



中國工商銀行(亞洲)

ICBC (Asia)

(STOCK CODE : 349)

2007  
Interim Report



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Directors of Industrial and Commercial Bank of China (Asia) Limited (the "Bank" or "ICBC (Asia)") are pleased to present the unaudited condensed consolidated interim report of the Bank and its subsidiaries (the "Group") for the six months ended 30 June 2007. The consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity of the Group for the six months ended 30 June 2007, and the consolidated balance sheet as at 30 June 2007 of the Group, all of which are unaudited and condensed, along with notes to the condensed interim accounts, are set out on pages 9 to 47 of this report.

### Interim Results

The Board of Directors are pleased to announce that the unaudited consolidated profit attributable to the equity holders of the Bank for the six months ended 30 June 2007 was HK\$719 million. This represented a 28% growth over the same period last year (First half of 2006: HK\$560 million). Basic earnings per share for the six months ended 30 June 2007 were HK\$0.64 (First half of 2006: HK\$0.50). Return on average assets and return on average equity were 1.0% and 13.3% respectively (First half of 2006: 1.0% and 11.6% respectively).

### Interim Dividend

The Directors are pleased to declare an interim dividend of HK\$0.23 per ordinary share for the six months ended 30 June 2007 (First half of 2006: HK\$0.20). The interim dividend will be payable in cash with an option to receive new, fully paid shares in lieu of cash, to shareholders whose names appear on the Register of Members of the Bank at the close of business on Friday, 7 September 2007. Details of the scrip dividend and the election form will be sent to shareholders on or about Monday, 10 September 2007. The scrip dividend scheme is conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in the new shares to be issued under the scrip dividend scheme. The dividend warrants and the share certificates for the scrip dividend will be sent to shareholders by ordinary mail on or about Friday, 12 October 2007.

### Closure of Register of Members

The Register of Members of the Bank will be closed from Tuesday, 4 September 2007 to Friday, 7 September 2007, 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 4:00 p.m. on Monday, 3 September 2007.

### Financial Review

In the first half of 2007, the Group has achieved remarkable results. Consolidated profit attributable to equity holders was HK\$719 million, representing an increase of HK\$159 million or 28% over HK\$560 million achieved for the corresponding period in 2006.

Net interest income increased HK\$172 million or 21% to HK\$992 million. The improvement mainly came from a 26% increase in average interest-earning assets, while the interest margin slightly declined from 1.44% to 1.38%.

Non-interest income also increased HK\$49 million or 14% to HK\$400 million from HK\$351 million for the same period of 2006. The increase is mainly due to the growth of fee and commission income received by the Bank while acting as receiving bank for a number of IPOs during the period. The ratio of non-interest income to total operating income decreased to 29%, compared with 30% for the corresponding period in 2006.

Operating expenses increased by HK\$59 million or 13% to HK\$500 million compared with HK\$441 million for the corresponding period in 2006. With total operating income rising faster than the operating expenses, the cost to income ratio has further declined from 37.7% in 2006 to 35.9% in 2007.

The impairment losses on loans and advances and held-to-maturity securities for the period were HK\$57 million, where HK\$44 million was made as additional provision for collective assessment.



## Balance Sheet

The total assets of the Group reached HK\$224,837 million as at 30 June 2007, representing an increase of 77% and 54% over the position as at 30 June 2006 and 31 December 2006 respectively. This huge increase was mainly attributable to the IPO loans granted and monies received as a result of the Bank acting as an IPO receiving bank that crossed over 30 June 2007.

Loans and advances increased by HK\$29,967 million or 40% to HK\$105,615 million as at 30 June 2007 as compared with HK\$75,648 million as at 31 December 2006. The increase was mainly due to the HK\$18,479 million IPO loans outstanding as at 30 June 2007.

Customer deposits amounted to HK\$124,978 million, representing an increase of HK\$25,407 million or 26%, as compared with HK\$99,571 million as at 31 December 2006. The increase was mainly contributed by the IPO receiving bank business that amounted to HK\$22,555 million as at 30 June 2007, as well as our marketing effort to solicit low cost funding.

## Capital and Liquidity Management

The Group's capital adequacy ratio decreased to 13.0% as at 30 June 2007 from 16.0% as at 31 December 2006. The average liquidity ratio amounted to 43.7% (Average for the first half of 2006: 42.7%).

In view of the significant differences on the basis of consolidation and the calculation of capital base and risk-weight assets between the Banking (Capital) Rules and the Third Schedule to the Banking Ordinance, the capital adequacy ratios are not comparable directly.

## Asset Quality

Impaired loans and advances decreased by HK\$138 million to HK\$760 million as at 30 June 2007, compared with HK\$898 million as at 31 December 2006. The impaired loan ratio was significantly reduced from 1.2% to 0.7%.

As at 30 June 2007, the cumulative loan impairment allowances aggregated to HK\$462 million (31 December 2006: HK\$433 million), which included HK\$184 million (31 December 2006: HK\$201 million) of individual impairment allowance and HK\$278 million (31 December 2006: HK\$232 million) of collective impairment allowance.

Overdue advances decreased from HK\$199 million as at 31 December 2006 to HK\$181 million as at 30 June 2007.

## Business Review

Below is a summary of the performances of our individual business operations in the first half of 2007 and their outlook for second half of the year.

### Retail Banking Business

In the first half of 2007, our retail customer deposit base grew significantly while our residential mortgage loan and hire purchase loan balance increased moderately. In particular, our commission income from stock broking and investment business grew massively, as a result of which our retail banking profit increased quite significantly as compared with same period of 2006.

Facing with the keen competition in mortgage business, our bank participates actively in the primary market through cooperation with property developers to promote special mortgage loan plans that attract new customers. Our bank also launched a brand new deposit-linked mortgage product named "Wise Mortgage" in March 2007, which offers the repayment account a preferential deposit rate equivalent to the mortgage rate. Such product completes the overall spectrum of our mortgage products and keeps us competitive in this market. As a result, despite an increasing pressure for refinancing, we still recorded a more than 6% growth in mortgage loans outstanding as compared to the end of 2006.



Our hire purchase and leasing business recorded a stable growth. However, under fierce competition, our lending interest rate was squeezed inevitably, in addition to the rising funding cost, it further reduced the overall profitability.

During the first half of 2007, we leveraged on our expanded branch network to actively acquire new target customers and deposits, and achieved a 16% increase of customer deposits. The revenue so generated partially offset the negative effect of narrowing margin of our retail loans.

Wealth management is the strategic focus of our Retail Banking business in 2007. A brand new wealth management service named "Elite Club" was launched on 28 March 2007 in line with ICBC's strategy to establish an international brand name for wealth management service. It is the same brand name of wealth management service offered by ICBC in the Mainland and aligns with its essence: "Confidence, Nature, Freedom", and "3Ps" service, i.e. "Preferential, Professional, Private" service. It allows high net-worth customers to enjoy the unique cross-border services and to manage their finance with ease. Unique features available at our branches in Hong Kong are also extended to the Mainland, such as access to private guest rooms, priority counters and customers also enjoy privileges on wealth management product subscription at any ICBC branch. At the service launch, there were large-scale marketing and promotion campaigns and revamps of branch network with Wealth Management Centre and dedicated counters. The number of customers in the high net worth customer segment grew by 19% and the number of customers in the mass affluent segment also grew by 11% as compared to the end of 2006.

In addition, we have lined up with two more renowned fund houses to widen the spectrum of investment funds. We issued 3 batches of our own Certificates of Deposit and participated in the distribution of 11 structured products linked to stock prices or credit performance, 2 capital guaranteed funds and 2 retail bonds. Sales of investment products including the mutual funds and equity-linked products also grew remarkably, with the corresponding sale volume in the first half of 2007 almost doubled that of the whole of last year's figure.

We acted as the receiving bank of the following 13 enterprises' IPO in the first half of 2007, namely China Agri-Industries Holdings Limited, Ajisen (China) Holdings Limited, Regal REIT, Noble Jewelry Holdings Limited, China CITIC Bank, Pacific Textiles Holdings Limited, Sunny Optical Technology (Group) Company Limited, KWG Property Holding Limited, Centron Telecom International Holding Limited, ANTA Sports Products Limited, Vinda International Holdings Limited, China Automation Group Limited and Fosun International Limited. Such success strengthened our capability to develop further our IPO receiving bank business in the future.

We have opened 2 new branches in April 2007, namely Mei Foo Branch and Wan Chai Road Branch. Our To Kwa Wan Branch was merged into Mok Cheong Street Branch in April due to termination of tenancy. Our Mongkok Branch was renovated to adopt new design theme. By the end of June 2007, we have one quarter of our branches adopted new branch design theme, which further strengthens our unified bank image. We have also set up additional securities trading center in two of our branches, providing efficient in person service to our customers.

In the second half of 2007, we shall continue to actively acquiring new target customers, and solidify our retail banking businesses through cross selling activities. To enhance the competitive edge on wealth management products and services, we shall continue to line up with different financial institutions to offer a more diversified range of investment products to our customers. We shall also launch new promotion offers to support the growth of wealth management business.

## Treasury and Markets

Other than traditional treasury activities, Treasury & Markets ("T&M") has shifted its focus to other profitable business activities, such as asset and liability management business for clients. Revenue generated from such businesses has been growing rapidly in the past several years. We expect that fee income generated from such businesses continuing to be an important part of our future growth and will constitute a greater proportion of T&M's total income. Taking advantage of the rapidly growing China market and the full support from ICBC, we aim to become a major player of the offshore RMB market in Hong Kong (particularly for RMB Non Delivery Forward contracts) and continue to explore opportunities to cross sell treasury products to PRC clients via ICBC and our wholly owned subsidiary, Chinese Mercantile Bank. In the future, we also expect to benefit from the newly developed QDII business in the Mainland.



From an investment perspective, T&M is focusing more on risk-adjusted return and performance measurement of its bond portfolio rather than further expanding that portfolio. On the other hand, T&M has made some new investments in structure debt securities, such as convertible bonds with asset swap, in order to achieve better return. Apart from portfolio management, T&M had also participated in origination activities, such as arranging a 2-year 5 billion RMB bond for China Development Bank in June 2007, which is the first RMB bond issued outside the Mainland.

### **Commercial Banking**

Our Commercial Banking business had achieved a remarkable performance in the first half of 2007. As a result of the flourishing local economy, loan advances saw strong growth of over 60% as compared to the end of 2006.

By offering tailor-made banking and financial services to customers, our Diamond Trade Finance, European Banking and Indian Banking units have all become more reputable in the Hong Kong banking sector. Furthermore, our cross-border co-operation with ICBC had achieved a great success and provided a significant contribution to the business growth. Such co-operation will continue and we aim to collaborate with more ICBC branches in the future. We had also been able to capture the booming economy in Macau as local and international investors sought financing for their new investments in Macau.

In the second half of 2007, we shall continue to focus on providing tailor-made and "one stop" banking facilities to Small and Medium Enterprises (SME). By continuing to invest in human resources and business outlets, we are able to widen and deepen our relationship with our SME clients. Also, we shall expand our professional relationship management team to actively pursue new business and to serve our existing customers. We shall enhance our e-banking system and promoting trade finance, factoring and equipment finance services that will generate stable non-interest income.

### **Corporate and Investment Banking**

We have continued to pursue the strategic transformation from traditional corporate banking businesses of syndication and bilateral lending to focus more on structured finance business. In particular, through closer co-operation with investment banks and fund managers, we had executed various transactions to provide finance for merger and acquisition transactions, project finance, cross-border multi-currencies finance etc. The result is encouraging and both interest income and fee income had shown significant growth.

While proactively expanding the structured finance business, we continue to maintain a leading position in the syndication loan market. For example, we were entrusted by Sun Hung Kai Properties, Sino Land, Road King, Kingboard, China Resources Land, China Oil and Gas Fund, China Vanke, Tysan Holdings, Citic Pacific, Cosco Pacific and China Travel to arrange syndicated loan facilities. We are proud to have further deepened our close relationship with these important members of Hong Kong business community.

In addition to our solid foundation in both the Hong Kong and Mainland China markets, we have successfully expanded our geographic coverage to Australia, New Zealand, Southeast Asia, Middle East and India. All these enrich our business portfolio and enhance the overall profitability.

At the same time, we continue to pay strong emphasis on acquiring stable source of funding at reasonable cost. This is achieved through better understanding of our clients' needs and provision of a wide range of treasury products. Our aim is to build up a mutually benefit relationship with our clients.

### **Financial Institutions**

The overall result for our Financial Institutions business in the first half of 2007 has outperformed that of the same period in 2006.

As a result of the formation of the Non-Bank Financial Institutions Section in 2006, we are able to capture a wider scope of business opportunities and revenue sources. Trade finance, custody and IPO related products had achieved significant growth in business volume. Interest income is still the main revenue contributor of that section. However, fees and non-credit related interest income are increasing in their proportions.



We are confident that the momentum for business growth will continue at an upward trend in the second half of 2007.

### Credit Card Business

We continued to launch different promotional programs to stimulate cardholder spending. Specific marketing actions have been devoted to stimulate customer borrowing. A direct mail program was launched to cross-sell installment loan to selected cardholders, and the result was satisfactory. We have developed a mechanism to monitor the evolution of the receivable balance of each of the core revolving customers closely so that we can take fast actions on revolving customers with declining receivable balance.

In the second half of 2007, we intend to launch our first Dual Currency Corporate Card and chip cards. Merchant benefits for spending with ICBC cards will be, for the first time, extended to Macau.

### Chinese Mercantile Bank

With the booming economy of Mainland China in the first half of 2007, the total assets of Chinese Mercantile Bank ("CMB") reached HK\$6,253 million as at 30 June 2007, representing an increase of 237% as compared to the end of 2006. As at 30 June 2007, the total loans and deposits of CMB were HK\$3,672 million and HK\$292 million respectively. Net profit increased 374% over the same period last year to HK\$40.3 million.

The paid-up capital of CMB stood at RMB1.11 billion after capital injection of RMB 0.39 billion on 15 March 2007.

CMB and its Shekou Branch have been licensed to operate RMB business to customers other than Chinese citizens within the PRC. CMB is currently applying for its RMB business licence to be extended to Chinese local citizens. An application to China Banking Regulatory Commission (CBRC) to open a new Guangzhou branch is under preparation.

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

As at 30 June 2007, the interests of the Directors and chief executives of the Bank in the shares, underlying shares and debentures of the Bank and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (the "Associated Corporations") as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Bank and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited were as follows:-

#### Ordinary shares of HK\$2 each in the Bank

Name of Director	Personal interests	Total number of shares held	% of total issued shares
Dr. Jiang Jianqing	14,365	14,365	0.001%
Mr. Zhu Qi	51,303	51,303	0.005%
Mr. Zhang Yi	2,052	2,052	0.0002%
Mr. Yuen Kam Ho, George	40,652	40,652	0.004%

All the interests stated above represent long positions. As at 30 June 2007, 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 2007, none of the Directors or chief executives of the Bank or their spouses or children under 18 years of age were granted, or had exercised, any rights to subscribe for any equity or debt securities of the Bank or any of its Associated Corporations during the period ended 30 June 2007.





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

As at 30 June 2007, so far as was known to the Directors, the following persons (other than Directors or chief executives of the Bank) who had interests in the shares or underlying shares of the Bank which were recorded in the register required to be kept under Section 336 of the SFO:—

### Ordinary shares of HK\$2 each in the Bank

Name of shareholder	Total number of shares held	% of total issued shares
Industrial and Commercial Bank of China Limited	687,047,946	60.29%
Fortis Bank SA/NV*	100,913,330	8.85%
Fortis N.V.*	100,913,330	8.85%
Fortis SA/NV*	100,913,330	8.85%
Fortis Brussels SA/NV*	100,913,330	8.85%

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

All the interests stated above represent long positions. As at 30 June 2007, 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 2007, the Bank had not been notified by any persons (other than Directors or chief executives of the Bank) who had interests or short positions in the shares or underlying shares of the Bank which would fall to be disclosed to the Bank under the provisions of Part XV of the SFO or which were recorded in the register required to be kept under Section 336 of the SFO.

### Compliance with Banking (Disclosure) Rules

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

### Corporate Governance

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

In the opinion of the Directors, the Group has complied with all the Code Provisions of the Code on Corporate Governance Practices of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the six months ended 30 June 2007, except for the following deviations:—

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

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



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

According to the Bank's Articles of Association, at each annual general meeting one-third of the Directors for the time being (except the Managing Director) or, if their number is not a multiple of three, then the number nearest but not exceeding one-third shall retire from office by rotation. The Managing Director of the Bank had offered himself for retirement at the annual general meeting of the Bank held on 27 April 2006 and was re-elected the Managing Director of the Bank. As at 30 June 2007, no Director of the Bank held office for over three years.

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

The Chairman of the Bank was unable to attend the annual general meeting of the Bank held on 10 May 2007 due to other important business engagements. Nonetheless, the board members (including the Chairman or the Alternate Chairman of each of the Audit, Remuneration and Nomination Committees) attended the above annual general meeting to answer questions from shareholders.

The Bank considered that sufficient measures have been taken to ensure that the Bank's corporate governance practices are no less exacting than those in the above Code Provisions, details of which were set out in the Corporate Governance Report of the Bank's 2006 Annual Report.

#### **Model Code for Securities Transactions by Directors**

The Bank has adopted the model code for securities transactions by directors set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as its own code of conduct regarding Directors' securities transactions. The Bank confirms that, having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code for the period ended 30 June 2007.

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

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

#### **Audit Committee**

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

#### **Interim Financial Information**

The Audit Committee of the Bank has reviewed the results for the six months ended 30 June 2007 of the Group. The financial information in this interim report is unaudited and does not constitute statutory accounts.

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

Hong Kong, 16 August 2007

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



## CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Unaudited)

	Notes	Six Months Ended		Change %
		30 Jun 2007 HK\$'000	30 Jun 2006 HK\$'000	
Interest income	(6)	3,948,360	2,992,583	32%
Interest expense	(6)	(2,956,495)	(2,172,200)	36%
<b>Net interest income</b>	(6)	<b>991,865</b>	820,383	21%
Fee and commission income	(7)	337,529	236,645	43%
Fee and commission expense	(7)	(14,405)	(7,529)	91%
<b>Net fee and commission income</b>	(7)	<b>323,124</b>	229,116	41%
Net trading income	(8)	78,587	168,853	-53%
Net loss on financial assets and liabilities designated at fair value through profit or loss	(9)	(13,366)	(55,855)	-76%
Net gain on financial investments	(10)	2,510	2,149	17%
Other operating income	(11)	9,362	7,114	32%
<b>Operating income</b>		<b>1,392,082</b>	1,171,760	19%
Operating expenses	(12)	(499,635)	(441,479)	13%
<b>Operating profit before impairment losses</b>		<b>892,447</b>	730,281	22%
Writeback of impairment losses on held-to-maturity securities		1,690	-	-
Impairment losses on loans and advances	(13)	(58,483)	(28,462)	105%
<b>Operating profit after impairment losses</b>		<b>835,654</b>	701,819	19%
Net gain/(loss) from disposal/reversal of revaluation deficits of property, plant and equipment		2,848	(796)	458%
Net gain on disposal of available-for-sale securities		12,842	8,500	51%
<b>Operating profit</b>		<b>851,344</b>	709,523	20%
Share of profits of an associate		2,373	1,147	107%
<b>Profit before tax</b>		<b>853,717</b>	710,670	20%
Income tax expense	(14)	(134,802)	(150,750)	-11%
<b>Profit attributable to the equity holders</b>		<b>718,915</b>	559,920	28%
<b>Proposed interim dividend</b>	(15)	<b>262,114</b>	224,252	17%
<b>Earnings per share</b>	(16)	<b>HK\$0.64</b>	HK\$0.50	28%



## CONDENSED CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2007

(Unaudited)

	Notes	30 Jun 2007 HK\$'000	31 Dec 2006 HK\$'000	Change %	Restated 30 Jun 2006 HK\$'000	Change %
<b>Assets</b>						
Cash and balances with banks and other financial institutions	(17)	95,804,175	45,495,112	111%	37,066,920	158%
Placements with and advances to banks and other financial institutions		1,857,956	5,015,135	-63%	2,875,675	-35%
Financial assets held for trading	(18)	52,830	56,468	-6%	48,923	8%
Financial assets designated at fair value through profit or loss	(19)	1,583,180	1,704,349	-7%	2,108,599	-25%
Derivative financial instruments	(20)	788,085	713,202	10%	863,688	-9%
Loans and advances to banks and customers	(21)	105,615,177	75,647,756	40%	68,351,238	55%
Financial Investments:		16,498,090	15,185,290	9%	13,560,149	22%
– Available-for-sale	(22)	12,844,141	11,052,318	16%	10,017,802	28%
– Held-to-maturity	(23)	3,653,949	4,132,972	-12%	3,542,347	3%
Investment in an associate		36,858	34,485	7%	29,605	24%
Goodwill and other intangible assets		1,054,007	1,050,773	-	1,058,943	-
Property, plant and equipment	(24)	241,323	249,417	-3%	220,847	9%
Leasehold land and land use rights		61,057	61,427	-1%	91,042	-33%
Other assets	(25)	1,244,725	1,178,345	6%	979,593	27%
<b>Total assets</b>		<b>224,837,463</b>	146,391,759	54%	127,255,222	77%
<b>Liabilities</b>						
Deposits from banks and other financial institutions		65,370,289	12,007,678	444%	15,241,296	329%
Derivative financial instruments	(20)	900,156	773,116	16%	988,546	-9%
Deposits from customers	(26)	124,978,087	99,570,557	26%	78,294,015	60%
– Designated at fair value through profit or loss		289,791	385,298	-25%	483,538	-40%
– At amortised cost		124,688,296	99,185,259	26%	77,810,477	60%
Certificates of deposit issued		8,747,652	10,322,035	-15%	10,479,464	-17%
– Held for trading		4,820,864	5,350,864	-10%	5,230,356	-8%
– At amortised cost		3,926,788	4,971,171	-21%	5,249,108	-25%
Debt securities in issue designated at fair value through profit or loss		3,012,158	2,997,804	-	2,922,978	3%
Current income tax liabilities		276,929	171,787	61%	154,851	79%
Deferred income tax liabilities	(27)	171,255	115,885	48%	24,569	597%
Subordinated debt	(28)	7,558,175	7,527,950	-	7,519,580	1%
Other liabilities	(29)	1,911,780	1,819,644	5%	1,490,892	28%
<b>Total liabilities</b>		<b>212,926,481</b>	135,306,456	57%	117,116,191	82%
<b>Equity</b>						
Share capital	(30)	2,279,255	2,242,518	2%	2,242,518	2%
Retained earnings	(31)	2,934,047	2,734,266	7%	2,272,847	29%
Other reserves	(31)	6,697,680	6,108,519	10%	5,623,666	19%
<b>Total equity</b>		<b>11,910,982</b>	11,085,303	7%	10,139,031	17%
<b>Total equity and liabilities</b>		<b>224,837,463</b>	146,391,759	54%	127,255,222	77%



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Unaudited)

	30 Jun 2007 HK\$'000	30 Jun 2006 HK\$'000
Total equity as at 1 January	<b>11,085,303</b>	9,869,854
Revaluation deficit on bank premises	–	(27)
Change in fair value of available-for-sale securities	<b>361,871</b>	123,276
Change in deferred tax	<b>(63,335)</b>	(21,574)
Exchange difference arising from translation of results of a foreign subsidiary	<b>20</b>	23
Net profits not recognised in the income statement	<b>298,556</b>	101,698
Profit attributable to equity holders	<b>718,915</b>	559,920
Dividend paid during the period	<b>(515,779)</b>	(392,441)
Shares issued in lieu of dividend	<b>324,017</b>	–
Share issue expenses	<b>(30)</b>	–
Total equity as at 30 June	<b>11,910,982</b>	10,139,031



## CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Unaudited)

	Restated	
	Six Months Ended	
	30 Jun 2007 HK\$'000	30 Jun 2006 HK\$'000
Net cash inflow from operating activities	<b>44,780,344</b>	11,538,220
Net cash outflow from investing activities	<b>(20,144)</b>	(19,499)
Net cash (outflow)/inflow from financing activities	<b>(402,754)</b>	1,648,446
Effects of foreign exchange differences	<b>32,132</b>	5,879
Net increase in cash and cash equivalents	<b>44,389,578</b>	13,173,046
Cash and cash equivalents at 1 January	<b>52,021,729</b>	24,777,245
Cash and cash equivalents at 30 June	<b>96,411,307</b>	37,950,291

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

	30 Jun 2007 HK\$'000	Restated 30 Jun 2006 HK\$'000
Cash and balances with banks and other financial institutions	<b>780,409</b>	991,810
Placements with banks and other financial institutions	<b>95,228,317</b>	36,958,481
Treasury bills (including Exchange Fund Bills)	<b>402,581</b>	-
	<b>96,411,307</b>	37,950,291



## 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 accounts 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 2006.

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 2006.

### 2.2 Basis of consolidation

The consolidated accounts include the accounts of the Bank and all its subsidiaries and attributable share of results and reserves of its associate. For regulatory reporting, the basis of consolidation are set out in notes 1, 2 and 4 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) Bullion Company Limited
- ICBC (Asia) Investment Holdings Limited
- ICBC (Asia) Nominee Limited
- ICBC (Asia) Securities Limited
- ICBC (Asia) Trustee Company Limited
- ICBC Asset Management Company Limited
- ICBC (Asia) Wa Pei Nominees Limited
- ICBC Asia Wa Pei Limited
- ICBCA (C.I.) Limited
- UB China Business Management Co. Ltd. ("UBCBM")

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

The accounting policies adopted in the preparation of the condensed interim accounts are consistent with those used in the preparation of the Group's audited accounts for the year ended 31 December 2006, except for the adoption of new HKFRS interpretations set out below.



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

- HK(IFRIC) Interpretation 9 “Reassessment of Embedded Derivatives”

The Group adopted HK(IFRIC) Interpretation 9 from 1 January 2007 onwards, which states that the date to assess the existence of an embedded derivative is the date that an entity first becomes party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.

- HK(IFRIC) Interpretation 10 “Interim Financial Reporting and Impairment”

The Group adopted HK(IFRIC) Interpretation 10 from 1 January 2007 onwards, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

Adoption of these new HKFRS interpretations did not have any material effect on the financial position or performance of the Group, nor resulted in restatement of comparative figures.

### 3.2 Impact of issued but not yet effective HKFRSs

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

- HKFRS 8 “Operating Segments” (effective for accounting period beginning on or after 1 January 2009)

HKFRS 8 replaces HKAS 14 and specifies how an entity should report information about its operating segments, based on information about the components of the entity that management uses to make operating decisions.

- HK(IFRIC) 12 “Service Concession Arrangements” (effective for accounting period beginning on or after 1 January 2008)

HK(IFRIC) 12 provides guidance on service concession arrangements by which a government or other public sector entity grants contracts for the supply of public services to private sector operators. HK(IFRIC) 12 addresses how service concession operators should apply existing HKFRSs to account for the obligations they undertake and the rights they receive in service concession arrangements.

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

### 3.3 Prior year restatements

In the prior year, management reviewed the basis of presentation of derivative financial instruments on the balance sheet in light of the legal enforceable rights to set off the recognised amounts and the intention to settle the positions on a net basis; and considered that certain positions are more appropriate to be presented on a gross basis on the balance sheet. Accordingly, the comparatives of derivative financial instruments recorded as assets and liabilities have been restated and increased by HK\$850,344,000 as at 30 June 2006 to conform with the current period’s presentation. In addition, two currency swaps were found to be overstated by HK\$154,488,000 in aggregate as at 30 June 2006 and have also been restated. These restatements have had no significant impact on the income statement.

Management also reviewed the terms and conditions of the loan capital in prior year and determined that this instrument is more appropriate to be renamed as subordinated debt and should be classified as a liability rather than an equity item as disclosed in the 2006 interim report. The amount was classified as a liability in the current period and accordingly the comparative figure as at 30 June 2006 was reclassified to conform to the current period’s presentation.





## 4 Financial Risk Management

### 4.1 Liquidity risk

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

#### The Group

At 30 June 2007	Repayable on demand HK\$'000	3 months or less HK\$'000	3-12 months HK\$'000	1-5 years HK\$'000	Over 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
<b>Assets</b>							
Cash and balances with banks and other financial institutions	780,409	95,023,766	-	-	-	-	95,804,175
Placements with and advances to banks and other financial institutions	-	767,219	1,090,737	-	-	-	1,857,956
Financial assets held for trading	-	-	13,981	49	-	38,800	52,830
Financial assets designated at fair value through profit or loss	-	-	99,647	510,554	972,979	-	1,583,180
Derivative financial instruments	-	134,046	118,291	124,946	410,802	-	788,085
Loans and advances to banks and customers	8,896,659	25,508,110	9,264,226	33,539,345	28,132,821	274,016	105,615,177
Available-for-sale investments	-	298,543	2,387,750	6,089,571	2,589,895	1,478,382	12,844,141
Held-to-maturity investments	-	630,121	2,020,060	863,023	140,745	-	3,653,949
Investment in an associate	-	-	-	-	-	36,858	36,858
Goodwill and other intangible assets	-	-	-	-	-	1,054,007	1,054,007
Property, plant and equipment	-	-	-	-	-	241,323	241,323
Leasehold land and land use rights	-	-	-	-	-	61,057	61,057
Other assets	74,676	873,412	76,572	67,456	-	152,609	1,244,725
<b>Total assets</b>	<b>9,751,744</b>	<b>123,235,217</b>	<b>15,071,264</b>	<b>41,194,944</b>	<b>32,247,242</b>	<b>3,337,052</b>	<b>224,837,463</b>
<b>Liabilities</b>							
Deposits from banks and other financial institutions	54,220,633	7,692,990	3,456,666	-	-	-	65,370,289
Derivative financial instruments	-	188,112	104,201	274,252	333,591	-	900,156
Deposits from customers	40,587,660	79,822,104	4,262,330	295,831	10,162	-	124,978,087
Certificates of deposit issued	-	1,540,670	4,551,775	2,655,207	-	-	8,747,652
Debt securities in issue designated at fair value through profit or loss	-	-	-	3,012,158	-	-	3,012,158
Subordinated debt	-	-	500,000	3,556,735	3,501,440	-	7,558,175
Other liabilities, including current and deferred tax liabilities	118,340	1,594,303	362,357	87,167	-	197,797	2,359,964
<b>Total liabilities</b>	<b>94,926,633</b>	<b>90,838,179</b>	<b>13,237,329</b>	<b>9,881,350</b>	<b>3,845,193</b>	<b>197,797</b>	<b>212,926,481</b>
<b>Net liquidity gap</b>	<b>(85,174,889)</b>	<b>32,397,038</b>	<b>1,833,935</b>	<b>31,313,594</b>	<b>28,402,049</b>	<b>3,139,255</b>	<b>11,910,982</b>



## 4 Financial Risk Management (continued)

### 4.1 Liquidity risk (continued)

#### The Group

At 31 December 2006	Repayable on demand HK\$'000	3 months or less HK\$'000	3-12 months HK\$'000	1-5 years HK\$'000	Over 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
<b>Assets</b>							
Cash and balances with banks and other financial institutions	1,180,089	44,315,023	-	-	-	-	45,495,112
Placements with and advances to banks and other financial institutions	-	5,015,135	-	-	-	-	5,015,135
Financial assets held for trading	-	-	-	13,868	-	42,600	56,468
Financial assets designated at fair value through profit or loss	-	-	206,057	501,415	996,877	-	1,704,349
Derivative financial instruments	-	86,146	172,475	146,670	307,911	-	713,202
Loans and advances to banks and customers	6,783,548	7,888,735	8,526,432	29,835,948	22,406,174	206,919	75,647,756
Available-for-sale investments	-	339,949	1,328,346	6,209,763	2,120,811	1,053,449	11,052,318
Held-to-maturity investments	-	1,710,904	1,037,172	1,204,457	180,439	-	4,132,972
Investment in an associate	-	-	-	-	-	34,485	34,485
Goodwill and other intangible assets	-	-	-	-	-	1,050,773	1,050,773
Property, plant and equipment	-	-	-	-	-	249,417	249,417
Leasehold land and land use rights	-	-	-	-	-	61,427	61,427
Other assets	28,118	939,513	151,121	50,152	-	9,441	1,178,345
<b>Total assets</b>	<b>7,991,755</b>	<b>60,295,405</b>	<b>11,421,603</b>	<b>37,962,273</b>	<b>26,012,212</b>	<b>2,708,511</b>	<b>146,391,759</b>
<b>Liabilities</b>							
Deposits from banks and other financial institutions	1,224,831	10,782,847	-	-	-	-	12,007,678
Derivative financial instruments	-	96,415	173,626	249,788	253,287	-	773,116
Deposits from customers	15,774,822	80,735,169	2,750,613	299,842	10,111	-	99,570,557
Certificates of deposit issued	-	608,121	7,073,098	2,640,816	-	-	10,322,035
Debt securities in issue designated at fair value through profit or loss	-	-	-	2,997,804	-	-	2,997,804
Subordinated debt	-	544,460	500,000	2,994,530	3,488,960	-	7,527,950
Other liabilities, including current and deferred tax liabilities	93,640	1,385,621	413,659	78,506	-	135,890	2,107,316
<b>Total liabilities</b>	<b>17,093,293</b>	<b>94,152,633</b>	<b>10,910,996</b>	<b>9,261,286</b>	<b>3,752,358</b>	<b>135,890</b>	<b>135,306,456</b>
<b>Net liquidity gap</b>	<b>(9,101,538)</b>	<b>(33,857,228)</b>	<b>510,607</b>	<b>28,700,987</b>	<b>22,259,854</b>	<b>2,572,621</b>	<b>11,085,303</b>



## 4 Financial Risk Management (continued)

### 4.2 Currency risk

The table below summarises the Group's exposure to foreign currency exchange rate risk. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency. The off-balance sheet gap represents the difference between the notional amounts of foreign currency derivative financial instruments, which are principally used to reduce the Group's exposure to currency movements, and their fair values.

#### The Group

At 30 June 2007	HK\$ HK\$'000	US\$ HK\$'000	Other HK\$'000	Total HK\$'000
<b>Assets</b>				
Cash and balances with banks and other financial institutions	14,444,933	79,399,388	1,959,854	95,804,175
Placements with and advances to banks and other financial institutions	84,750	1,711,618	61,588	1,857,956
Financial assets held for trading	38,849	13,981	-	52,830
Financial assets designated at fair value through profit or loss	307,432	1,275,748	-	1,583,180
Derivative financial instruments	787,644	441	-	788,085
Loans and advances to banks and customers	85,100,689	13,241,944	7,272,544	105,615,177
Available-for-sale investments	2,648,249	7,992,915	2,202,977	12,844,141
Held-to-maturity investments	2,354,429	1,068,640	230,880	3,653,949
Investment in an associate	36,858	-	-	36,858
Goodwill and other intangible assets	1,054,007	-	-	1,054,007
Property, plant and equipment	146,637	-	94,686	241,323
Leasehold land and land use rights	61,057	-	-	61,057
Other assets	629,209	555,237	60,279	1,244,725
<b>Total assets</b>	<b>107,694,743</b>	<b>105,259,912</b>	<b>11,882,808</b>	<b>224,837,463</b>
<b>Liabilities</b>				
Deposits from banks and other financial institutions	54,324,206	8,337,905	2,708,178	65,370,289
Derivative financial instruments	786,872	35,239	78,045	900,156
Deposits from customers	84,108,844	35,460,662	5,408,581	124,978,087
Certificates of deposit issued	4,017,254	4,730,398	-	8,747,652
Debt securities in issue designated at fair value through profit or loss	-	3,012,158	-	3,012,158
Subordinated debt	1,500,000	6,058,175	-	7,558,175
Other liabilities, including current and deferred tax liabilities	1,407,445	842,528	109,991	2,359,964
<b>Total liabilities</b>	<b>146,144,621</b>	<b>58,477,065</b>	<b>8,304,795</b>	<b>212,926,481</b>
<b>Net on-balance sheet position</b>	<b>(38,449,878)</b>	<b>46,782,847</b>	<b>3,578,013</b>	<b>11,910,982</b>
<b>Off-balance sheet net notional position</b>	<b>(689,489)</b>	<b>(69,366)</b>	<b>758,855</b>	<b>-</b>
<b>Credit commitments</b>	<b>64,807,344</b>	<b>14,188,802</b>	<b>1,587,192</b>	<b>80,583,338</b>



#### 4 Financial Risk Management (continued)

##### 4.2 Currency risk (continued)

###### The Group

At 31 December 2006	HK\$ HK\$'000	US\$ HK\$'000	Other HK\$'000	Total HK\$'000
<b>Assets</b>				
Cash and balances with banks and other financial institutions	2,029,470	41,345,978	2,119,664	45,495,112
Placements with and advances to banks and other financial institutions	290,000	4,725,135	–	5,015,135
Financial assets held for trading	42,700	13,768	–	56,468
Financial assets designated at fair value through profit or loss	199,593	1,298,699	206,057	1,704,349
Derivative financial instruments	336,192	295,835	81,175	713,202
Loans and advances to banks and customers	56,758,065	15,832,216	3,057,475	75,647,756
Available-for-sale investments	2,542,552	6,986,456	1,523,310	11,052,318
Held-to-maturity investments	2,615,784	1,298,588	218,600	4,132,972
Investment in an associate	34,485	–	–	34,485
Goodwill and other intangible assets	1,050,773	–	–	1,050,773
Property, plant and equipment	152,582	96,814	21	249,417
Leasehold land and land use rights	61,427	–	–	61,427
Other assets	558,254	546,786	73,305	1,178,345
<b>Total assets</b>	<b>66,671,877</b>	<b>72,440,275</b>	<b>7,279,607</b>	<b>146,391,759</b>
<b>Liabilities</b>				
Deposits from banks and other financial institutions	6,165,452	5,691,071	151,155	12,007,678
Derivative financial instruments	340,494	351,502	81,120	773,116
Deposits from customers	54,016,732	43,243,782	2,310,043	99,570,557
Certificates of deposit issued	5,058,658	5,263,377	–	10,322,035
Debt securities in issue designated at fair value through profit or loss	–	2,997,804	–	2,997,804
Subordinated debt	1,500,000	6,027,950	–	7,527,950
Other liabilities, including current and deferred tax liabilities	1,212,226	783,243	111,847	2,107,316
<b>Total liabilities</b>	<b>68,293,562</b>	<b>64,358,729</b>	<b>2,654,165</b>	<b>135,306,456</b>
<b>Net on-balance sheet position</b>	<b>(1,621,685)</b>	<b>8,081,546</b>	<b>4,625,442</b>	<b>11,085,303</b>
<b>Off-balance sheet net notional position</b>	<b>(1,572,767)</b>	<b>1,273,225</b>	<b>299,542</b>	<b>–</b>
<b>Credit commitments</b>	<b>45,213,801</b>	<b>7,180,743</b>	<b>1,305,585</b>	<b>53,700,129</b>



## 4 Financial Risk Management (continued)

### 4.3 Interest rate risk

The table below summarises the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

#### The Group

At 30 June 2007	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	Non-interest Bearing HK\$'000	Total HK\$'000
<b>Assets</b>							
Cash and balances with banks and other financial institutions	95,597,164	-	-	-	-	207,011	95,804,175
Placements with and advances to banks and other financial institutions	-	767,219	1,090,737	-	-	-	1,857,956
Financial assets held for trading	-	-	13,981	49	-	38,800	52,830
Financial assets designated at fair value through profit or loss	-	-	99,647	510,554	972,979	-	1,583,180
Derivative financial instruments	-	-	-	-	-	788,085	788,085
Loans and advances to banks and customers	81,237,833	19,483,910	3,830,076	841,812	156,263	65,283	105,615,177
Available-for-sale investments	-	3,051,176	4,527,381	2,569,061	1,218,141	1,478,382	12,844,141
Held-to-maturity investments	-	1,329,350	2,241,473	83,126	-	-	3,653,949
Other assets	107,815	-	-	-	-	2,530,155	2,637,970
<b>Total assets</b>	<b>176,942,812</b>	<b>24,631,655</b>	<b>11,803,295</b>	<b>4,004,602</b>	<b>2,347,383</b>	<b>5,107,716</b>	<b>224,837,463</b>
<b>Liabilities</b>							
Deposits from banks and other financial institutions	5,422,964	2,742,091	3,456,666	-	-	53,748,568	65,370,289
Derivative financial instruments	-	-	-	-	-	900,156	900,156
Deposits from customers	103,472,146	11,309,445	4,552,118	5,986	10,162	5,628,230	124,978,087
Certificates of deposit issued	792,475	1,390,607	4,184,592	2,379,978	-	-	8,747,652
Debt securities in issue designated at fair value through profit or loss	-	3,012,158	-	-	-	-	3,012,158
Subordinated debt	1,524,315	4,235,950	1,797,910	-	-	-	7,558,175
Other liabilities	169,135	-	-	-	-	2,190,829	2,359,964
<b>Total liabilities</b>	<b>111,381,035</b>	<b>22,690,251</b>	<b>13,991,286</b>	<b>2,385,964</b>	<b>10,162</b>	<b>62,467,783</b>	<b>212,926,481</b>
<b>Total interest sensitivity gap</b>	<b>65,561,777</b>	<b>1,941,404</b>	<b>(2,187,991)</b>	<b>1,618,638</b>	<b>2,337,221</b>	<b>(57,360,067)</b>	<b>11,910,982</b>



## 4 Financial Risk Management (continued)

### 4.3 Interest rate risk (continued)

#### The Group

At 31 December 2006	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	Non-interest Bearing HK\$'000	Total HK\$'000
<b>Assets</b>							
Cash and balances with banks and other financial institutions	45,280,373	-	-	-	-	214,739	45,495,112
Placements with and advances to banks and other financial institutions	-	5,015,135	-	-	-	-	5,015,135
Financial assets held for trading	-	13,868	-	-	-	42,600	56,468
Financial assets designated at fair value through profit or loss	-	-	206,057	501,415	996,877	-	1,704,349
Derivative financial instruments	-	-	-	-	-	713,202	713,202
Loans and advances to banks and customers	55,366,407	16,377,634	3,056,038	594,639	176,825	76,213	75,647,756
Available-for-sale investments	1,486,495	2,494,582	1,102,922	3,944,875	969,995	1,053,449	11,052,318
Held-to-maturity investments	2,040,724	1,264,600	623,216	204,432	-	-	4,132,972
Other assets	85,645	-	-	-	-	2,488,802	2,574,447
<b>Total assets</b>	<b>104,259,644</b>	<b>25,165,819</b>	<b>4,988,233</b>	<b>5,245,361</b>	<b>2,143,697</b>	<b>4,589,005</b>	<b>146,391,759</b>
<b>Liabilities</b>							
Deposits from banks and other financial institutions	11,509,143	206,241	-	-	-	292,294	12,007,678
Derivative financial instruments	-	-	-	-	-	773,116	773,116
Deposits from customers	81,463,561	11,717,383	3,037,996	12,319	10,111	3,329,187	99,570,557
Certificates of deposit issued	649,585	1,539,640	6,151,374	1,981,436	-	-	10,322,035
Debt securities in issue designated at fair value through profit or loss	-	2,997,804	-	-	-	-	2,997,804
Subordinated debt	1,516,710	4,222,300	1,788,940	-	-	-	7,527,950
Other liabilities	36,433	-	-	-	-	2,070,883	2,107,316
<b>Total liabilities</b>	<b>95,175,432</b>	<b>20,683,368</b>	<b>10,978,310</b>	<b>1,993,755</b>	<b>10,111</b>	<b>6,465,480</b>	<b>135,306,456</b>
<b>Total interest sensitivity gap</b>	<b>9,084,212</b>	<b>4,482,451</b>	<b>(5,990,077)</b>	<b>3,251,606</b>	<b>2,133,586</b>	<b>(1,876,475)</b>	<b>11,085,303</b>

## 5 Segment reporting

### (a) Geographical area

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

### (b) Class of business

The Group comprises five business segments. Commercial banking includes commercial lending and trade finance. Retail banking includes retail banking, hire purchase and leasing and credit card business. Treasury and markets includes foreign exchange, money market and capital market activities. Corporate and investment banking mainly comprise corporate banking, the provision of debt capital markets and investment banking. Unallocated items mainly comprise the central management unit, bank premises and any items which cannot be reasonably allocated to specific business segments. Certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.



5 Segment reporting (continued)

(b) Class of business (continued)

	For the six months ended 30 June 2007						Total HK\$'000
	Commercial banking HK\$'000	Retail banking HK\$'000	Treasury and markets HK\$'000	Corporate and investment banking HK\$'000	Unallocated HK\$'000	Inter- segmental elimination HK\$'000	
Net interest income	364,127	256,822	120,310	137,099	113,507	-	991,865
Fee and commission income	132,512	115,229	7,024	76,510	6,254	-	337,529
Fee and commission expense	(2,886)	(11,423)	(30)	(66)	-	-	(14,405)
Net fee and commission income	129,626	103,806	6,994	76,444	6,254	-	323,124
Net trading income	26,306	4,402	49,482	2,096	(3,699)	-	78,587
Net loss on financial assets and liabilities designated at fair value through profit or loss	-	-	(13,362)	-	(4)	-	(13,366)
Net gain on financial investment	-	500	-	47	1,963	-	2,510
Other operating income	1,795	1,649	1,155	541	4,222	-	9,362
Inter-segment income	-	-	-	-	26,309	(26,309)	-
Operating income	521,854	367,179	164,579	216,227	148,552	(26,309)	1,392,082
Operating expenses	(137,745)	(229,643)	(42,386)	(24,258)	(65,603)	-	(499,635)
Inter-segment expenses	-	(26,309)	-	-	-	26,309	-
Operating profit before impairment losses	384,109	111,227	122,193	191,969	82,949	-	892,447
Writeback of impairment losses on held-to-maturity securities	-	-	1,690	-	-	-	1,690
Impairment losses on loans and advances	(26,971)	11,510	(631)	2,940	(45,131)	-	(58,483)
Operating profit after impairment losses	357,138	122,737	123,052	194,909	37,818	-	835,654
Net gain/(loss) from disposal/reversal of revaluation deficits of property, plant and equipment	(1)	(162)	-	-	3,011	-	2,848
Net gain on disposal of available-for-sale securities	-	-	11,496	-	1,346	-	12,842
Operating profit	357,137	122,575	134,548	194,909	42,175	-	851,344
Share of profits of an associate	-	-	-	-	2,373	-	2,373
Profit before tax	357,137	122,575	134,548	194,909	44,548	-	853,717
Segment assets	50,275,378	23,701,029	116,386,248	31,332,059	315,410	-	222,010,124
Investment in an associate	-	-	-	-	36,858	-	36,858
Unallocated assets	-	-	-	-	2,790,481	-	2,790,481
Total assets	50,275,378	23,701,029	116,386,248	31,332,059	3,142,749	-	224,837,463
Segment liabilities	29,869,848	43,016,294	89,095,831	31,869,406	268,783	-	194,120,162
Unallocated liabilities	-	-	-	-	18,806,319	-	18,806,319
Total liabilities	29,869,848	43,016,294	89,095,831	31,869,406	19,075,102	-	212,926,481
Capital expenditure	971	4,148	2,666	23	14,846	-	22,654
Depreciation charges	4,991	7,181	836	81	28,057	-	41,146



5 Segment reporting (continued)

(b) Class of business (continued)

	For the six months ended 30 June 2006 (Restated)						Total HK\$'000
	Commercial banking HK\$'000	Retail banking HK\$'000	Treasury and markets HK\$'000	Corporate and investment banking HK\$'000	Unallocated HK\$'000	Inter- segmental elimination HK\$'000	
Net interest income	291,968	258,326	89,133	87,767	93,189	-	820,383
Fee and commission income	82,780	68,995	8,551	66,667	9,652	-	236,645
Fee and commission expense	(2,958)	(4,513)	-	(52)	(6)	-	(7,529)
Net fee and commission income	79,822	64,482	8,551	66,615	9,646	-	229,116
Net trading income	10,028	2,376	143,162	7,350	5,937	-	168,853
Net loss on financial assets and liabilities designated at fair value through profit or loss	-	-	(55,856)	-	1	-	(55,855)
Net gain on financial investment	-	450	-	138	1,561	-	2,149
Other operating income	748	1,452	(100)	-	5,014	-	7,114
Inter-segment income	-	17,798	-	-	-	(17,798)	-
Operating income	382,566	344,884	184,890	161,870	115,348	(17,798)	1,171,760
Operating expenses	(131,915)	(220,761)	(39,952)	(22,252)	(26,539)	-	(441,479)
Inter-segment expenses	-	-	-	-	(17,798)	17,798	-
Operating profit before impairment losses	250,651	124,123	144,938	139,618	70,951	-	730,281
Writeback of impairment losses on held-to maturity securities	-	-	-	-	-	-	-
Impairment losses on loans and advances	(25,914)	2,947	-	(11,731)	6,236	-	(28,462)
Operating profit after impairment losses	224,737	127,070	144,938	127,887	77,187	-	701,819
Net gain/(loss) from disposal/reversal of revaluation deficits of property, plant and equipment	(9)	(790)	(1)	-	4	-	(796)
Net gain on disposal of available-for-sale securities	-	-	3,811	-	4,689	-	8,500
Operating profit	224,728	126,280	148,748	127,887	81,880	-	709,523
Share of profits of an associate	-	-	-	-	1,147	-	1,147
Profit before tax	224,728	126,280	148,748	127,887	83,027	-	710,670
Segment assets	24,060,664	20,917,224	54,761,146	22,739,488	348,698	-	122,827,220
Investment in an associate	-	-	-	-	29,605	-	29,605
Unallocated assets	-	-	-	-	4,398,397	-	4,398,397
Total assets	24,060,664	20,917,224	54,761,146	22,739,488	4,776,700	-	127,255,222
Segment liabilities	18,668,133	33,656,605	16,332,169	27,631,905	8,439,199	-	104,728,011
Unallocated liabilities	-	-	-	-	12,388,180	-	12,388,180
Total liabilities	18,668,133	33,656,605	16,332,169	27,631,905	20,827,379	-	117,116,191
Capital expenditure	1,049	17,084	-	-	8,541	-	26,674
Depreciation charges	442	7,315	675	33	33,404	-	41,869





**6 Net interest income**

	<b>30 Jun 2007</b> <b>HK\$'000</b>	30 Jun 2006 HK\$'000
Interest income on:		
Cash and balances with banks and other financial institutions	<b>866,837</b>	490,585
Placements with and advances to banks and other financial institutions	<b>249,940</b>	169,808
Loans and advances to banks and customers	<b>2,432,506</b>	1,962,076
Financial investments – available-for-sale	<b>263,938</b>	233,799
Financial investments – held-to-maturity	<b>86,346</b>	86,385
	<b>3,899,567</b>	2,942,653
Financial assets held for trading	<b>212</b>	98
Financial assets designated at fair value through profit or loss	<b>48,581</b>	49,832
	<b>3,948,360</b>	2,992,583
Interest expense on:		
Deposits from banks and other financial institutions	<b>287,163</b>	395,077
Deposits from customers	<b>2,056,656</b>	1,272,538
Certificates of deposit issued	<b>121,767</b>	112,639
Subordinated debts	<b>210,963</b>	134,125
Other	<b>23,448</b>	31,955
	<b>2,699,997</b>	1,946,334
Financial liabilities held for trading	<b>115,753</b>	83,904
Financial liabilities designated at fair value through profit or loss	<b>140,745</b>	141,962
	<b>2,956,495</b>	2,172,200
Net interest income	<b>991,865</b>	820,383

The amount of interest income on impaired loans and advances to banks and customers is HK\$8,786,859 as at 30 June 2007 (First half of 2006: HK\$9,351,251).



## 7 Net fee and commission income

	30 Jun 2007 HK\$'000	30 Jun 2006 HK\$'000
Loans, overdrafts and guarantees	122,989	86,225
Securities and brokerage	67,747	31,036
Trade finance	64,281	57,917
Credit card	12,852	7,417
Remittance	9,831	9,648
Insurance	4,886	3,353
Other retail and commercial banking services	15,752	14,963
Others	39,191	26,086
Fee and commission income	337,529	236,645
Fee and commission expense	(14,405)	(7,529)
Net Fee and commission income	323,124	229,116
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	187,270	144,142
Net fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	4,846	3,952

## 8 Net trading income

	30 Jun 2007 HK\$'000	30 Jun 2006 HK\$'000
Equity investments	(3,800)	6,147
Debt securities	11,100	41,439
Interest rate instruments	(10,499)	15,892
Foreign exchange	47,486	94,775
Others	34,300	10,600
Total net trading income	78,587	168,853

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

	30 Jun 2007 HK\$'000	30 Jun 2006 HK\$'000
Financial assets designated at fair value through profit or loss	(12,311)	(60,014)
Financial liabilities designated at fair value through profit or loss	(1,055)	4,159
Total net loss on financial assets and liabilities designated at fair value through profit or loss	(13,366)	(55,855)

Included in this total amount are the gains and losses arising from the buying and selling, and changes in the fair value of financial assets and liabilities designated at fair value through profit or loss upon initial recognition.



## 10 Net gain on financial investments

	30 Jun 2007 HK\$'000	30 Jun 2006 HK\$'000
Dividend income from unlisted investments	2,510	2,149

## 11 Other operating income

	30 Jun 2007 HK\$'000	30 Jun 2006 HK\$'000
Management fee income	3,000	3,300
Rental income	968	723
Others	5,394	3,091
Total other operating income	9,362	7,114

## 12 Operating expenses

	30 Jun 2007 HK\$'000	30 Jun 2006 HK\$'000
Staff costs		
– Salaries and other costs	265,186	230,578
– Redundancy payment	638	401
– Retirement benefit costs	15,295	15,140
	281,119	246,119
Premises and equipment expenses, excluding depreciation and amortisation		
– Rental of premises	59,920	48,144
– Others	28,099	27,927
	88,019	76,071
Depreciation and amortisation expenses	41,146	41,869
Auditors' remuneration	3,950	2,011
General administration expenses	13,145	12,705
Business promotion expenses	14,582	8,786
Communication expenses	18,196	16,347
Other operating expenses	39,478	37,571
Total operating expenses	499,635	441,479



### 13 Impairment losses on loans and advances to customers

	30 Jun 2007 HK\$'000	30 Jun 2006 HK\$'000
Charge for impairment losses on loans and advances to customers		
– Individually assessed	12,495	28,462
– Collectively assessed	45,988	–
	<b>58,483</b>	28,462
Of which		
– New allowances	94,204	69,031
– Releases	(31,609)	(34,019)
– Recoveries	(4,112)	(6,550)
Net charge to the income statement	<b>58,483</b>	28,462

### 14 Tax

Hong Kong profits tax has been calculated at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Tax for overseas branches and subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

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

	30 Jun 2007 HK\$'000	30 Jun 2006 HK\$'000
Current tax – provision for Hong Kong profits tax		
Tax for the period	136,901	120,592
	<b>136,901</b>	120,592
Current tax – provision for overseas tax		
Tax for the period	5,866	1,598
Underprovision in respect of prior years	–	30,364
	<b>5,866</b>	31,962
Deferred taxation relating to the origination and reversal of temporary differences (Note 27)	<b>(7,965)</b>	(1,804)
	<b>134,802</b>	150,750



#### 14 Tax (continued)

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

	30 Jun 2007 HK\$'000	30 Jun 2006 HK\$'000
Profit before tax	853,717	710,670
Calculated at a tax rate of 17.5% (2006: 17.5%)	149,400	124,367
Effect of different tax rates in other countries	3,912	63
Income not subject to tax	(34,712)	(23,643)
Expenses not deductible for tax purposes	16,617	19,800
Adjustments in respect of current tax of previous periods	-	30,364
Share of tax of an associate	(415)	(201)
Tax charge	134,802	150,750

#### 15 Proposed interim dividend

	30 Jun 2007 HK\$'000	30 Jun 2006 HK\$'000
Proposed interim dividend of HK\$0.23 (2006: HK\$0.20) per ordinary share	262,114	224,252

At a meeting held on 16 August 2007, the directors proposed an interim dividend of HK\$0.23 per ordinary share. The interim dividend will be payable in cash with an option to receive new, fully paid shares in lieu of cash, to shareholders whose names appear on the Register of Members of the Bank at the close of business on Friday, 7 September 2007. This proposed dividend is subject to the approval of the Bank's shareholders and was not reflected as a dividend payable in these accounts.

#### 16 Earnings per share

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

	30 Jun 2007	30 Jun 2006
Profit attributable to equity holders of the Group (HK\$'000)	718,915	559,920
Weighted average number of ordinary shares in issue (thousands)	1,123,593	1,121,259
Basic earnings per share	HK\$0.64	HK\$0.50

There was no difference between basic and diluted earnings per share as there were no potential dilutive shares outstanding during the period ended 30 June 2007 and 2006.



#### 17 Cash and balances with banks and other financial institutions

	30 Jun 2007 HK\$'000	31 Dec 2006 HK\$'000
Cash in hand	207,011	214,739
Balances with central banks	10,171	113,780
Balances with other banks and financial institutions	563,227	851,570
Placement with banks and other financial institutions maturing within one month	95,023,766	44,315,023
	<b>95,804,175</b>	45,495,112

#### 18 Financial assets held for trading

	30 Jun 2007 HK\$'000	31 Dec 2006 HK\$'000
Debt securities, at fair value		
– listed in Hong Kong	49	100
– unlisted	13,981	13,768
	<b>14,030</b>	13,868
Equity securities, at fair value		
– listed in Hong Kong	38,800	42,600
	<b>38,800</b>	42,600
Total trading assets	<b>52,830</b>	56,468

#### 19 Financial assets designated at fair value through profit or loss

	30 Jun 2007 HK\$'000	31 Dec 2006 HK\$'000
Debt securities, at fair value		
– listed in Hong Kong	186,590	75,524
– listed outside Hong Kong	697,238	751,039
– unlisted	699,352	877,786
Total financial assets designated at fair value through profit or loss	<b>1,583,180</b>	1,704,349



## 20 Derivative financial instruments

At 30 June 2007

	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	124,163,484	242,546	(287,555)
– OTC currency options	25,564,436	35,536	(36,534)
Total foreign exchange derivatives		278,082	(324,089)
b) Interest rate derivatives			
– Interest rate swaps	30,672,827	463,647	(568,259)
– OTC interest rate options	8,136,960	171	(171)
– Other interest rate contracts	1,206,340	787	(346)
Total interest rate derivatives		464,605	(568,776)
c) Equity derivatives			
– Equity options	68,958	304	(304)
Total derivative assets/(liabilities) held for trading		742,991	(893,169)
2) Derivatives held for hedging			
a) Derivatives designated as fair value hedges			
– Interest rate swaps	2,040,881	45,094	(6,987)
Total derivative assets/(liabilities) held for hedging		45,094	(6,987)
Total recognised derivative assets/(liabilities)		788,085	(900,156)



## 20 Derivative financial instruments (continued)

At 31 December 2006

	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	78,090,202	275,436	(278,276)
– OTC currency options	10,926,410	20,773	(19,724)
Total foreign exchange derivatives		296,209	(298,000)
b) Interest rate derivatives			
– Interest rate swaps	25,819,500	366,340	(453,771)
– OTC interest rate options	7,229,572	3,294	(3,341)
– Other interest rate contracts	905,561	1,222	(474)
Total interest rate derivatives		370,856	(457,586)
c) Equity derivatives			
– Equity options	74,678	292	(292)
Total derivative assets/(liabilities) held for trading		667,357	(755,878)
2) Derivatives held for hedging			
a) Derivatives designated as fair value hedges			
– Interest rate swaps	2,423,452	45,845	(17,238)
Total derivative assets/(liabilities) held for hedging		45,845	(17,238)
Total recognised derivative assets/(liabilities)		713,202	(773,116)

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







**21 Loans and advances to banks and customers** (continued)

	30 Jun 2007 HK\$'000	31 Dec 2006 HK\$'000
Gross impaired loans and advances to customers	<b>760,176</b>	898,389
Impairment allowances made in respect of such loans	<b>183,937</b>	201,112
As a percentage of total loans and advances	<b>0.7%</b>	1.2%
Market value of collateral	<b>62,860</b>	97,065

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.

There were no advances to banks and other financial institutions as at 30 Jun 2007 (2006: Nil).

**22 Available-for-sale financial investments**

	30 Jun 2007 HK\$'000	31 Dec 2006 HK\$'000
Debt securities, at fair value		
– listed in Hong Kong	<b>757,919</b>	650,589
– listed outside Hong Kong	<b>5,245,843</b>	4,084,988
– unlisted	<b>5,368,742</b>	5,270,060
	<b>11,372,504</b>	10,005,637
Equity securities, at fair value		
– listed in Hong Kong	<b>1,374,255</b>	949,303
– unlisted	<b>97,382</b>	97,378
	<b>1,471,637</b>	1,046,681
Total available-for-sale financial investments	<b>12,844,141</b>	11,052,318
Market value of listed securities		
Debt securities	<b>6,003,762</b>	4,735,577
Equity securities	<b>1,374,255</b>	949,303
	<b>7,378,017</b>	5,684,880



### 23 Held-to-maturity financial investments

	30 Jun 2007 HK\$'000	31 Dec 2006 HK\$'000
Debt securities		
– listed outside Hong Kong	670,725	666,950
– unlisted	2,987,200	3,471,688
Less: Impairment allowances	3,657,925 (3,976)	4,138,638 (5,666)
Total held-to-maturity financial investments	3,653,949	4,132,972
Market value of listed securities		
Debt securities	672,398	668,878

### 24 Property, plant and equipment

	Bank premises and properties HK\$'000	Leasehold improve- ments HK\$'000	Furniture and equipment HK\$'000	Total HK\$'000
Cost or valuation				
At 1 January 2007	144,745	169,425	233,841	548,011
Additions	–	324	7,825	8,149
Disposals	–	(4,079)	(4,805)	(8,884)
Exchange rate adjustment	2,849	1	84	2,934
At 30 June 2007	147,594	165,671	236,945	550,210
Accumulated depreciation and impairment				
At 1 January 2007	41,006	83,820	173,768	298,594
Charge for the year	3,990	6,122	7,351	17,463
Disposals	–	(4,028)	(4,398)	(8,426)
Exchange rate adjustment	1,143	(1)	114	1,256
At 30 June 2007	46,139	85,913	176,835	308,887
Net book value				
At 30 June 2007	101,455	79,758	60,110	241,323



24 Property, plant and equipment (continued)

	Bank premises and properties HK\$'000	Leasehold improve- ments HK\$'000	Furniture and equipment HK\$'000	Total HK\$'000
Cost or valuation				
At 1 January 2006	138,236	144,613	219,014	501,863
Reclassification	–	5,356	–	5,356
Acquired from ICBC, Hong Kong Branch	–	1,103	6,075	7,178
Additions	–	40,411	24,945	65,356
Revaluation	9,941	–	–	9,941
Disposals	(3,692)	(22,056)	(16,214)	(41,962)
Exchange and other adjustments	260	(2)	21	279
At 31 December 2006	144,745	169,425	233,841	548,011
Accumulated depreciation and impairment				
At 1 January 2006	34,195	88,233	168,093	290,521
Acquired from ICBC, Hong Kong Branch	–	1,103	3,892	4,995
Charge for the year	7,100	13,273	15,597	35,970
Disposals	(383)	(18,789)	(13,830)	(33,002)
Exchange and other adjustments	94	–	16	110
At 31 December 2006	41,006	83,820	173,768	298,594
Net book value				
At 31 December 2006	103,739	85,605	60,073	249,417



## 25 Other assets

	30 Jun 2007 HK\$'000	31 Dec 2006 HK\$'000
Interest receivable	541,835	568,287
Prepayments	119,552	109,283
Settlement accounts	230,499	255,516
Others	352,839	245,259
	<b>1,244,725</b>	1,178,345

## 26 Deposits from customers

	30 Jun 2007 HK\$'000	31 Dec 2006 HK\$'000
Demand deposits and current accounts	6,061,961	3,586,664
Savings deposits	11,890,694	12,110,797
Time, call and notice deposits	107,025,432	83,873,096
	<b>124,978,087</b>	99,570,557

## 27 Deferred income tax

Deferred income tax is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2006: 17.5%).

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

	30 Jun 2007 HK\$'000	31 Dec 2006 HK\$'000
At 1 January	(115,885)	(4,799)
Credited to income statement	7,965	11,072
Debited to equity	(63,335)	(122,158)
At the end of the period/year	<b>(171,255)</b>	(115,885)



## 27 Deferred income tax (continued)

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

	30 Jun 2007 HK\$'000	31 Dec 2006 HK\$'000
Deferred income tax assets:		
to be recovered after more than 12 months	27,154	15,233
to be recovered within 12 months	3,453	–
	<b>30,607</b>	15,233
Deferred income tax liabilities:		
to be settled after more than 12 months	(191,371)	(119,509)
to be settled within 12 months	(10,491)	(11,609)
	<b>(201,862)</b>	(131,118)
Deferred income tax liabilities, net	<b>(171,255)</b>	(115,885)

## 28 Subordinated debt

	30 Jun 2007 HK\$'000	31 Dec 2006 HK\$'000
Subordinated floating rate notes		
– with a final maturity on 2 July 2011 (callable on 3 July 2006)	586,275	583,350
– with a final maturity on 12 December 2011 (callable on 13 December 2006)	625,360	622,240
– with a final maturity on 26 March 2012 (callable on 27 March 2007)	547,190	544,460
– with a final maturity on 8 December 2012 (callable on 10 December 2007)	500,000	500,000
– with a final maturity on 28 April 2014 (callable on 28 April 2009)	1,172,550	1,166,700
– with a final maturity on 29 June 2016 (callable on 30 June 2011)	625,360	622,240
– perpetual (callable on 10 December 2012)	1,000,000	1,000,000
– perpetual (callable on 9 July 2013)	938,040	933,360
– perpetual (callable on 30 June 2016)	1,563,400	1,555,600
	<b>7,558,175</b>	7,527,950

Subordinated debt 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 qualified for and have been included as the Bank's supplementary capital in accordance with the Banking (Capital) Rules.



## 29 Other liabilities

	30 Jun 2007 HK\$'000	31 Dec 2006 HK\$'000
Interest payable	840,093	780,929
Salaries and welfare payable	88,612	95,835
Settlement accounts	197,747	256,644
Others	785,328	686,236
	<b>1,911,780</b>	1,819,644

## 30 Share Capital

	Number of shares thousands	Ordinary shares HK\$'000	Ordinary share premium HK\$'000	Preference share premium HK\$'000
At 1 January 2007	1,121,259	2,242,518	5,323,893	16,126
Allotment of new shares regarding the scrip dividend scheme of final dividend for the year ended 31 December 2006	18,368	36,737	287,281	–
Share issue expenses	–	–	(30)	–
At 30 June 2007	1,139,627	2,279,255	5,611,144	16,126
At 1 January 2006 and 31 December 2006	1,121,259	2,242,518	5,323,893	16,126

The total number of authorised ordinary shares is 2,000 million shares (2006: 2,000 million shares) with a par value of HK\$2 per share (2006: HK\$2 per share). All issued shares are fully paid.

At the board meeting held on 20 March 2007, the Board of Directors approved to recommend to the shareholders to adopt a scrip dividend scheme allowing the shareholders to have the choice to receive: (1) the final dividend in cash; or (2) an allotment of new shares in lieu of cash; or (3) a combination of cash and new shares. The scrip dividend scheme was approved and adopted in the annual general meeting held on 10 May 2007. Certain shareholders have elected to receive new shares as their final dividend and the Bank has to allot and issue a total number of 18,368,338 new shares pursuant to the scrip dividend scheme.

The total number of authorized convertible non-cumulative preference shares is 232 million shares (2006: 232 million shares) with a par value of HK\$5 per share (2006: HK\$5 per share). There is no convertible non-cumulative preference share in issue as at 30 June 2007 (2006: Nil).



### 31 Reserves

	30 Jun 2007 HK\$'000	31 Dec 2006 HK\$'000
Retained earnings*	<b>2,934,047</b>	2,734,266
Ordinary share premium	<b>5,611,144</b>	5,323,893
Convertible, non-cumulative preference share premium	<b>16,126</b>	16,126
Bank premises revaluation reserve	<b>38,142</b>	38,142
Investment revaluation reserve	<b>793,880</b>	495,344
General reserve	<b>238,388</b>	235,014
Other reserve	<b>6,697,680</b>	6,108,519
	<b>9,631,727</b>	8,842,785
Proposed dividends not provided for	<b>262,114</b>	515,779

\* As at 30 June 2007, the Group has earmarked a "Regulatory Reserve" of HK\$528,532,000 from the retained profits. The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purpose. Movements in the reserve are made directly through retained earnings and in consultation with the Hong Kong Monetary Authority.





## 32 Balances with group companies

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

	30 Jun 2007 HK\$'000	31 Dec 2006 HK\$'000
<b>On-balance sheet</b>		
Cash and balances with banks and other financial institutions	431,791	1,736,976
Placements with and advances to banks and other financial institutions maturing between one and twelve months	84,170	309,445
Loans and advances to banks and customers	2,467,817	–
Other assets	74,207	91,120
	<b>3,057,985</b>	2,137,541
Deposits from banks and other financial institutions	8,777,938	10,993,263
Certificates of deposit issued	3,908,500	3,891,878
Other liabilities	183,665	194,050
Subordinated debt	7,558,175	7,527,950
	<b>20,428,278</b>	22,607,141

Note:

Included in deposits and balances of banks and other financial institutions is an amount of HK\$1,342,106,000 (2006: HK\$388,900,000) representing utilisation of a standby credit facility of US\$3,000,000,000 (2006: US\$3,000,000,000) granted by the ultimate holding company to the Bank for working capital purposes.

	30 Jun 2007 HK\$'000	31 Dec 2006 HK\$'000
<b>Off-balance sheet</b>		
Foreign exchange contracts – contractual amount	16,200,925	30,783,747
Interest rate swaps – notional principal	7,227,611	7,179,306
Interest rate options – contractual amount		
– options purchased	305,518	784,209
– options written	1,572,722	1,568,330
	<b>1,878,240</b>	2,352,539
Other commitments with maturity within 1 year		
– overdraft facility	2,879,658	2,660,076



32 Balances with group companies (continued)

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

	30 Jun 2007 HK\$'000	31 Dec 2006 HK\$'000
<b>On-balance sheet</b>		
Loans and advances to banks and customers	1,155,425	—
Other assets	2,237	2,276
	<b>1,157,662</b>	2,276
<b>Off-balance sheet</b>		
Interest rate swaps – notional principal	199,334	163,338

(c) Included in the following balance sheet captions are related party transaction balances with a shareholder with significant influence over the ultimate holding company:

	30 Jun 2007 HK\$'000	31 Dec 2006 HK\$'000
<b>On-balance sheet</b>		
Available-for-sale financial investments	262,282	258,822
Other assets	8,367	2,687
	<b>270,649</b>	261,509
<b>Off-balance sheet</b>		
Interest rate swaps – notional principal	2,345,100	—



### 32 Balances with group companies *(continued)*

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

	30 Jun 2007 HK\$'000	31 Dec 2006 HK\$'000
<b>On-balance sheet</b>		
Deposits from customers	371	120
	<b>371</b>	120

### 33 Related party transactions

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

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

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

	30 Jun 2007 HK\$'000	30 Jun 2006 HK\$'000
Interest income		
– Placement (Note (i))	52,109	109,829
– Interest rate swaps (Note (ii))	259,563	170,370
– Loans and advances (Note (iii))	32,358	1,097
Interest expense		
– Deposits (Note (iv))	(235,274)	(384,022)
– Interest rate swaps (Note (ii))	(305,181)	(207,795)
– Certificates of deposit issued (Note (v))	(107,589)	(92,877)
– Subordinated debt (Note (vi))	(210,963)	(134,125)
Net option premium expense (Note (vii))	(781)	(5)
Management fee income (Note (viii))	3,000	3,000
Service fee income (Note (ix))	–	300
Premises income (Note (x) & (xi))	5,267	4,043
Data processing service fee expense (Note (xii))	(6,456)	(3,776)
Premises expense (Note (xiii))	(3,731)	(1,150)
Mainland China loan service fee expense (Note (xiv))	(18)	(154)
Fee expense on sub-participation of syndicated loan (Note (xv))	(1,976)	(1,967)

Notes:

- (i) Interest income was received on inter-bank deposits placed with the ultimate holding company and fellow subsidiaries at prevailing market rates.
- (ii) Interest income and expense was received from and paid to the ultimate holding company and fellow subsidiaries on the interest rate swaps at prevailing market rates. These transactions included interest rate swaps entered on a back-to-back basis with the ultimate holding company and fellow subsidiaries.
- (iii) Interest income was received from loans and advances to ultimate holding company and fellow subsidiaries.
- (iv) Interest expense was paid on the deposits taken from the ultimate holding company and fellow subsidiaries.



### 33 Related party transactions *(continued)*

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

- (v) Interest expense was paid to the ultimate holding company for fixed rate certificates of deposit issued by the Bank and fully subscribed by the ultimate holding company and its branch with a total nominal value of US\$500,000,000.
- (vi) Interest expense was paid to the ultimate holding company for subordinated floating rate notes issued by the Bank and subscribed by the ultimate holding company and its branch totalling US\$775,000,000 and HK\$1,500,000,000 (Note 28).
- (vii) Net option premium expense was paid to the ultimate holding company on the various option contracts at prevailing market rates.
- (viii) In accordance with the Collaboration Agreement dated 3 July 2001 and the Supplemental Collaboration Agreement dated 4 February 2005, management fee income was received from the Hong Kong Branch of ICBC (the "Branch") for the provision of services such as accounting and budgeting, internal audit, marketing and back office settlement and clearing.
- (ix) In accordance with the Outsourcing Agreement dated 18 December 2002, and the Supplemental Outsourcing Agreement dated 4 February 2005, service fee income was received from the Branch for the provision of management, administrative and marketing services in respect of credit card business of the Branch launched in Hong Kong commencing from 18 December 2002. This transaction was expired from 1 April 2006 followed the acquisition of the credit card business of the Branch.
- (x) In accordance with the Licence Agreement dated 31 December 2004, premises expense was paid by the Branch to the Bank for using a portion of floor area on the 28th floor, ICBC Tower, 3 Garden Road, Central, Hong Kong.
- (xi) In accordance with two Licence Agreements dated 31 December 2004 and 1 April 2005 respectively, premises expenses was paid by ICEA Services Limited to the Bank for using Suites 2501-2 and the 26th floor, ICBC Tower, 3 Garden Road, Central, Hong Kong.
- (xii) In accordance with the Service Levels Agreement dated 21 February 2002, the Supplemental Services Levels Agreement dated 4 February 2005 and the Second Supplemental Services Levels Agreement dated 28 September 2006, service fee expense was paid to the ultimate holding company for the provision of data processing services to the Bank.
- (xiii) In accordance with the Collaboration Agreement dated 3 July 2001, the Supplemental Collaboration Agreement dated 4 February 2005 and the Licence Agreement dated 27 December 2001, premises expense was paid to the Branch for using a portion of floor area rented by the Branch. This transaction was expired from 1 April 2006 followed the acquisition of the credit card business of the Branch. In accordance with the Tenancy Agreement dated 31 July 2006, premises expense was paid to a fellow subsidiary for using a portion of the first floor of No.9 Queen's Road Central, Hong Kong.
- (xiv) Service fee was paid to related ICBC branches for assisting the Bank in Mainland China loan business.
- (xv) Fee was paid to the Branch on sub-participation of syndicated loans.



### 33 Related party transactions *(continued)*

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

##### *Sub-participation of syndicated loans*

During the six months ended 30 June 2007, the Bank entered into various capital market transactions with the ultimate holding company, the branches of the ultimate holding company (the "ICBC Branches") and fellow subsidiaries. These transactions included sub-participation in syndicated loans of the Bank by the Branch and the ultimate holding company for a total of HK\$12,521,644,000 (First half of 2006: HK\$151,952,000) and similar sub-participation in syndicated loans of the ICBC Branches, the ultimate holding company and fellow subsidiaries by the Bank for a total of HK\$38,978,933,000 (First half of 2006: HK\$6,269,105,000). Fee attributable to the above transactions of HK\$1,976,000 was paid to the Branch (First half of 2006: HK\$1,967,000). These transactions were priced based either on the terms of the underlying loan agreement, if applicable, or prevailing market rates if such comparable rates are available, or on terms that are no less favourable than those available to other independent syndicate members.

##### *Purchase and sale of debt securities*

During the six months ended 30 June 2007, the Bank purchased debt securities of HK\$6,433,000 (First half of 2006: nil) from the ICBC Branches. Debt securities of total carrying value of HK\$164,068,000 (First half of 2006: HK\$320,000,000) were sold by the Bank to a fellow subsidiary. These transactions were entered into on normal commercial terms with reference to prevailing market rates.

#### (c) 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 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 2007 was HK\$144,157,000 (First half of 2006: HK\$143,892,000) and no off-balance sheet large exposures (First half of 2006: HK\$99,560,000).

#### (d) Included in the following income statement captions are related party transactions with a shareholder with significant influence over the ultimate holding company:

	30 Jun 2007 HK\$'000	30 Jun 2006 HK\$'000
<b>Income Statement</b>		
Interest income from		
– Available-for-sale securities	38,791	4,149
– Designated at fair value through profit or loss securities	495	–
– Interest rate swap	2,502	–
Gain on disposal of available-for-sale securities	8,808	–
Change in fair value of designated at fair value through profit or loss securities	(37)	–
Other income	4,687	–
Interest expense from deposits	42,179	–



### 33 Related party transactions (continued)

#### (e) Transactions with other state controlled entities

In the 2006 interim report, the Group considered all state-controlled entities which the PRC government directly holds over 50% of the outstanding shares or voting rights, and has the ability to control or the power to govern their financial or operational policies as related parties.

Following the listing of the ultimate holding company on the Stock Exchange, in 2006, the Group follows the definitions of related parties adopted by the ultimate holding company and only the following state-controlled entities are considered as related parties:

- The Ministry of Finance PRC ("MOF")
- Central SAFE Investments Limited ("Huijin")

Huijin has equity interests in certain other banks and financial institutions under the direction of the Chinese government. The Group enters into transactions with these banks and financial institutions in the ordinary course of its business on normal commercial terms. These include loans, deposits, investment securities, money market transactions and off-balance sheet exposures. These transactions are executed at the relevant market rates at the time of the transactions.

Due to the change in definitions, the comparatives for the six months ended 30 June 2006 have been restated accordingly.

The significant outstanding balances with these banks and financial institutions at the period/year end, and the related major income and/or expense for the period/year are as follows:

#### (i) Loans and advances to banks and customers

	30 Jun 2007 HK\$'million	31 Dec 2006 HK\$'million
Outstanding balance at the end of the period/year	1,034	-
<b>Six months ended</b>		
	30 Jun 2007 HK\$'million	30 Jun 2006 HK\$'million
Interest income	7	3

#### (ii) Investment securities

	30 Jun 2007 HK\$'million	31 Dec 2006 HK\$'million
Outstanding balance at the end of the period/year - financial assets held for trading	39	43
<b>Six months ended</b>		
	30 Jun 2007 HK\$'million	30 Jun 2006 HK\$'million
Gain on disposal of financial assets held for trading	-	1
Other operating (expense)/income recognised	(4)	5



**33 Related party transactions** (continued)

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

(iii) Placement with and advances to banks and financial institutions

	30 Jun 2007 HK\$'million	31 Dec 2006 HK\$'million
Outstanding balance at the end of the period/year	1,684	2,007

	Six months ended 30 Jun 2007 HK\$'million	30 Jun 2006 HK\$'million
Interest income recognised	31	18

(iv) Deposits from banks and financial institutions

	30 Jun 2007 HK\$'million	31 Dec 2006 HK\$'million
Outstanding balance at the end of the period/year	390	–

	Six months ended 30 Jun 2007 HK\$'million	30 Jun 2006 HK\$'million
Interest expense recognised	5	74

(v) Deposits from customers

	30 Jun 2007 HK\$'million	31 Dec 2006 HK\$'million
Outstanding balance at the end of the period/year	511	421

	Six months ended 30 Jun 2007 HK\$'million	30 Jun 2006 HK\$'million
Interest expense recognised	9	3



### 33 Related party transactions (continued)

#### (e) Transactions with other state controlled entities (continued)

(vi) Others

	30 Jun 2007 HK\$'million	31 Dec 2006 HK\$'million
Outstanding balance at the end of the period/year	–	931

	Six months ended	
	30 Jun 2007 HK\$'million	30 Jun 2006 HK\$'million
Interest expense recognised	–	–
Other (expense)/income recognised	(1)	4

(vii) Off balance sheet exposures

	30 Jun 2007 HK\$'million	31 Dec 2006 HK\$'million
Outstanding balance at the end of the period/year	249	41

#### (f) Key management personnel remuneration

Remuneration for key management personnel is as follows:

	Six months ended	
	30 Jun 2007 HK\$'000	30 Jun 2006 HK\$'000
Employee benefits	13,237	10,663

#### (g) Material transactions with key management personnel

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

Material transactions conducted with key management personnel and their related parties are as follows:

	Six months ended	
	30 Jun 2007 HK\$'000	30 Jun 2006 HK\$'000
Loans and advances to banks and customers	4,461	7,018
Deposits	30,853	19,855
Interest income	135	111
Interest expense	227	363





### 34 Off-balance sheet exposures

#### (a) Contingent liabilities and commitments

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

	30 Jun 2007 Contractual amount HK\$'000	30 Jun 2007 Credit risk weighted amount HK\$'000	31 Dec 2006 Contractual amount HK\$'000	31 Dec 2006 Credit risk weighted amount HK\$'000
Direct credit substitutes	3,568,470	2,104,028	1,360,327	988,349
Transaction-related contingencies	302,030	54,167	275,079	39,251
Trade-related contingencies	3,441,366	579,938	3,026,229	510,431
Other commitments with an original maturity of:				
– Under 1 year or which are unconditionally cancellable	50,560,995	–	32,424,706	–
– 1 year and over	16,802,044	8,349,565	16,493,896	8,246,948
Forward deposits placed	5,908,433	1,181,687	119,892	23,978
	80,583,338	12,269,385	53,700,129	9,808,957

#### (b) Capital commitments

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

	30 Jun 2007 HK\$'000	31 Dec 2006 HK\$'000
Expenditure contracted but not provided for	12,902	13,581
Expenditure authorised but not contracted for	201	–
	13,103	13,581

#### (c) Operating lease commitments

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

	30 Jun 2007 HK\$'000	31 Dec 2006 HK\$'000
Land and buildings		
– Not later than one year	188,843	121,131
– Later than one year and not later than five years	522,135	233,906
– More than five years	216,520	97,768
	927,498	452,805

### 35 Comparative amounts

As further explained in note 3.3 to the accounts, certain prior year adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current period's presentation and accounting treatment.



## SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

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

### 1 Capital adequacy and capital base

	30 Jun 2007	31 Dec 2006
Core capital ratio	6.7%	8.5%
Capital adequacy ratio	13.0%	16.0%
The components of the total capital base after deductions include the following items:		
	30 Jun 2007 HK\$'000	31 Dec 2006 HK\$'000
Core capital:		
Paid up ordinary share capital	2,279,255	2,242,518
Share premium	5,627,270	5,340,019
Reserves	1,692,514	1,286,434
Profit and loss account	421,139	556,376
Deduct: Goodwill	(964,199)	(951,787)
Other intangible assets	(86,528)	–
50 per cent of total unconsolidated investments and other deductions	(304,840)	–
	8,664,611	8,473,560
Eligible supplementary capital:		
Fair value gains on the revaluation of land and buildings	1,066	1,368
Fair value (losses)/gains on the revaluation of available-for-sale equities and debt securities	(43,600)	33,346
Unrealised fair value gains arising from equities and debt securities designated at fair value through profit or loss	8,438	–
Collective impairment allowances and regulatory reserve	810,464	615,919
Perpetual subordinated debts	3,501,440	3,488,960
Subordinated debts	4,056,735	4,038,990
Deduct: 50 per cent of total unconsolidated investments and other deductions	(304,840)	–
	8,029,703	8,178,583
Total capital base before deductions	16,694,314	16,652,143
Deductions from total capital base	–	(610,686)
Total capital base after deductions	16,694,314	16,041,457
<b>Risk-weighted assets</b>		
Credit risk	123,280,788	99,376,679
Market risk	1,237,300	883,113
Operational risk	4,336,875	–
Total risk-weighted assets	128,854,963	100,259,792



## 1 Capital adequacy and capital base (continued)

The capital ratios as at 30 June 2007 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 "standardized (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 "standardized (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 exception that subsidiaries which are mainly conduct non-banking related business are excluded and 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 ICBC (Asia) Investment Holdings Limited, ICBC (Asia) Bullion Company Limited, ICBC (Asia) Securities Limited, ICBC (Asia) Trustee Company Limited, ICBC Asset Management Company Limited and ICBC (Asia) Wa Pei Nominees Limited.

The capital ratios as at 31 December 2006 were computed on the consolidated basis which comprises the positions of the Bank and its subsidiaries as required by the Hong Kong Monetary Authority for its regulatory purposes, taking into account market risks as at the balance sheet date in accordance with the Guideline "Maintenance of Adequate Capital Against Market Risks", and is in accordance with the Third Schedule to the Hong Kong Banking Ordinance.

In view of the significant differences of the basis of consolidation and the calculation of capital base and risk-weight assets between the Capital Rules and the Third Schedule, the capital ratios are not comparable directly.

## 2 Liquidity ratio

	30 Jun 2007	30 Jun 2006
Average liquidity ratio for the six months ended	43.7%	42.7%

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



### 3 Currency concentration

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

<b>As at 30 June 2007</b>	<b>US\$ HK\$'000</b>	<b>JPY HK\$'000</b>	<b>RMB HK\$'000</b>	<b>Total HK\$'000</b>
Spot assets	105,175,961	1,037,686	3,478,377	109,692,024
Spot liabilities	(58,280,603)	(247,132)	(3,157,730)	(61,685,465)
Forward purchases	37,931,438	2,687,578	13,820,362	54,439,378
Forward sales	(85,039,315)	(3,328,575)	(13,568,831)	(101,936,721)
Net option position	143,153	(41,375)	-	101,778
<b>Net (short)/long position</b>	<b>(69,366)</b>	<b>108,182</b>	<b>572,178</b>	<b>610,994</b>
<b>As at 31 December 2006</b>	<b>US\$ HK\$'000</b>	<b>JPY HK\$'000</b>	<b>RMB HK\$'000</b>	<b>Total HK\$'000</b>
Spot assets	72,055,601	770,773	296,608	73,122,982
Spot liabilities	(60,871,421)	(344,128)	(214,685)	(61,430,234)
Forward purchases	35,505,948	1,523,062	13,141,674	50,170,684
Forward sales	(45,486,539)	(1,821,707)	(13,022,646)	(60,330,892)
Net option position	69,636	(31,481)	-	38,155
<b>Net long position</b>	<b>1,273,225</b>	<b>96,519</b>	<b>200,951</b>	<b>1,570,695</b>

Foreign currency exposures include those arising from trading position. The net options position is calculated using the delta equivalent approach.

There were no net structural position in a particular foreign currency constitutes (in absolute terms) not less than 10% of its total net structural position in all currencies as at 30 June 2007 and 31 December 2006.



#### 4 Segmental information

##### (a) Loans and advances to banks and customers

(i) Gross advances to banks and customers – by industry sectors

	30 Jun 2007 Gross advances HK\$'000	30 Jun 2007 % of secured advances %	31 Dec 2006 Gross advances HK\$'000	31 Dec 2006 % of secured advances %
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	5,400,069	39.23%	4,422,104	13.87%
– Property investment	15,441,735	66.92%	13,304,411	66.18%
– Financial concerns	3,803,010	3.35%	3,860,244	2.05%
– Stockbrokers	14,744,348	0.80%	147,042	17.35%
– Wholesale and retail trade	2,860,662	69.66%	2,194,440	66.01%
– Civil engineering works	397,977	29.36%	409,532	25.19%
– Manufacturing	3,207,324	45.52%	3,255,617	42.88%
– Transport and transport equipment	7,944,644	61.65%	8,036,027	56.51%
– Electricity, gas and telecommunications	1,803,612	1.53%	936,168	2.69%
– Hotels, boarding houses and catering	1,084,557	9.58%	1,121,759	22.08%
– Others	8,756,007	15.50%	4,796,105	32.05%
Individuals				
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	240,219	83.15%	155,421	71.42%
– Loans for the purchase of other residential properties	11,253,251	99.69%	10,736,652	99.55%
– Credit card advances	87,161	0.00%	104,831	0.00%
– Others	1,434,081	95.53%	1,246,530	94.86%
Trade finance	7,169,924	53.90%	6,838,910	52.37%
Loans for use outside Hong Kong	20,077,893	29.82%	14,179,903	18.26%
	105,706,474	42.85%	75,745,696	48.81%



#### 4 Segmental information (continued)

##### (a) Loans and advances to banks and customers (continued)

###### (i) Gross advances to banks and customers – by industry sectors (continued)

Individually impaired loans and individual impairment allowances in respect of industry sectors which constitute 10% or more of total advances to banks and customers are as follows:

	30 Jun 2007 HK\$'000	31 Dec 2006 HK\$'000
(a) Property investment		
Individually impaired loans	19,460	28,743
Individual impairment allowance	2,010	2,187
Collective impairment allowance	39,515	38,398
(b) Stockbrokers		
Individually impaired loans	–	–
Individual impairment allowance	–	–
Collective impairment allowance	37,746	425
(c) Loans for the purchase of other residential properties		
Individually impaired loans	138,570	119,453
Individual impairment allowance	4,943	8,102
Collective impairment allowance	28,761	30,940

###### (ii) Advances to banks and customers – by geographical areas

The Group's gross advances to banks and customers by countries or geographical areas after taking into account any risk transfers are as follows:

As at 30 Jun 2007	Gross advances to banks and customers HK\$'000	Overdue advances for over three months HK\$'000	Impaired loans and advances HK\$'000	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000
Hong Kong	72,649,677	165,853	419,660	90,259	185,600
People's Republic of China	22,957,329	8,536	9,526	5,897	66,955
Macau	723,931	7,787	7,787	7,787	1,833
Asia Pacific Region excluding Hong Kong, Macau and People's Republic of China	3,995,637	–	323,203	79,994	9,403
United Kingdom	1,209,168	–	–	–	3,095
Others	4,170,732	–	–	–	10,677
	105,706,474	182,176	760,176	183,937	277,563



4 Segmental information (continued)

(a) Loans and advances to banks and customers (continued)

(ii) Advances to banks and customers – by geographical areas (continued)

As at 31 Dec 2006	Gross advances to banks and customers HK\$'000	Overdue advances for over three months HK\$'000	Impaired loans and advances HK\$'000	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000
Hong Kong	64,910,957	195,540	513,501	113,457	186,678
People's Republic of China	2,118,439	–	–	–	20,770
Macau	608,717	7,655	7,655	7,655	1,737
Asia Pacific Region excluding Hong Kong, Macau and People's Republic of China	2,718,003	–	377,233	80,000	6,765
United Kingdom	883,871	–	–	–	2,554
Others	4,505,709	–	–	–	13,021
	75,745,696	203,195	898,389	201,112	231,525

In general, such transfer of risk takes place 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, it has been taken into account of any transfer of risk with respect to claims guaranteed by a party in a country different from that of the counterparty. Those areas which constitute 10% or more of the aggregate cross-border claims are as follows:

	Banks and other financial institutions HK\$ million	Public sector entities HK\$ million	Others HK\$ million	Total HK\$ million
<b>As at 30 June 2007</b>				
Asia Pacific excluding Hong Kong	9,449	1,930	29,344	40,723
Europe	84,465	–	1,967	86,432
<b>As at 31 December 2006</b>				
Asia Pacific excluding Hong Kong	12,843	894	8,094	21,831
North and South America	2,444	434	6,495	9,373
Europe	38,425	–	2,228	40,653



4 Segmental information (continued)

(c) Non-bank Mainland exposures

The analysis of non-bank Mainland exposure is based on the categories of non-bank counterparties and the type of direct exposures defined by the HKMA under the Banking (Disclosure) Rules with reference to the HKMA return for non-bank Mainland exposures, 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
<b>As at 30 June 2007</b>				
Mainland entities	7,110,928	756,171	7,867,099	–
Companies and individuals outside Mainland where the credit is granted for use in Mainland	7,073,985	1,081,323	8,155,308	65,293
Other counterparties where the exposure is considered by the Bank to be non-bank Mainland exposure	2,061,735	13,491	2,075,226	5,897
	<b>16,246,648</b>	<b>1,850,985</b>	<b>18,097,633</b>	<b>71,190</b>
<b>As at 31 December 2006</b>				
Mainland entities	6,436,075	421,926	6,858,001	–
Companies and individuals outside Mainland where the credit is granted for use in Mainland	6,753,983	–	6,753,983	45,203
Other counterparties where the exposure is considered by the Bank to be non-bank Mainland exposure	951,076	10,970	962,046	–
	<b>14,141,134</b>	<b>432,896</b>	<b>14,574,030</b>	<b>45,203</b>





5 Overdue, rescheduled advances and repossessed assets

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

	Gross advances HK\$'000	As a % of advances to customers	Market value of collateral HK\$'000	Amount of secured balance HK\$'000	Amount of unsecured balance HK\$'000	Individual impairment allowance HK\$'000
<b>As at 30 June 2007</b>						
Six months or less but over three months	85,765	0.1	174,311	72,050	13,715	14,820
One year or less but over six months	45,832	0.0	41,225	27,950	17,882	11,684
Over one year	49,128	0.0	22,546	14,806	34,322	25,155
	<b>180,725</b>	<b>0.1</b>	<b>238,082</b>	<b>114,806</b>	<b>65,919</b>	<b>51,659</b>
<b>As at 31 December 2006</b>						
Six months or less but over three months	95,707	0.1	104,466	68,006	27,701	17,174
One year or less but over six months	71,967	0.1	39,934	32,872	39,095	24,575
Over one year	31,716	0.0	11,903	7,848	23,868	25,921
	<b>199,390</b>	<b>0.2</b>	<b>156,303</b>	<b>108,726</b>	<b>90,664</b>	<b>67,670</b>

The general principles of an eligible collateral should satisfy the following:

- 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 right 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 we have the means of locating its whereabouts.

The eligible collaterals are mainly properties, deposits and shares.

(b) Other overdue assets

	30 Jun 2007 Accrued interest HK\$'000	30 Jun 2007 Other assets HK\$'000	31 Dec 2006 Accrued interest HK\$'000	31 Dec 2006 Other assets HK\$'000
Six months or less but over three months	114	-	320	2,361
One year or less but over six months	-	-	1	-
Over one year	1	1,451	1	1,444
	<b>115</b>	<b>1,451</b>	<b>322</b>	<b>3,805</b>
Rescheduled assets	-	-	12	-
	<b>115</b>	<b>1,451</b>	<b>334</b>	<b>3,805</b>

Other assets refer to trade bills and receivables.



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

### (c) Rescheduled advances

	30 Jun 2007 HK\$'000	As a percentage of advances to customers	31 Dec 2006 HK\$'000	As a percentage of advances to customers
Rescheduled advances to customers	31,583	0.0	43,044	0.1

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

There were no advances to banks and other financial institutions which were overdue for over 3 months; nor were there any rescheduled advances to banks and other financial institutions as at 30 June 2007 and 31 December 2006.

### (d) Repossessed assets

At 30 June 2007, the estimated market value of the repossessed assets of the Group amounted to HK\$25,590,500 (31 December 2006: HK\$37,065,000).

## 6 Risk management

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

### (a) Credit risk management

Credit risk is the risk that a borrower or counter-party 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 system 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, thereby minimizing business loss. With the enlarged lending operation of the Bank to SMEs after merging, credit policies and practice apposite to their risk monitoring are adopted or modified to maintain the desired credit standard as the Bank increasingly penetrates into the SME sector.

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 Director to take balanced accounts of 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 releases of the Hong Kong Monetary Authority and for the sake of enhancing internal credit control processing efficiency and products competitiveness.



## 6 Risk management (continued)

### (a) Credit risk management (continued)

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

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

The management spares no efforts in monitoring the quality and behavior of the loan portfolio. The Group's internal credit risk grading system consists 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 practise 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 forecast on a daily basis to enable Treasury and Markets ("T&M") and the relevant functional committee to act proactively according to changing market conditions and to implement contingency plans on a timely basis. Stress tests are regularly performed to assess contingent funding needs and the adequacy of funds to meet them. In case of shortage identified, corresponding remedial measures will be planned. To strengthen our liquidity risk control, a software system is in installation by which the Bank will be in a better position to predict its funding position. The Group continues to explore and diversify funding channels to capitalise on opportunities for the Group's business expansion. Concrete funding availability from the parent company, ICBC, is proven in strengthening our liquidity capability. As at 30 June 2007, the Group has a total of approximately HKD8.7 billion certificates of deposit issued to secure longer term funding.

The liquidity position remained affluent throughout the first half of 2007 with an average liquidity ratio at 43.7% (Average for the first half of 2006: 42.7%), that was well above the statutory requirement of 25%.



## 6 Risk management (continued)

### (c) Capital management

The Group manages its capital to execute its strategic business plans and support its growth and investments in an efficient way. The Group's capital base and capital ratio as at 30 June 2007 remained strong, with capital adequacy ratios above the regulatory requirements. The Group's adjusted Tier 1 and total capital adequacy ratios were 6.7% and 13.0% respectively as at 30 June 2007. The Group adjusts its business and loan booking strategy from time to time to optimize its risk-return profile. A capital planning and allocation policy is in process in complying with Basel II and Pillar II and related HKMA requirements.

### (d) Market risk management

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

Market risk exposure for different types of transactions is managed within risk limits and guidelines approved by the management and the Asset and Liability Management Committee ("ALCO"), and for prominent issues, by the Board of Directors. Trading limits are increased for opportunities in the market. Exposures are measured and monitored against limits on positions, stop-loss, value-at-risk, sensitivity, delta, gamma, etc. Daily risk monitoring is carried out by an independent Risk Management Department, which ensures all dealing activities are conducted within approved limits. The Group's market risk exposures are reviewed by the ALCO and the Risk Management Committee. All exceptions to limits are reported to the ALCO. Important deviations, if any, will be escalated to 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 functions of control and monitoring, supplemented as mentioned by, among others, predetermined stop loss limits to keep the risk of increased trading limits at bay.

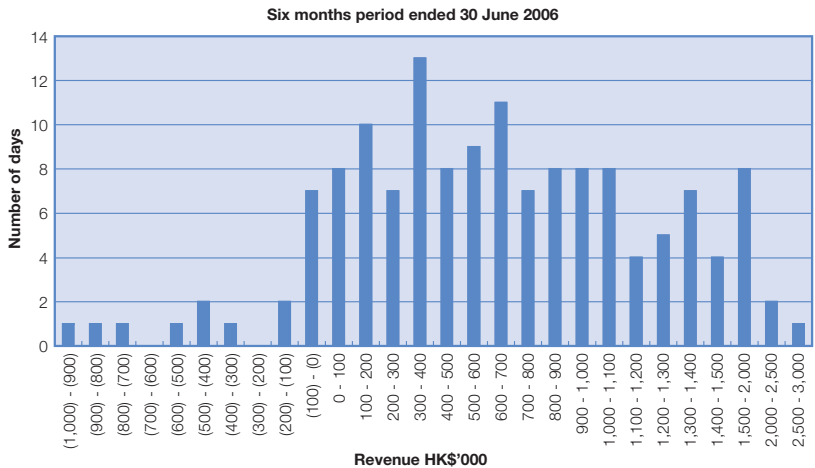
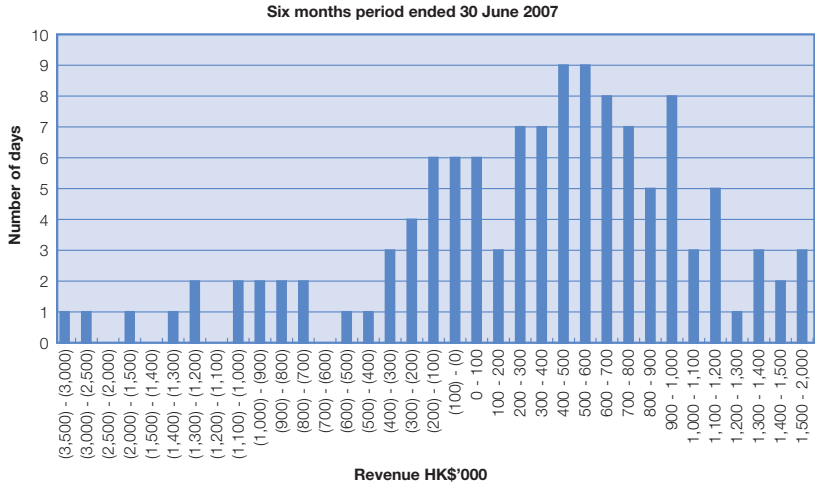
The average daily revenue earned from the Group's market risk related activities during the period ended 30 June 2007 was HK\$299,139 (First half of 2006: HK\$650,612) and the standard deviation for such daily revenue was HK\$782,330 (First half of 2006: HK\$615,988). An analysis of the frequency distribution of daily revenue showed that losses were recorded on 35 days out of 121 trading days for the first half of 2007 (16 Days for the first half of 2006). The maximum daily loss was HK\$3.04 million (HK\$0.97 million for the first half of 2006). The highest daily revenue was HK\$1.88 million (HK\$2.63 million for the first half of 2006). 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 risk, and counter-party credit risks, liquidity and capital implications.



6 Risk management (continued)

(d) Market risk management (continued)

The following histograms show the frequency distribution of daily revenues related to market risk activities of the Group for the six months ended 30 June 2007 and 30 June 2006.





## 6 Risk management (continued)

### (e) Interest rate risk management

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

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 the Hong Kong Accounting Standard 39. The Group interest rate risk position is further regularly reported to and scrutinized by the Risk Management Committee.

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

The Group will count and counts on stop loss, management trigger limits, stress test and a software system in installation 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 organization and covers a wide spectrum of issues. Enhanced efforts in identifying and understanding the underlying operational risks in processes are taken. This is part of the job of the Risk Management Department. Its capability for handling operational risk management is enhanced. An Operational Risk Committee is in place in forging ahead with the initiatives. Such risk is further mitigated through the implementation of comprehensive internal control systems, adequate insurance cover, offshore computer back-up sites and contingency plans with periodic drills. The Group's Internal Audit Department also plays an important role in detecting any deviations from operating procedures and identifying weaknesses at all operating levels independently and objectively. More active and proactive operational risk management practice will be pursued going forward in accordance with 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 them in establishing policies, procedures and monitoring program to ensure compliance with the legal and regulatory requirements. They conduct regular compliance checking so that the Group can identify any potential non-compliance issue and take remedial action on a timely basis. They also issue monthly bulletin and arrange training at least quarterly to enrich the knowledge of all staff in the legal and regulatory requirements. Furthermore, regular reports on non-compliance issue and the legal and regulatory developments are made to the General Management Committee.