	–	202,351
Subordinated debts measured at amortised cost	–	–	–	622,752	6,410,158	1,556,880	–	8,589,790
Other liabilities, including current and deferred tax liabilities	93,179	776,052	396,539	2,208,668	80,402	1,211	245,720	3,801,771
Total liabilities	42,750,553	78,562,865	62,303,814	39,552,265	11,201,257	1,850,252	245,720	236,466,726
Net liquidity gap	(9,627,581)	(39,868,210)	(50,428,836)	1,884,779	78,616,246	34,036,632	4,726,872	19,339,902

Notes to the Condensed Interim Accounts *(continued)*

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

Group (Restated) At 31 December 2009	Repayable on demand HK$'000	Up to 1 month HK$'000	1-3 months HK$'000	3-12 months HK$'000	1-5 years HK$'000	Over 5 years HK$'000	Indefinite HK$'000	Total HK$'000
Assets								
Cash and balances with banks and other financial institutions	6,240,723	21,134,079	—	—	—	—	535,780	27,910,582
Placements with and advances to banks and other financial institutions	—	—	903,730	759,556	—	—	—	1,663,286
Financial assets held for trading	—	—	—	19,884	19,244	7,920	143,198	190,246
Financial assets designated at fair value through profit or loss	—	—	78,433	157,551	711,467	214,698	—	1,162,149
Derivative financial instruments	61	399,829	149,750	320,904	256,211	158,551	—	1,285,306
Loans and advances to customers, banks and other financial institutions	15,629,122	6,722,168	8,189,544	25,454,036	61,072,255	29,957,457	—	147,024,582
Available-for-sale financial investments								
– equity securities	—	—	—	—	—	—	1,587,800	1,587,800
– certificates of deposit held	—	—	—	—	150,225	—	—	150,225
– other debt securities	—	302,225	3,291,607	5,473,922	19,863,398	1,686,279	6,210	30,623,641
Held-to-maturity financial investments								
– treasury bills	—	—	—	1,146,414	—	—	—	1,146,414
– other debt securities	—	—	—	84,777	—	60,318	—	145,095
Investments in associates	—	—	—	—	—	—	175,177	175,177
Goodwill and other intangible assets	—	—	—	—	—	—	1,020,893	1,020,893
Investment properties	—	—	—	—	—	—	46,213	46,213
Property, plant and equipment	—	—	—	—	—	—	514,191	514,191
Other assets	19,676	588,916	251,953	111,209	84,220	—	249,176	1,305,150
Total assets	21,889,582	29,147,217	12,865,017	33,528,253	82,157,020	32,085,223	4,278,638	215,950,950
Liabilities								
Deposits from banks and other financial institutions	1,313,038	10,879,001	6,731,190	1,253,471	—	—	—	20,176,700
Derivative financial instruments	5,164	244,176	137,561	391,698	441,575	183,658	—	1,403,832
Deposits from customers	46,811,559	55,923,263	33,875,477	23,533,175	989,730	28,357	—	161,161,561
Certificates of deposit issued	—	77,731	99,748	356,013	1,861,054	—	—	2,394,546
Debt securities in issue	—	66,529	92,997	—	—	—	—	159,526
Subordinated debts measured at amortised cost	—	—	—	—	7,010,125	1,551,000	—	8,561,125
Other liabilities, including current and deferred tax liabilities	182,704	707,880	541,684	1,971,797	94,060	—	327,941	3,826,066
Total liabilities	48,312,465	67,898,580	41,478,657	27,506,154	10,396,544	1,763,015	327,941	197,683,356
Net liquidity gap	(26,422,883)	(38,751,363)	(28,613,640)	6,022,099	71,760,476	30,322,208	3,950,697	18,267,594

5 Segment reporting

(a) *Class of business*

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

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

Notes to the Condensed Interim Accounts *(continued)*

5 Segment reporting *(continued)*

(a) *Class of business (continued)*

(Restated) 30 Jun 2009	Corporate and investment banking HK$'000	Commercial banking HK$'000	Retail banking HK$'000	Global markets and trading HK$'000	Institutional banking HK$'000	Chinese Mercantile Bank HK$'000	Unallocated HK$'000	Total HK$'000
Net interest income	397,281	467,844	276,629	227,597	70,448	115,067	(64,834)	1,490,032
Fee and commission income	78,696	77,308	142,516	830	22,518	26,444	127	348,439
Fee and commission expense	(7,212)	(2,652)	(21,244)	—	(47)	(892)	(3,614)	(35,661)
Net fee and commission income /(expense)	71,484	74,656	121,272	830	22,471	25,552	(3,487)	312,778
Net trading income/(expense)	22	13,955	9,097	119,996	796	(162)	(22,840)	120,864
Net gain on financial assets and liabilities designated at fair value through profit or loss	—	—	—	21,207	—	—	52,549	73,756
Dividend income from financial investments	201	—	11	—	—	—	3,305	3,517
Other operating income	—	1,395	2,580	9	31	9,624	4,672	18,311
Operating income/(loss)	468,988	557,850	409,589	369,639	93,746	150,081	(30,635)	2,019,258
Operating expenses	(33,820)	(140,851)	(353,203)	(46,518)	(6,537)	(36,394)	(79,095)	(696,418)
Operating profit/(loss) before impairment losses	435,168	416,999	56,386	323,121	87,209	113,687	(109,730)	1,322,840
(Charge for)/write-back of impairment loss on loans and advances	(41,285)	(153,560)	(81)	312	13,094	(34,229)	(8,856)	(224,605)
Write-back of impairment losses on held-to-maturity financial investments	—	—	—	1,126	—	—	—	1,126
Charge for impairment losses on available-for-sale financial investments	—	—	—	(42,870)	—	—	—	(42,870)
Operating profit/(loss) after impairment losses	393,883	263,439	56,305	281,689	100,303	79,458	(118,586)	1,056,491
Net (loss)/gain from disposal/ reversal of revaluation deficits of property, plant and equipment	(6)	4	(311)	(21)	—	—	3,096	2,762
Net (loss)/gain on disposal of available-for-sale financial investments	—	—	—	(51,927)	—	—	108,819	56,892
Operating profit/(loss)	393,877	263,443	55,994	229,741	100,303	79,458	(6,671)	1,116,145
Share of profits of associates	—	—	—	—	—	—	10,881	10,881
Profit before tax	393,877	263,443	55,994	229,741	100,303	79,458	4,210	1,127,026
Segment assets	46,474,478	46,362,745	26,362,019	81,770,170	5,010,939	7,946,089	272,466	214,198,906
Investment in an associate	—	—	—	—	—	—	195,317	195,317
Unallocated assets	—	—	—	—	—	—	3,955,999	3,955,999
Total assets	46,474,478	46,362,745	26,362,019	81,770,170	5,010,939	7,946,089	4,423,782	218,350,222
Segment liabilities	37,890,588	38,320,833	46,829,921	25,183,964	35,503,328	4,711,802	351,137	188,791,573
Unallocated liabilities	—	—	—	—	—	—	13,534,847	13,534,847
Total liabilities	37,890,588	38,320,833	46,829,921	25,183,964	35,503,328	4,711,802	13,885,984	202,326,420
Capital expenditure	18	88	9,307	724	63	505	13,775	24,480
Depreciation and amortisation charges	299	1,153	13,713	687	73	5,050	13,251	34,226

Notes to the Condensed Interim Accounts *(continued)*

5 Segment reporting *(continued)*

(b) *Geographical area*

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

	For the six months ended 30 Jun 2010			
	Hong Kong HK$'000	**Asia Pacific (excluding Hong Kong) HK$'000**	**Europe HK$'000**	**Consolidated HK$'000**
Operating income (net of interest expense)	**2,125,440**	**215,418**	**(62,568)**	**2,278,290**
Profit/(loss) before tax	**1,483,932**	**57,564**	**(62,716)**	**1,478,780**
Total assets	**236,396,836**	**19,409,792**	**—**	**255,806,628**
Total liabilities	**221,273,050**	**15,193,676**	**—**	**236,466,726**
Contingent liabilities and commitments	**101,064,417**	**20,075,171**	**—**	**121,139,588**
Capital expenditure during the period	**13,986**	**904**	**—**	**14,890**

	For the six months ended 30 Jun 2009			
Restated	Hong Kong HK$'000	Asia Pacific (excluding Hong Kong) HK$'000	Europe HK$'000	Consolidated HK$'000
Operating income (net of interest expense)	1,875,545	150,081	(6,368)	2,019,258
Profit before tax	1,055,077	79,458	(7,509)	1,127,026
Total assets	209,995,603	7,946,089	408,530	218,350,222
Total liabilities	197,602,912	4,711,802	11,706	202,326,420
Contingent liabilities and commitments	79,972,486	2,880,646	—	82,853,132
Capital expenditure during the period	23,975	505	—	24,480

Notes to the Condensed Interim Accounts *(continued)*

6 Net interest income

	30 Jun 2010 HK$'000	30 Jun 2009 HK$'000
Interest income on:		
Cash and balances with banks and other financial institutions	**59,259**	52,845
Placements with and advances to banks and other financial institutions	**20,332**	39,393
Loans and advances to customers, banks and other financial institutions	**1,935,911**	1,821,469
Financial investments - available-for-sale	**470,663**	349,882
Financial investments - held-to-maturity	**1,946**	19,324
	2,488,111	2,282,913
Financial assets held for trading	**737**	1,006
Financial assets designated at fair value through profit or loss	**25,003**	38,575
	2,513,851	2,322,494
Interest expense on:		
Deposits from banks and other financial institutions	**91,920**	105,939
Deposits from customers	**467,176**	495,728
Certificates of deposit issued	**9,872**	3,384
Subordinated debts measured at amortised cost	**39,801**	94,822
Others	**160,438**	18,651
	769,207	718,524
Financial liabilities designated at fair value through profit or loss	**19,772**	113,938
	788,979	832,462
Net interest income	**1,724,872**	1,490,032

Included in the above is interest income accrued on impaired financial assets of HK$32,961,326 (First half of 2009: HK$19,906,551), including unwinding of discounts on loan impairment losses of HK$11,348,000 (First half of 2009: HK$6,164,157).

Notes to the Condensed Interim Accounts *(continued)*

7 Net fee and commission income

	30 Jun 2010 HK$'000	30 Jun 2009 HK$'000
Loans, overdrafts and guarantees	**159,838**	92,611
Securities and brokerage	**83,219**	98,829
Trade finance	**73,409**	69,041
Credit cards	**43,859**	30,974
Remittance	**14,994**	12,313
Insurance	**14,265**	10,589
Other retail and commercial banking services	**17,636**	17,773
Others	**14,777**	16,309
Fee and commission income	**421,997**	348,439
Fee and commission expense	**(64,156)**	(35,661)
Net fee and commission income	**357,841**	312,778
Of which:		
Net fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value through profit or loss	**233,247**	161,652
Net fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	**11,901**	7,532
Of which:		
Fee and commission income by product line constituting not less than 10% of the total amount of fees and commission income:		
– syndication loan	**88,026**	60,352
– securities and brokerage	**83,219**	98,829
– credit card	**43,859**	—
– inwards bill	**40,490**	—

Notes to the Condensed Interim Accounts *(continued)*

8 Net trading income

	30 Jun 2010 HK$'000	30 Jun 2009 HK$'000
Equity investments	**(1,100)**	14,806
Debt securities – financial assets held for trading	**(3,486)**	988
– available-for-sale financial investments	**—**	25,853
Derivatives	**10,117**	26,035
Foreign exchange	**158,145**	52,808
	163,676	120,490
Gain/(loss) from hedging activities		
Fair value hedges		
– Net gain/(loss) on hedged items attributable to the hedged risk	**347,656**	(110,231)
– Net (loss)/gain on hedging instruments	**(348,033)**	110,605
	(377)	374
Total net trading income	**163,299**	120,864

There is no trading income on the gain of financial liabilities measured at amortised cost for first half of 2010 (First half of 2009: HK$2,884).

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

	30 Jun 2010 HK$'000	30 Jun 2009 HK$'000
Financial assets designated at fair value through profit or loss	**12,719**	19,736
Financial liabilities designated at fair value through profit or loss	**5,318**	54,020
Total net gain on financial assets and liabilities designated at fair value through profit or loss	**18,037**	73,756

10 Dividend income from financial investments

	30 Jun 2010 HK$'000	30 Jun 2009 HK$'000
Dividend income from listed financial assets held for trading	**720**	737
Dividend income from unlisted available-for-sale financial investments	**2,871**	2,780
Total dividend income from financial investments	**3,591**	3,517

Notes to the Condensed Interim Accounts *(continued)*

11 Other operating income

	30 Jun 2010 HK$'000	30 Jun 2009 HK$'000
Management fee income	**3,750**	3,750
Rental income	**18**	32
Rental income from investment properties	**1,248**	1,217
Less: Direct operating expenses arising from investment properties that generated rental income during the period	**(41)**	(77)
Others	**5,675**	13,389
Total other operating income	**10,650**	18,311

12 Operating expenses

	30 Jun 2010 HK$'000	Restated 30 Jun 2009 HK$'000
Staff costs		
– Salaries and other costs	**342,905**	299,467
– Redundancy payment	**1,563**	853
– Retirement benefit cost	**19,536**	19,929
	364,004	320,249
Premises and equipment expenses, excluding depreciation and amortisation		
– Rental of premises	**125,892**	112,564
– Others	**39,207**	34,928
	165,099	147,492
Depreciation and amortisation expenses	**31,136**	34,226
Auditors' remuneration	**3,355**	3,304
General administration expense	**18,606**	17,359
Business promotion expense	**18,097**	12,143
Communication expense	**22,162**	20,711
Other operating expenses	**57,343**	140,934
Total operating expenses	**679,802**	696,418

Notes to the Condensed Interim Accounts *(continued)*

13 Charge for impairment losses on loans and advances

	30 Jun 2010 HK$'000	30 Jun 2009 HK$'000
Charge for impairment losses on loans and advances		
Individually assessed		
– New allowances	**102,955**	242,528
– Releases	**(17,570)**	(18,348)
– Recoveries	**(2,746)**	(5,505)
Net charge for impairment losses on individually assessed loans and advances	**82,639**	218,675
Collectively assessed		
– New allowances	**127,689**	9,552
– Releases	**—**	(3,622)
Net charge for impairment losses on collectively assessed loans and advances	**127,689**	5,930
Net charge to the income statement	**210,328**	224,605

14 Tax

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 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 2010 HK$'000	30 Jun 2009 HK$'000
Current tax – provision for Hong Kong Profits Tax for the period	**240,812**	162,976
– provision for overseas tax for the period	**16,805**	14,633
Underprovision in respect of prior years	**3,448**	19,388
Deferred taxation relating to the origination and reversal of temporary differences	**(11,443)**	1,186
	249,622	198,183

Notes to the Condensed Interim Accounts *(continued)*

14 Tax *(continued)*

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

	30 Jun 2010 HK$'000	Restated 30 Jun 2009 HK$'000
Profit before tax	**1,478,780**	1,127,026
Calculated at a tax rate of 16.5% (2009: 16.5%)	**243,999**	185,959
Effect of different tax rates in other countries	**7,273**	2,913
Income not subject to tax	**(31,510)**	(25,816)
Expenses not deductible for tax purposes	**27,703**	17,534
Adjustments in respect of current tax of previous periods	**3,448**	19,388
Share of tax of associates	**(1,184)**	(1,795)
Taxation of partnership	**(107)**	—
Tax charge	**249,622**	198,183

15 Declared interim dividend

	30 Jun 2010 HK$'000	30 Jun 2009 HK$'000
Declared interim dividend of HK$0.37 (2009: HK$0.28) per ordinary share	**500,263**	363,787

At the Board Meeting of the Bank held on 25 August 2010, the Board has declared an interim dividend of HK$0.37 per ordinary share. The interim dividend will be payable in cash to shareholders whose names appear on the Register of Members of the Bank at the close of business on Tuesday, 14 September 2010.

16 Earnings per share

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

	30 Jun 2010	Restated 30 Jun 2009
Profit attributable to equity holders (HK$'000)	**1,229,158**	928,843
Weighted average number of ordinary shares in issue (thousands)	**1,318,713**	1,285,654
Basic earnings per share	**HK$0.93**	HK$0.72

Diluted earnings per share amounts for the periods ended 30 June 2010 and 30 June 2009 were the same as basic earning per share, as the Group had no potential dilutive ordinary shares in issue during those periods.

Notes to the Condensed Interim Accounts *(continued)*

17 Cash and balances with banks and other financial institutions

	30 Jun 2010 HK$'000	31 Dec 2009 HK$'000
Cash in hand	**271,592**	266,421
Balances with central banks	**7,651,646**	5,213,938
Balances with other banks and financial institutions	**3,006,013**	1,296,144
Placements with banks and other financial institutions maturing within one month	**16,495,571**	21,134,079
	27,424,822	27,910,582

18 Placements with and advances to banks and other financial institutions

	30 Jun 2010 HK$'000	31 Dec 2009 HK$'000
Placements with banks and other financial institutions maturing between one and twelve months	**1,549,249**	1,663,286

19 Financial assets held for trading

	30 Jun 2010 HK$'000	31 Dec 2009 HK$'000
Debt securities, at fair value:		
Listed in Hong Kong	**6,899**	8,180
Unlisted	**33,605**	38,868
	40,504	47,048
Equity securities, at fair value:		
Listed in Hong Kong	**19,850**	20,950
Unlisted	**137,522**	122,248
	157,372	143,198
Total financial assets held for trading	**197,876**	190,246
Financial assets held for trading are analysed by category of issuer as follows:		
Central governments and central banks	**23**	23
Public sector entities	**419**	425
Banks and other financial institutions	**190,792**	181,878
Corporate entities	**6,642**	7,920
	197,876	190,246

Notes to the Condensed Interim Accounts *(continued)*

20 Financial assets designated at fair value through profit or loss

	30 Jun 2010 HK$'000	31 Dec 2009 HK$'000
Debt securities, at fair value:		
Listed in Hong Kong	**302,134**	377,848
Listed outside Hong Kong	**453,994**	599,139
Unlisted	**188,425**	185,162
Total financial assets designated at fair value through profit or loss	**944,553**	1,162,149
Financial assets designated at fair value through profit or loss comprise the following item:		
Other debt securities	**944,553**	1,162,149
Financial assets designated at fair value through profit or loss are analysed by category of issuer as follows:		
Public sector entities	**125,748**	201,022
Banks and other financial institutions	**188,441**	183,716
Corporate entities	**630,364**	777,411
	944,553	1,162,149

Notes to the Condensed Interim Accounts *(continued)*

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 option).

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 period 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 its risk management policies in providing derivative products to the customers and in trading derivative products in the interbank market.

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

Notes to the Condensed Interim Accounts *(continued)*

21 Derivative financial instruments *(continued)*

The following tables summarise the contractual/notional amounts of each significant type of derivative financial instruments as at 30 June 2010 and 31 December 2009:

As at 30 June 2010	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	182,615,563	1,345,426	(1,230,257)
– OTC currency options purchased	6,132,716	88,275	—
– OTC currency options written	5,606,569	—	(111,278)
– Structured foreign exchange instruments	200,506	23,542	(22,575)
Total foreign exchange derivatives		1,457,243	(1,364,110)
b) Interest rate derivatives			
– Interest rate swaps	15,616,456	319,132	(278,691)
– Interest rate options purchased	705,986	1,763	—
– Interest rate options written	705,986	—	(1,763)
– Structured interest rate instruments	746,068	5,108	(5,149)
Total interest rate derivatives		326,003	(285,603)
c) Equity derivatives			
– Equity options	195,706	190,291	(190,291)
		190,291	(190,291)
Total derivative assets/(liabilities) held for trading		1,973,537	(1,840,004)
2) Derivatives held for hedging			
a) Derivatives designated as fair value hedges			
– Interest rate swaps	8,114,380	—	(418,970)
– Cross currency swaps	959,993	27,103	(27,367)
b) Derivatives designated as cash flow hedges			
– Interest rate swaps	3,139,381	—	(42,186)
– Cross currency swaps	404,789	1,631	—
Total derivative assets/(liabilities) held for hedging		28,734	(488,523)
3) Derivatives not qualified as hedges for accounting purposes but which are managed in conjunction with the financial instruments designated at fair value through profit or loss			
– Interest rate swaps	1,070,656	4,338	(98,731)
Total derivative assets/(liabilities) not qualified as hedges		4,338	(98,731)
Total recognised derivative assets/(liabilities)		2,006,609	(2,427,258)

21 Derivative financial instruments *(continued)*

As at 31 December 2009	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	87,492,643	707,554	(632,192)
– OTC currency options purchased	5,013,375	33,494	(151)
– OTC currency options written	5,007,140	151	(34,028)
Total foreign exchange derivatives		741,199	(666,371)
b) Interest rate derivatives			
– Interest rate swaps	16,136,691	327,792	(301,572)
– Interest rate options purchased	804,075	4,657	—
– Interest rate options written	804,075	—	(4,657)
Total interest rate derivatives		332,449	(306,229)
c) Equity derivatives			
– Equity options	310,807	157,751	(157,751)
		157,751	(157,751)
Total derivative assets/(liabilities) held for trading		1,231,399	(1,130,351)
2) Derivatives held for hedging			
a) Derivatives designated as fair value hedges			
– Interest rate swaps	8,388,175	49,652	(185,528)
Total derivative assets/(liabilities) held for hedging		49,652	(185,528)
3) Derivatives not qualified as hedges for accounting purposes but which are managed in conjunction with the financial instruments designated at fair value through profit or loss			
– Interest rate swaps	1,300,395	4,255	(87,953)
Total derivative assets/(liabilities) not qualified as hedges		4,255	(87,953)
Total recognised derivative assets/(liabilities)		1,285,306	(1,403,832)

Notes to the Condensed Interim Accounts *(continued)*

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 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:

	Group and Bank	
	30 Jun 2010 HK$'000	30 Jun 2009 HK$'000
Gain/(loss) arising from fair value hedge, net:		
– Hedging instruments	**(348,033)**	110,605
– Hedged items attributable to the hedged risk	**347,656**	(110,231)
	(377)	374

Cash flow hedge consists of interest rate swaps entered into in 2010 that is used to protect the Group against exposures to variability of floating-rate liabilities. Gains and losses on the effective portion of the swap are initially recognised directly in equity, in the cash flow hedging 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 (First half of 2009: Nil).

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

	30 Jun 2010		31 Dec 2009	
	Replacement cost HK$'000	**Credit risk weighted amount HK$'000**	Replacement cost HK$'000	Credit risk weighted amount HK$'000
Contingent liabilities and commitments	**—**	**19,717,088**	—	14,394,189
Exchange rate contracts	**1,266,659**	**1,269,785**	522,306	539,108
Interest rate contracts	**336,279**	**375,610**	389,132	371,512
Other contracts	**190,291**	**39,245**	157,751	33,467
	1,793,229	**21,401,728**	1,069,189	15,338,276

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

Notes to the Condensed Interim Accounts *(continued)*

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

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

	30 Jun 2010 HK$'000	31 Dec 2009 HK$'000
Advances to customers	**155,266,460**	135,734,340
Advances to banks and other financial institutions	**27,836,096**	10,671,725
Trade bills	**2,128,467**	1,257,128
Gross loans and advances to customers, banks and other financial institutions	**185,231,023**	147,663,193
Accrued interest	**401,200**	256,677
	185,632,223	147,919,870
Less: impairment allowances		
– Individually assessed	**(458,052)**	(441,896)
– Collectively assessed	**(581,650)**	(453,392)
	184,592,521	147,024,582

	30 Jun 2010 HK$'000	31 Dec 2009 HK$'000
Gross impaired loans and advances	**1,211,568**	1,358,618
Impairment allowances made in respect of such loans	**458,052**	441,896
Gross impaired loans and advances as a percentage of total gross loans and advances	**0.65%**	0.92%
Market value of collateral	**497,241**	693,671

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 2010 and 31 December 2009; 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 Condensed Interim Accounts *(continued)*

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

(b) *Overdue advances to customers, banks and other financial institutions (excluding trade bills and receivables)*

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

	Gross advances HK$'000	Percentage of advances to customers %	Market value of collateral HK$'000	Amount of secured balance HK$'000	Amount of unsecured balance HK$'000	Individual impairment allowance HK$'000
As at 30 June 2010						
Six months or less but over three months	**519,132**	**0.3**	**27,810**	**19,029**	**499,819**	**104,634**
One year or less but over six months	**237,640**	**0.1**	**183,363**	**169,031**	**68,609**	**71,340**
Over one year	**259,639**	**0.1**	**136,997**	**89,479**	**169,794**	**214,222**
	1,016,411	**0.5**	**348,170**	**277,539**	**738,222**	**390,196**
As at 31 December 2009						
Six months or less but over three months	29,403	0.0	13,568	4,426	24,977	908
One year or less but over six months	388,847	0.3	236,048	231,932	156,915	196,572
Over one year	109,111	0.1	65,283	43,668	65,443	70,033
	527,361	0.4	314,899	280,026	247,335	267,513

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.

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 2010 and 31 December 2009.

Notes to the Condensed Interim Accounts *(continued)*

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

(c) *Other overdue assets*

	30 Jun 2010 Accrued interest HK$'000	30 Jun 2010 Other assets HK$'000	31 Dec 2009 Accrued interest HK$'000	31 Dec 2009 Other assets HK$'000
One year or less but over six months	**25,652**	**—**	692	1,635
Over one year	**10,401**	**1,641**	7,378	—
	36,053	**1,641**	8,070	1,635
Rescheduled assets	**16**	**—**	9	—
	36,069	**1,641**	8,079	1,635

Other assets refer to trade bills and receivables.

There were no debt securities which were overdue for over 3 months; nor were there any rescheduled assets as at 30 June 2010 and 31 December 2009.

(d) *Rescheduled advances*

	30 Jun 2010 HK$'000	As percentage of advances to customers %	31 Dec 2009 HK$'000	As percentage of advances to customers %
Rescheduled advances (excluding overdue loans over three months)	**105,458**	**0.1**	112,377	0.1

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

(e) *Repossessed assets*

At 30 June 2010, the estimated market value of the repossessed assets of the Group amounted to HK$37,000,000 (31 December 2009: HK$6,304,000). These are properties which the Group has acquired access to or control of (e.g. through legal actions or voluntary actions by the borrowers concerned) for releasing in full or in part on the obligations of the borrowers.

Notes to the Condensed Interim Accounts *(continued)*

23 Available-for-sale financial investments

	30 Jun 2010 HK$'000	31 Dec 2009 HK$'000
Debt securities:		
Listed in Hong Kong	**2,366,893**	2,386,583
Listed outside Hong Kong	**16,235,682**	15,803,326
Unlisted	**14,478,759**	12,583,957
	33,081,334	30,773,866
Equity securities:		
Listed in Hong Kong	**1,431,329**	1,501,944
Unlisted	**84,150**	85,856
	1,515,479	1,587,800
Total available-for-sale financial investments	**34,596,813**	32,361,666
Market value of listed securities	**20,033,904**	19,691,853
Debt securities after taking into account impairment losses comprise the following items:		
Certificates of deposit held	**1,722,946**	150,225
Other debt securities	**31,358,388**	30,623,641
	33,081,334	30,773,866
Available-for-sale financial investments are analysed by category of issuer as follows:		
Central governments and central banks	**946,669**	2,991,296
Public sector entities	**602,790**	779,928
Banks and other financial institutions	**24,356,980**	19,799,129
Corporate entities	**8,689,697**	8,787,116
Others	**677**	4,197
	34,596,813	32,361,666

During the period, there was no individual impairment loss made on available-for-sale financial investments (First half of 2009: HK$42,870,000).

Notes to the Condensed Interim Accounts *(continued)*

24 Held-to-maturity financial investments

	30 Jun 2010 HK$'000	31 Dec 2009 HK$'000
Debt securities:		
Listed outside Hong Kong	**54,488**	80,466
Unlisted	**1,150,213**	1,211,277
	1,204,701	1,291,743
Less: Impairment loss	**(154)**	(234)
Total held-to-maturity financial investments	**1,204,547**	1,291,509
Market value of listed securities	**54,313**	79,045
Debt securities after taking into account impairment losses comprise the following items:		
Treasury bills	**1,145,621**	1,146,414
Other debt securities	**58,926**	145,095
	1,204,547	1,291,509
Held-to-maturity financial investments are analysed by category of issuer as follows:		
Central governments and central bank	**1,145,621**	1,146,414
Public sector entities	**—**	60,318
Banks and other financial institutions	**58,926**	84,777
	1,204,547	1,291,509

Movement in collective impairment allowances on held-to-maturity financial investments:

	30 Jun 2010 HK$'000	31 Dec 2009 HK$'000
At 1 January	**234**	2,379
Write back of collective impairment loss	**(80)**	(2,145)
At 30 June/31 December	**154**	234

25 Investment properties

	30 Jun 2010 HK$'000	31 Dec 2009 HK$'000
Carrying amount at 1 January	**46,213**	40,126
Net revaluation gain	**1,275**	6,087
Carrying amount at 30 June/31 December	**47,488**	46,213

Notes to the Condensed Interim Accounts *(continued)*

26 Property, plant and equipment

Group

	Bank premises HK$'000	Leasehold improvements HK$'000	Furniture and equipment HK$'000	Total HK$'000
At 31 December 2009 and 1 January 2010:				
Cost or valuation	171,868	208,261	221,736	601,865
Accumulated depreciation and impairment	(69,402)	(117,215)	(141,295)	(327,912)
Net book value at 31 December 2009 and 1 January 2010	102,466	91,046	80,441	273,953
Effect of adopting Amendment to HKAS17	240,238	—	—	240,238
Net book value at 31 December 2009 and 1 January 2010, as restated	342,704	91,046	80,441	514,191
Additions	—	2,837	9,503	12,340
Disposals	(26,879)	—	(112)	(26,991)
Revaluation	13,116	—	—	13,116
Depreciation provided during the year	(7,354)	(8,706)	(10,314)	(26,374)
Exchange rate and other adjustments	(157)	1	649	493
Net book value at 30 June 2010	321,430	85,178	80,167	486,775
At 30 June 2010:				
Cost or valuation	399,393	210,828	229,291	839,512
Accumulated depreciation and impairment	(77,963)	(125,650)	(149,124)	(352,737)
Net book value at 30 June 2010	321,430	85,178	80,167	486,775
The analysis of cost or valuation of the above assets is as follows:				
At 30 June 2010:				
At cost	—	210,828	229,291	440,119
At valuation	321,430	—	—	321,430
	321,430	210,828	229,291	761,549

Notes to the Condensed Interim Accounts *(continued)*

26 Property, plant and equipment *(continued)*

Group (Restated)

	Bank premises HK$'000	Leasehold improvements HK$'000	Furniture and equipment HK$'000	Total HK$'000
At 31 December 2008 and 1 January 2009:				
Cost or valuation	150,720	204,330	233,670	588,720
Accumulated depreciation and impairment	(52,718)	(111,236)	(148,692)	(312,646)
Net book value at 31 December 2008 and 1 January 2009	98,002	93,094	84,978	276,074
Effect of adopting Amendment to HKAS17	227,757	—	—	227,757
Net book value at 31 December 2009 and 1 January 2010, as restated	325,759	93,094	84,978	503,831
Additions	—	15,630	16,117	31,747
Disposals	—	(119)	(1,172)	(1,291)
Revaluation	30,280	—	—	30,280
Depreciation provided during the year	(13,421)	(17,560)	(19,490)	(50,471)
Exchange rate and other adjustments	86	1	8	95
Net book value at 31 December 2009	342,704	91,046	80,441	514,191
At 31 December 2009:				
Cost or valuation	415,917	208,261	221,736	845,914
Accumulated depreciation and impairment	(73,213)	(117,215)	(141,295)	(331,723)
Net book value at 31 December 2009	342,704	91,046	80,441	514,191
The analysis of cost or valuation of the above assets is as follows:				
At 31 December 2009:				
At cost	—	208,261	221,736	429,997
At valuation	342,704	—	—	342,704
	342,704	208,261	221,736	772,701

27 Other assets

	30 Jun 2010 HK$'000	31 Dec 2009 HK$'000
Interest receivable	**319,826**	340,173
Prepayments	**139,854**	110,882
Settlement accounts	**400,852**	409,350
Others	**693,774**	444,745
	1,554,306	1,305,150

Notes to the Condensed Interim Accounts *(continued)*

28 Deposits from customers

	30 Jun 2010 HK$'000	31 Dec 2009 HK$'000
Demand deposits and current accounts	**9,584,227**	9,869,396
Savings deposits	**31,271,391**	36,475,880
Time, call and notice deposits	**139,823,110**	114,816,285
	180,678,728	161,161,561

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% (2009: 16.5%).

The movements in the deferred tax asset/(liability) accounts are as follows:

	30 Jun 2010 HK$'000	Restated 31 Dec 2009 HK$'000
At 1 January	**(190,262)**	137,547
Effect of adopting Amendment to HKAS 17	**(34,124)**	(31,512)
At 1 January, as restated	**(224,386)**	106,035
Credited/(debited) to income statement	**11,443**	(1,780)
Credited/(debited) to equity (Note 33)	**6,613**	(342,308)
Exchange and other adjustments	**13**	13,667
At 30 June/31 December	**(206,317)**	(224,386)

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.

Group	30 Jun 2010 HK$'000	Restated 31 Dec 2009 HK$'000
Deferred income tax assets:		
to be recovered after more than 12 months	**61,713**	54,177
to be recovered within 12 months	**—**	939
	61,713	55,116
Deferred income tax liabilities:		
to be settled after more than 12 months	**(264,933)**	(277,966)
to be settled within 12 months	**(3,097)**	(1,536)
	(268,030)	(279,502)
Deferred income tax liabilities, net	**(206,317)**	(224,386)

Notes to the Condensed Interim Accounts *(continued)*

30 Subordinated debts measured at amortised cost

	30 Jun 2010 HK$'000	30 Jun 2010 Interest rate %	31 Dec 2009 HK$'000	31 Dec 2009 Interest rate %
Subordinated floating rate notes				
– with a final maturity on 2 July 2011	**583,830**	**0.598%**	581,625	0.481%
– with a final maturity on 12 December 2011	**622,752**	**1.003%**	620,400	0.680%
– with a final maturity on 26 March 2012	**544,908**	**1.003%**	542,850	0.680%
– with a final maturity on 28 April 2014	**1,167,660**	**1.753%**	1,163,250	1.430%
– with a final maturity on 29 June 2016 (callable on 30 June 2011)	**622,752**	**1.034%**	620,400	0.751%
– with a final maturity on 20 October 2018 (callable on 21 October 2013)	**1,556,880**	**1.384%**	1,551,000	1.101%
– perpetual (callable on 10 December 2012)	**1,000,000**	**1.071%**	1,000,000	0.639%
– perpetual (callable on 9 July 2013)	**934,128**	**1.034%**	930,600	0.751%
– perpetual (callable on 30 June 2016)	**1,556,880**	**1.134%**	1,551,000	0.851%
	8,589,790		8,561,125	

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

31 Other liabilities

	30 Jun 2010 HK$'000	31 Dec 2009 HK$'000
Interest payable	**463,991**	406,233
Salaries and welfare payable	**79,724**	101,702
Settlement accounts	**376,373**	407,497
Others	**922,818**	1,155,044
	1,842,906	2,070,476

Notes to the Condensed Interim Accounts *(continued)*

32 Share capital

	Number of shares (in thousands)	Ordinary shares HK$'000	Ordinary share premium HK$'000
At 1 January 2010	**1,318,340**	**2,636,681**	**8,640,575**
Allotment of new shares regarding the scrip dividend scheme of final dividend for the year ended 31 December 2009 (Note 33)	**33,721**	**67,442**	**547,222**
At 30 June 2010	**1,352,061**	**2,704,123**	**9,187,797**
At 1 January 2009	1,285,268	2,570,536	8,209,593
Allotment of new shares regarding the scrip dividend scheme of final dividend for the year ended 31 December 2008 (Note 33)	13,970	27,940	160,323
Allotment of new shares regarding the scrip dividend scheme of interim dividend for the period ended 30 June 2009 (Note 33)	19,102	38,205	270,719
Share issue expenses (Note 33)	—	—	(60)
At 31 December 2009	1,318,340	2,636,681	8,640,575

The total number of authorised ordinary shares is 2,000 million (2009: 2,000 million) with a par value of HK$2 per share (2009: HK$2 per share). All issued shares are fully paid.

The total number of authorised convertible non-cumulative preference shares is 232 million (2009: 232 million) with a par value of HK$5 per share (2009: HK$5 per share).

The Bank adopted a scrip dividend scheme allowing the shareholders to have the options to receive (1) dividends in cash; or (2) an allotment of new shares in lieu of cash; or (3) a combination of cash and new shares. Certain shareholders have selected to receive new shares as dividends amounting to HK$614.7 million (2009: HK$497.2million).

Share options

Share Option Scheme

During the period, no option has been granted and at 30 June 2010 (2009: Nil), there was no option outstanding.

The Share Option Scheme was approved by the shareholders of the Bank at the general meeting held on 10 May 2007.

The adoption of the Share Option Scheme is subject to the approval of the shareholders of ICBC, the holding company of the Bank.

Notes to the Condensed Interim Accounts *(continued)*

33 Reserves

Group

	Ordinary share premium HK$'000	Bank premises revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Cash flow hedge reserve HK$'000	Exchange reserve HK$'000	General reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2010	8,640,575	56,198	1,060,977	—	142,029	386,222	5,181,915	15,467,916
Adoption of Amendment to HKAS 17:								
Land	—	206,811	—	—	—	—	(9,690)	197,121
Deferred tax	—	(34,124)	—	—	—	—	—	(34,124)
Effect of adopting Amendment to HKAS 17	—	172,687	—	—	—	—	(9,690)	162,997
At 1 January 2010, as restated	8,640,575	228,885	1,060,977	—	142,029	386,222	5,172,225	15,630,913
Issue of shares (Note 32)	547,222	—	—	—	—	—	—	547,222
Change in fair value of available -for-sale financial investments	—	—	26,011	—	—	—	—	26,011
Reserve realised on disposal of available-for-sale financial investments	—	—	(44,170)	—	—	—	—	(44,170)
Changes in fair value of cash flow hedge	—	—	—	(42,191)	—	—	—	(42,191)
Disposal of bank premises		(26,671)	—	—	—	—	26,671	—
Revaluation surplus on bank premises	—	12,896	—	—	—	—	—	12,896
Exchange differences	—	—	(1)	—	20,783	(1)	—	20,781
Partial transfer of retained earnings to general reserve (Note a)	—	—	—	—	—	65,700	(65,700)	—
Profit for the period	—	—	—	—	—	—	1,229,158	1,229,158
Change in deferred tax (Note 29)	—	2,273	(2,622)	6,962	—	—	—	6,613
2009 final dividend paid	—	—	—	—	—	—	(751,454)	(751,454)
At 30 June 2010	9,187,797	217,383	1,040,195	(35,229)	162,812	451,921	5,610,900	16,635,779

Notes to the Condensed Interim Accounts *(continued)*

33 Reserves *(continued)*

Group (Restated)

	Ordinary share premium HK$'000	Bank premises Revaluation Reserve HK$'000	Investment revaluation reserve HK$'000	Cash flow hedge reserve HK$'000	Exchange reserve HK$'000	General reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2009	8,209,593	52,469	(681,710)	7,853	141,906	346,390	3,290,741	11,367,242
Adoption of Amendment to HKAS 17:								
Land	—	190,982	—	—	—	—	(7,086)	183,896
Deferred tax	—	(31,512)	—	—	—	—	—	(31,512)
Effect of adopting Amendment to HKAS 17	—	159,470	—	—	—	—	(7,086)	152,384
At 1 January 2009, as restated	8,209,593	211,939	(681,710)	7,853	141,906	346,390	3,283,655	11,519,626
Issue of shares (Note 32)	431,042	—	—	—	—	—	—	431,042
Share issue expenses (Note 32)	(60)	—	—	—	—	—	—	(60)
Change in fair value of available-for-sale financial investments	—	—	2,678,462	—	—	—	—	2,678,462
Reserve realised on disposal of available-for-sale financial investments	—	—	(643,409)	—	—	—	—	(643,409)
Transfer from available-for-sale financial investments reserve to the income statement on impairment	—	—	43,715	—	—	—	—	43,715
Changes in fair value of cash flow hedge	—	—	—	(7,853)	—	—	—	(7,853)
Revaluation surplus on bank premises	—	23,172	—	—	—	—	—	23,172
Exchange differences	—	—	1	—	123	(1)	—	123
Partial transfer of retained earnings to general reserve (Note a)	—	—	—	—	—	39,833	(39,833)	—
Profit for the year	—	—	—	—	—	—	2,523,538	2,523,538
Change in deferred tax (Note 29)	—	(6,226)	(336,082)	—	—	—	—	(342,308)
2008 final dividend paid	—	—	—	—	—	—	(231,348)	(231,348)
2009 interim dividend paid (Note 15)	—	—	—	—	—	—	(363,787)	(363,787)
At 31 December 2009	8,640,575	228,885	1,060,977	—	142,029	386,222	5,172,225	15,630,913

Notes to the Condensed Interim Accounts *(continued)*

33 Reserves *(continued)*

(a) The general reserve of the Group 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 as required by law and regulation in PRC. This reserve is used to offset accumulated losses or increase in capital.

(b) As at 30 June 2010, the Group has earmarked a "Regulatory Reserve" of HK$992,660,000 (31 December 2009: HK$801,511,000) from the 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.

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. There have been no guarantees provided or received for any related party receivables or payables. For the period ended 30 June 2010, the Bank has not made any provision for doubtful debts relating to amounts owed by related parties (2009: Nil).

(a) *Ultimate holding company*

	Six months ended	
	30 Jun 2010 HK$'000	30 Jun 2009 HK$'000
Interest income	**161,560**	172,204
Interest expense	**136,416**	216,116
Other operating income[1,2]	**21,911**	25,123
Other operating expenses[3,4]	**12,005**	11,685

	30 Jun 2010 HK$'000	31 Dec 2009 HK$'000
Amounts due from	**34,169,736**	18,713,744
Amounts due to	**36,799,760**	23,552,602

1. In accordance with the collaboration agreement dated 3 July 2001 and the supplemental collaboration agreements dated 4 February 2005 and 13 February 2008, 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.

Notes to the Condensed Interim Accounts *(continued)*

34 Related party transactions *(continued)*

(a) *Ultimate holding company (continued)*

2. In accordance with the custodian and trustee services agreement dated 4 September 2007 and the supplemental custodian and trustee services agreements dated 16 May 2008 and 31 December 2009, services fees were paid by the ultimate holding company to the Bank for providing custodian, settlement and clearing services in relation to the investments outside the PRC in certain investment products by the customers of the ultimate holding company in connection with the Qualified Domestic Institutional Investor Scheme of the PRC.

3. In accordance with the service levels agreements with the Bank dated 21 February 2002 (as amended and supplemented by supplemental agreements), and the service levels agreement with a subsidiary of the Bank dated 19 March 2008, service fee expense was paid to the ultimate holding company for the provision of data processing services to the Bank and its subsidiary.

4. In accordance with the tenancy agreement dated 31 December 2008, rental expense was paid to the ultimate holding company for the leasing of a property located in Hong Kong.

The transactions with the ultimate holding company included the issuance of floating rate certificates of deposits and subordinated floating rate notes, which were both fully subscribed by the ultimate holding company and its branches. As at 30 June 2010, the Bank has issued floating rate certificates of deposit with a nominal value of HK$2,500,000,000 and US$100,000,000 to the ultimate holding company (First half of 2009: Nil).

Information relating to issuance of subordinated floating rate notes by the Group, fully subscribed by the ultimate holding company and its branch can be found in note 30.

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. The amount of such on-balance sheet large exposures of the Bank covered by this guarantee as at 30 June 2010 was HK$39,361,000 (First half of 2009: HK$39,188,000).

ii. Sub-participation of loans

During the period, the Bank entered into various capital markets transactions with the Branch, which included 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 the loans of the Bank by the ultimate holding company and/or the Branch for a total of HK$45,132,992,000 (First half of 2009: HK$31,738,295,000). For the first half of 2009, there was similar sub-participation in the loans of the Branch by the Bank for a total of HK$3,179,183,622, but no such transaction took place during 2010. The total fee attributable to the above transactions of approximately HK$25,270,000 (First half of 2009: HK$11,840,000) 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 Condensed Interim Accounts *(continued)*

34 Related party transactions *(continued)*

(b) *Fellow subsidiaries*

	Six months ended 30 Jun 2010 HK$'000	30 Jun 2009 HK$'000
Interest income	**25,838**	3,044
Interest expense	**157**	1,013
Other operating income	**20**	1,403

	30 Jun 2010 HK$'000	31 Dec 2009 HK$'000
Amounts due from	**1,660,046**	476
Amounts due to	**905,314**	1,571,449

(c) *Associates*

	Six months ended 30 Jun 2010 HK$'000	30 Jun 2009 HK$'000
Interest income	**2,089**	863
Interest expense	**7**	77
Other operating income	**5,990**	1

	30 Jun 2010 HK$'000	31 Dec 2009 HK$'000
Amounts due from	**6**	6
Amounts due to	**2,192**	7,769

Notes to the Condensed Interim Accounts *(continued)*

34 Related party transactions *(continued)*

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

The following state-controlled entities are considered as related parties:

– The Ministry of Finance ("MOF") of the PRC

– Central Huijin Investment Limited ("Huijin")

– Other banks and financial institutions under the direction of the PRC government in which Huijin has control, joint control or significant influence.

	Six months ended	
	30 Jun 2010 HK$'000	30 Jun 2009 HK$'000
Interest income	**36,564**	42,178
Interest expense	**1,807**	11,394

	30 Jun 2010 HK$'000	31 Dec 2009 HK$'000
Amounts due from	**5,604,564**	8,146,831
Amounts due to	**80,353**	1,010,312

(e) *Key management personnel remuneration*

Remuneration for key management personnel is as follows:

	Six months ended	
	30 Jun 2010 HK$'000	30 Jun 2009 HK$'000
Employee benefits	**13,728**	11,400

Notes to the Condensed Interim Accounts *(continued)*

34 Related party transactions *(continued)*

(f) *Material transactions with key management personnel*

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

	Six months ended	
	30 Jun 2010 HK$'000	30 Jun 2009 HK$'000
Interest income	**53**	79
Interest expense	**65**	81

	30 Jun 2010 HK$'000	31 Dec 2009 HK$'000
Amounts due from	**3,737**	4,347
Amounts due to	**31,421**	18,513

35 Off-balance sheet exposures

(a) *Contingent liabilities and commitments*

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

	30 Jun 2010 Contractual amount HK$'000	**30 Jun 2010 Credit risk weighted amount HK$'000**	31 Dec 2009 Contractual amount HK$'000	31 Dec 2009 Credit risk weighted amount HK$'000
Direct credit substitutes	**21,975,827**	**7,866,400**	7,021,198	3,630,946
Transaction-related contingencies	**124,670**	**28,715**	132,742	36,848
Trade-related contingencies	**3,905,511**	**657,642**	3,931,297	644,944
Other commitments				
– Unconditionally cancellable	**69,948,930**	**—**	71,161,225	—
– With original maturity of less than one year	**692,206**	**138,442**	824,324	126,086
– With original maturity of over one year	**21,470,098**	**10,421,420**	19,871,892	9,792,424
Forward forward deposits placed	**3,022,346**	**604,469**	814,703	162,941
	121,139,588	**19,717,088**	103,757,381	14,394,189

Notes to the Condensed Interim Accounts *(continued)*

35 Off-balance sheet exposures *(continued)*

(b) *Capital commitments*

Capital commitments for property, plant and equipment outstanding for the period/year not provided for in the financial statements were as follows:

	30 Jun 2010 HK$'000	31 Dec 2009 HK$'000
Expenditure contracted but not provided for	**31,470**	48,111
Expenditure authorised but not contracted for	**—**	235
	31,470	48,346

(c) *Operating lease commitments*

The Group had future aggregate minimum lease payments under non-cancellable operating leases for the period/year as follows:

	30 Jun 2010 HK$'000	31 Dec 2009 HK$'000
Land and buildings		
– Not later than one year	**221,603**	237,070
– Later than one year and not later than five years	**379,557**	503,870
	601,160	740,940

(d) *Operating lease arrangements*

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

At 30 June 2010, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 Jun 2010 HK$'000	31 Dec 2009 HK$'000
Within one year	**2,501**	1,659
In the second to fifth years, inclusive	**3,502**	3,561
	6,003	5,220

During the period/year, the Group has no unrecognised contingent rentals receivable (2009: Nil).

Notes to the Condensed Interim Accounts *(continued)*

36 Comparative figures

As a result of the adoption of the amendment to HKAS 17 "Leases", certain comparative figures have been adjusted to conform with the current period's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2010. The financial impact on the Group of the adoption of the amendment to HKAS 17 is detailed in note 3.3.

37 Events after the reporting period

On 10 August 2010, ICBC and the Bank jointly announced that ICBC had requested the Board to put forward to the scheme shareholders of the Bank a proposal for the privatisation of the Bank (the "Proposal"). Under the Proposal, the scheme shareholders will receive from ICBC cancellation consideration of HK$29.45 for every scheme share of the Bank cancelled.

Supplementary Financial Information (Unaudited)

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

1 Capital adequacy and capital base

The capital ratios as at 30 June 2010 and 31 December 2009 were computed in accordance with the Banking (Capital) Rules (the "Capital Rules") issued by the Hong Kong Monetary Authority under section 98A of the Hong Kong Banking Ordinance for the implementation of the "Basel II" with effect from 1 January 2007. In view of the Capital Rules, the Bank has adopted the "standardised (credit risk) approach" for the calculation of the risk-weighted assets for credit risk, "basic indicator approach" for the calculation of the operational risk and the "standardised (market risk) approach" for the calculation of market risk. Under the Capital Rules, the basis of consolidation in calculating the capital ratios follows that of the financial reporting with the exclusion of subsidiaries which are "regulated financial entities" (e.g. insurance and securities companies) as defined by the Capital Rules. Accordingly, the investment costs of these unconsolidated subsidiaries are deducted from the capital base. There is no capital shortfall of these unconsolidated subsidiaries. Unconsolidated subsidiaries include UB China Business Management Co. Ltd., ICBC (Asia) Investment Holdings Limited, ICBC (Asia) Bullion Company Limited, ICBC (Asia) Securities Limited, ICBC (Asia) Trustee Company Limited, ICBC (Asia) Asset Management Company Limited, ICBC (Asia) Investment Management Company Limited and ICBC (Asia) Wa Pei Nominees Limited.

	30 Jun 2010	31 Dec 2009
Core capital ratio	**8.4%**	9.0%
Capital adequacy ratio	**13.4%**	14.9%

Supplementary Financial Information (Unaudited) *(continued)*

1 Capital adequacy and capital base *(continued)*

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

	30 Jun 2010 HK$'000	31 Dec 2009 HK$'000
Core capital:		
Paid-up ordinary share capital	**2,704,123**	2,636,681
Share premium	**9,187,798**	8,640,575
Reserves	**3,564,211**	2,608,537
Income statement	**685,283**	1,139,434
Deduct: Goodwill	**(980,154)**	(980,154)
Other intangible assets	**(17,107)**	(19,282)
50% of total unconsolidated investments and other deductions	**(972,971)**	(898,244)
	14,171,183	13,127,547
Eligible supplementary capital:		
Fair value gains on the revaluation of land and buildings	**92,651**	5,302
Fair value gains on the revaluation of available-for-sale equities and debt securities	**561,019**	569,191
Unrealised fair value gains arising from equities and debt securities designated at fair value through profit or loss	**29,546**	18,818
Collective impairment allowances and regulatory reserve	**1,574,464**	1,255,137
Perpetual subordinated debts	**3,491,008**	3,481,600
Subordinated debts measured at amortised cost	**3,814,356**	4,141,170
Deduct: 50% of total unconsolidated investments and other deductions	**(972,971)**	(898,244)
	8,590,073	8,572,974
Total capital base after deductions	**22,761,256**	21,700,521
Risk-weighted assets		
Credit risk	**158,063,545**	137,671,817
Market risk	**3,617,838**	1,118,738
Operational risk	**7,757,350**	7,194,275
Total risk-weighted assets	**169,438,733**	145,984,830

Supplementary Financial Information (Unaudited) *(continued)*

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 2010	30 Jun 2009
Average liquidity ratio for the six months ended	**41.5%**	38.0%

3 Segmental information

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

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

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

30 Jun 2010	**Gross advances to banks and customers HK$'000**	**Overdue advances for over three months HK$'000**	**Impaired loans and advances HK$'000**	**Individual impairment allowances HK$'000**	**Collective impairment allowances HK$'000**
Hong Kong	**84,195,678**	**251,556**	**444,231**	**248,959**	**219,216**
Mainland China	**94,271,099**	**267,235**	**267,235**	**107,649**	**344,844**
Macau	**1,344,461**	**—**	**841**	**—**	**3,496**
Asia Pacific region excluding Hong Kong, Mainland China and Macau	**1,818,250**	**—**	**—**	**—**	**4,728**
United Kingdom	**7,340**	**—**	**—**	**—**	**19**
Others	**3,594,195**	**499,261**	**499,261**	**101,444**	**9,347**
	185,231,023	**1,018,052**	**1,211,568**	**458,052**	**581,650**

Supplementary Financial Information (Unaudited) *(continued)*

3 Segmental information *(continued)*

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

31 Dec 2009	Gross advances to banks and customers 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	75,287,249	264,493	588,759	268,285	288,708
Mainland China	62,536,164	264,502	264,555	72,550	116,663
Macau	1,602,866	1	—	—	4,054
Asia Pacific region excluding Hong Kong, Mainland China and Macau	2,230,517	—	—	—	16,891
United Kingdom	240,796	—	—	—	3,782
Others	5,765,601	—	505,304	101,061	23,294
	147,663,193	528,996	1,358,618	441,896	453,392

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

(b) *Cross-border claims*

The Group analyses cross-border claims by geographical area. In determining this analysis, the Group has taken into account of 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 Jun 2010				
Asia Pacific excluding Hong Kong	**43,503**	**7,829**	**70,006**	**121,338**
North and South America	**3,604**	**129**	**5,243**	**8,976**
Europe	**19,311**	**—**	**16**	**19,327**
31 Dec 2009				
Asia Pacific excluding Hong Kong	28,137	4,245	55,941	88,323
North and South America	3,726	2,451	6,417	12,594
Europe	17,065	—	929	17,994

Supplementary Financial Information (Unaudited) *(continued)*

3 Segmental information *(continued)*

(c) *Non-bank Mainland exposures*

The analysis of non-bank Mainland China exposure is based on the categories of non-bank counterparties and the type of direct exposures defined by the Hong Kong Monetary Authority under the Banking (Disclosure) Rules with reference to the completion instructions for note (6) of "Returns of Quarterly Analysis of Loans and Advances and Provisions - MA(BS)2A", which includes the Mainland exposures extended by the Bank and its overseas subsidiary and branch.

	On-balance sheet exposure HK$'000	Off-balance sheet exposure HK$'000	Total exposures HK$'000	Individually assessed allowances HK$'000
30 Jun 2010				
Mainland China entities	**33,074,947**	**1,644,829**	**34,719,776**	**—**
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	**18,666,133**	**1,023,277**	**19,689,410**	**123,624**
Other counterparties where the exposure is considered by the Bank to be non-bank Mainland China exposure	**4,930,767**	**344,045**	**5,274,812**	**1,101**
	56,671,847	**3,012,151**	**59,683,998**	**124,725**
31 Dec 2009				
Mainland China entities	24,138,564	5,826,938	29,965,502	—
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	14,314,188	895,502	15,209,690	133,965
Other counterparties where the exposure is considered by the Bank to be non-bank Mainland China exposure	3,775,205	48,813	3,824,018	1,290
	42,227,957	6,771,253	48,999,210	135,255

Supplementary Financial Information (Unaudited) *(continued)*

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

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

	30 Jun 2010 Gross advances HK$'000	**30 Jun 2010 % of secured advances %**	31 Dec 2009 Gross advances HK$'000	31 Dec 2009 % of secured advances %
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	**15,885,580**	**27.35%**	11,729,026	31.10%
– Property investment	**17,887,321**	**84.87%**	18,490,007	81.65%
– Financial concerns	**8,053,440**	**2.40%**	8,315,020	2.34%
– Stockbrokers	**342,096**	**99.42%**	429,430	99.67%
– Wholesale and retail trade	**8,715,648**	**37.81%**	6,100,255	48.57%
– Civil engineering works	**202,435**	**91.35%**	239,373	72.70%
– Manufacturing	**5,345,702**	**43.56%**	3,814,127	59.23%
– Transport and transport equipment	**11,593,163**	**65.89%**	9,224,828	68.39%
– Electricity and gas	**78,487**	**40.49%**	143,772	100.00%
– Information technology	**2,287,045**	**0.63%**	1,998,801	1.14%
– Recreational activities	**1,705**	**100.00%**	3,155	100.00%
– Hotels, boarding houses and catering	**2,122,286**	**85.58%**	2,095,209	84.84%
– Others	**6,206,006**	**25.99%**	4,869,563	32.34%
Individuals				
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**541,735**	**94.36%**	484,437	93.34%
– Loans for the purchase of other residential properties	**15,574,163**	**99.75%**	14,165,865	99.81%
– Credit card advances	**91,821**	**0.00%**	94,156	0.00%
– Others	**2,277,011**	**94.58%**	2,246,082	95.13%
Trade finance	**32,839,628**	**8.39%**	15,775,567	14.15%
Loans for use outside Hong Kong	**55,185,751**	**32.99%**	47,444,520	32.41%
	185,231,023	**41.09%**	147,663,193	46.68%

Supplementary Financial Information (Unaudited) *(continued)*

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

Gross loans and advances to customers, banks and other financial institutions by industry sectors (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 2010 HK$'000	31 Dec 2009 HK$'000
(a) Property investment		
Individually impaired loans	**58,046**	146,800
Overdue loans and advances over three months	**40,369**	22,041
Individual impairment allowances	**2,400**	5,110
Collective impairment allowances	**46,630**	50,235
New impairment allowances charged to the income statement	**(6,314)**	(16,786)
Impaired loans and advances written off during the period/year	**—**	6,601
(b) Trade finance		
Individually impaired loans	**80,043**	85,293
Overdue loans and advances over three months	**74,392**	85,052
Individual impairment allowances	**74,258**	80,868
Collective impairment allowances	**69,015**	34,887
New impairment allowances charged to the income statement	**27,518**	(11,774)
Impaired loans and advances written off during the period/year	**7,238**	109,727
(c) Loans for use outside Hong Kong		
Individually impaired loans	**947,334**	993,218
Overdue loans and advances over three months	**856,536**	373,606
Individual impairment allowances	**332,717**	307,576
Collective impairment allowances	**257,934**	188,153
New impairment allowances charged to the income statement	**94,922**	283,480
Impaired loans and advances written off during the period/year	**48,964**	21,871

Supplementary Financial Information (Unaudited) *(continued)*

5 Currency concentration

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

	US$ HK$'000	RMB HK$'000	EUR HK$'000	Other foreign currencies HK$'000	Total HK$'000
30 Jun 2010					
Non-structural position					
Spot assets	**101,964,541**	**16,069,961**	**4,369,758**	**7,082,872**	**129,487,132**
Spot liabilities	**(104,734,484)**	**(16,157,889)**	**(3,429,496)**	**(10,943,240)**	**(135,265,109)**
Forward purchases	**91,983,391**	**57,135,229**	**4,301,331**	**8,334,565**	**161,754,516**
Forward sales	**(89,762,747)**	**(56,611,698)**	**(5,277,345)**	**(4,604,192)**	**(156,255,982)**
Net option position	**(242,391)**	**—**	**369**	**177,420**	**(64,602)**
Net long/(short) position	**(791,690)**	**435,603**	**(35,383)**	**47,425**	**(344,045)**
Net structural position	**480,664**	**1,659,058**	**—**	**—**	**2,139,722**
31 Dec 2009					
Non-structural position					
Spot assets	86,907,654	9,297,418	2,648,526	7,402,026	106,255,624
Spot liabilities	(88,627,701)	(9,428,321)	(4,559,238)	(7,602,663)	(110,217,923)
Forward purchases	42,625,084	23,655,848	7,476,998	7,198,868	80,956,798
Forward sales	(40,673,650)	(23,499,689)	(5,562,352)	(7,083,073)	(76,818,764)
Net option position	(325,790)	—	1,621	332,287	8,118
Net long/(short) position	(94,403)	25,256	5,555	247,445	183,853
Net structural position	478,849	1,662,351	20,644	—	2,161,844

Foreign currency exposures include those arising from 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 overseas subsidiaries (including Chinese Mercantile Bank).

Supplementary Financial Information (Unaudited) *(continued)*

6 Risk management

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

(a) *Credit risk management*

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

The Group devotes considerable resources to maintaining sound credit risk management. The Management has set credit policies and systems to identify, measure, monitor and control risks inherent in various lending businesses. This process ensures prudence, minimises operational omissions in credit matters, and aims at early detection of potential problems, thus minimising business loss. With the enlarged lending operation of the Group to SMEs, credit policies and practice apposite to their risk monitoring are adopted or modified to maintain desired credit standard as the Group competes for SME related business.

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

Credit authorities are delegated to individual approvers for efficiency and productivity purposes. Except for taxi loans, credit cards, small business loans, special government guaranteed SME loans and consumer loans, no business originating unit can singly approve any loan. Loans singly approved by business originating units are nevertheless still subject to approval criteria pre-set by the Credit Function or the Credit Committee of the Bank. Otherwise, the Group generally requires "dual" approval whereby loan proposals shall require joint approval by the Business Line and the Credit Function. The Credit Committee, which approves all credit polices, large loans and investment in interest earning securities, shall not pass any credit related proposal if its Credit Function approvers disagree. Only the loan proposals approved by the Credit Committee would be submitted to the Chief Executive Officer for signature if and where it is needed.

The Credit Department is the centralised department in the Bank mandated to carry out our credit policies. It performs independent credit assessment and other credit control functions to ensure that the credit process complies with credit policies and guidelines laid down by the Management. Apart from the independent credit assessment and matrix approval process, regular post approval inspection by the Risk Management Department and credit audits are conducted on specific loan portfolios or operating units in the credit process. To maintain its independence, the Credit Department has a direct reporting line to a Deputy General Manager independent of business. Same control, supplemented by system support, regular marked-to-market and case-by-case approval by the Risk Management Department, also applies to the counterparty credit risk of structured derivative products.

Supplementary Financial Information (Unaudited) *(continued)*

6 Risk management *(continued)*

(a) *Credit risk management (continued)*

The Loans Administration Department is ultimately responsible for loan disbursement and credit line input and implementation, after it is fully satisfied that all pre-conditions, documentations and regulatory constraints arising in the credit approval process have already been duly met and in place. The Loans Administration Department is likewise independent of business function, reporting to a Deputy General Manager in charge of credit and risk.

The Management spares no effort in monitoring the quality and behaviour of the loan portfolio. The Group's internal credit risk grading system consisting of 15 grades built on Basel II - compliant attributes is adopted for credit risk differentiation purpose. With internal data to be constantly enriched through years of experience, it is expected that the Group can make further use of the credit statistics to profile and track down credit risk migration, to measure loan default probabilities and to practice other credit risk management processes, of which the new credit rating model is and will substantially be an integral part.

(b) *Liquidity risk management*

Liquidity risk is the risk that the Group cannot meet its financial obligations as and when they fall due. Liquidity risk management is therefore to ensure adequate cash flows to meet all financial obligations under both normal and contingency circumstances in a cost-effective manner and within regulatory requirements. To manage liquidity risk, the Group has established asset and liquidity management policies that are reviewed by the relevant functional committees, with prominent issues approved by the Board of Directors. Liquidity is also managed and forecasted on a daily basis to enable Global Markets and Trading Department and the relevant functional committees to act proactively according to changing market conditions and to implement contingency plans on a timely basis. Stress tests are regularly performed to assess contingent funding needs and the adequacy of funds to meet them. In case of shortage identified, corresponding remedial measures will be planned. The Group continues to explore and diversify funding channels to capitalize on opportunities for the Group's business expansion. Concrete funding from the parent company, ICBC, has proven to be effective in strengthening the Group's liquidity capability. As at 30 June 2010, the Group has a total of approximately HK$7.3 billion of certificates of deposit issued to secure longer term funding.

The liquidity position remained affluent throughout the first half of 2010 with an average liquidity ratio of 41.5% (Average for the first half of 2009: 38.0%), that was well above the statutory requirement of 25%.

(c) *Capital management*

The Group manages its capital to execute its strategic business plans and support its growth and investments in an efficient way. The Group's core capital ratio and capital adequacy ratio were 8.4% and 13.4% respectively as at 30 June 2010. The Group adjusts its business and lending strategy from time to time to optimise its risk-return profile.

Supplementary Financial Information (Unaudited) *(continued)*

6 Risk management *(continued)*

(d) *Market risk management*

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

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

Besides, various reputable treasury systems are being used to further strengthen the function of control and monitoring, supplemented as mentioned above by, among others, predetermined stop-loss limits. An enhanced system has recently been successfully installed in order to strengthen the Group's market risk management and counterparty credit risk control for structured products.

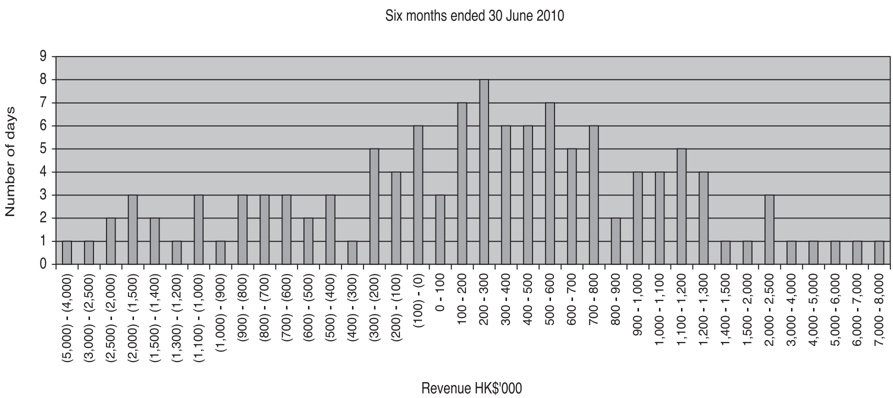
The average daily revenue earned from the Group's market risk related activities during the period ended 30 June 2010 was HK$332,994 (First half of 2009: HK$124,486) and the standard deviation for such daily revenue was HK$1,458,179 (First half of 2009: HK$655,294). An analysis of the frequency distribution of daily revenue shows that losses were recorded on 44 days out of 121 trading days for the first half of 2010 (57 days out of 121 trading days for the first half of 2009). The maximum daily loss was HK$4.48 million (HK$1.70 million for the first half of 2009). The highest daily revenue was HK$7.40 million (HK$2.63 million for the first half of 2009). In respect of proprietary trading and customers' expectation, the Group will gradually increase its market risk activities to complement its conventional reliance on loan assets for revenue. In the process, the Group will watch out for the resulting market risks and counterparty credit risks, as well as liquidity and capital implications.

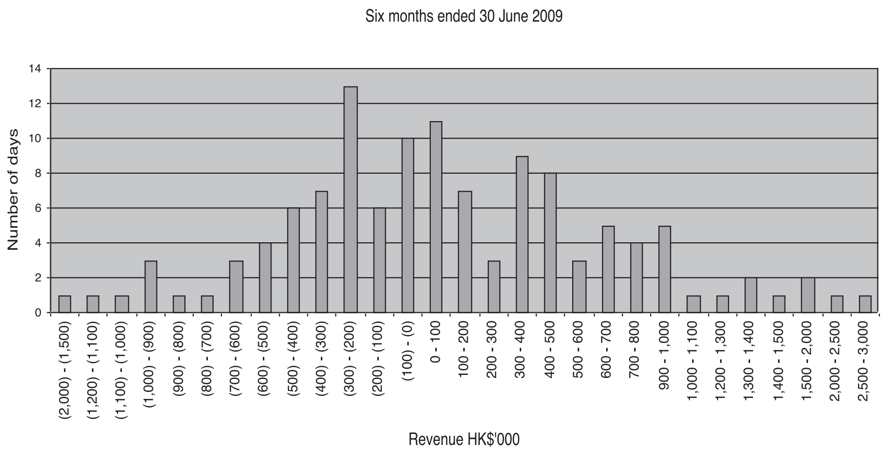
Supplementary Financial Information (Unaudited) *(continued)*

6 Risk management *(continued)*

(d) *Market risk management (continued)*

The following histograms show the frequency distribution of daily revenues related to market activities of the Group for the six months ended 30 June 2010 and 30 June 2009.





Supplementary Financial Information (Unaudited) *(continued)*

6 Risk management *(continued)*

(e) *Interest rate risk management*

Interest rate risk is the risk that the Group's position may be adversely affected by a change in market interest rates. Interest rate risk arises mainly from the maturity mismatch of interest bearing assets and liabilities and yield curve movement. Interest rate risk exposures are managed within risk limits approved and monitored by the ALCO with the participation of the Risk Management Department and the Asset and Liability Management Department. Interest rate risk exposures in non-trading portfolio are measured once a month and the results are reported to the ALCO.

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

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

The Group counts on stop-loss, management trigger limits and stress tests to manage its interest rate risk.

(f) *Operational risk management*

Operational risk is the risk of unexpected financial losses resulting from inadequate or failed internal processes, people, systems and from external events. It is inherent to every business organisation and covers a wide spectrum of activities. Efforts in identifying and understanding of underlying operational risks are taken. This is part of the job of the Risk Management Department. An Operational Risk Committee is in place in forging ahead with the initiatives. Such risk is further mitigated through the implementation of key risk assessment, key risk indicators, comprehensive internal control systems, adequate insurance cover, offshore computer back-up sites and contingency plans with periodic drills. The Group's Internal Audit Department also plays an important role in detecting any deviations from operating procedures and identifying weaknesses at all operating levels independently and objectively. The Group will keep on pursuing active and proactive operational risk management practice in accordance with the relevant Basel II and HKMA guidelines and principles.

(g) *Legal and compliance risk management*

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

Legal and compliance staff members advise the Management on the legal and regulatory developments and assist the Management in establishing policies, procedures and monitoring programme to ensure compliance with the legal and regulatory requirements. They conduct regular compliance checking so that the Group can identify any potential non-compliance issue and take remedial action on a timely basis. They also issue monthly bulletins and arrange training to enrich the knowledge of all staff of the relevant legal and regulatory requirements. Furthermore, regular reports on non-compliance issues and changes in the legal and regulatory requirement are made to the Senior Executive Risk Management Committee and the Risk Management Committee of the Board of Directors.

Supplementary Financial Information (Unaudited) *(continued)*

7 Disclosure Pursuant to Rule 13.20 of the Listing Rules

During the period, the Group had made Relevant Advances to the ICBC Group in the ordinary course of the Group's banking business which, in aggregate, exceed 8% under the assets ratio as defined under Rule 14.07(1) of the Listing Rules. Accordingly, the Bank is under a general obligation to disclose the details of the Relevant Advances and therefore the disclosure below is made in compliance with Rule 13.20 of the Listing Rules.

As at 30 June 2010, the types of Relevant Advances and the balance of the relevant outstanding amounts due from, and all guarantees given on behalf of, the ICBC Group were as follows:

	HK$'000
Types of the Relevant Advances	
Trade Loan to ICBC Group outstanding	24,238,741
Confirmed ICBC Group Standby Letter of Credit/Guarantee outstanding	786,730
Money Market Placements to ICBC Group outstanding	8,539,963
Syndication/Revolving Short-term Loan to ICBC Group outstanding	1,657,024
Purchase of Certificates of Deposit of ICBC Group outstanding	500,266
Total Relevant Advances to ICBC Group	**35,722,724**

The interest rates charged for the Relevant Advances mostly are floating interest rates based on the prevailing interbank offer rate except for some Certificates of Deposit which are priced at fixed rate; and that money market placements whose interest rates are set by the ICBC Group and based on the prevailing interbank bid rate. The Relevant Advances are repayable in full at maturity, and the maturity date for the Relevant Advances generally ranges from overnight to one year, or longer than one year for capital market instruments and standby letter of credit/guarantee/certificates of deposit. The Relevant Advances to the ICBC Group are not secured by any collateral.

The Relevant Advances to the ICBC Group were made by the Group in the ordinary course of the Group's banking business, and on normal commercial terms commensurate with customers of the Group having similar credit ratings or financial strengths, and as part of the ongoing banking transactions entered into between the Group and the ICBC Group.