

2010

 NCB 南洋商業銀行

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Report of the Directors

The Directors are pleased to present their report together with the audited consolidated financial statements of Nanyang Commercial Bank, Limited (hereinafter as the “Bank”) and its subsidiaries (together with the Bank hereinafter as the “Group”) for the year ended 31 December 2010.

Principal Activities

The Bank is a licensed bank authorised under the Hong Kong Banking Ordinance. The principal activities of the Bank are the provision of banking and related financial services. The principal activities of the Bank’s subsidiaries are shown in “Appendix - Subsidiaries of the Bank” to the financial statements.

Results and Appropriations

The results of the Group for the year are set out in the consolidated income statement on page 5.

The directors declared an interim dividend of HK\$69 per share totaling HK\$483,000,000 on 8 December 2010 which was paid on 25 February 2011.

Reserves

Details of movements in the reserves of the Group are set out in the consolidated statement of changes in equity on page 10.

Donations

Charitable and other donations made by the Group during the year amounted to approximately HK\$276,000.

Properties, Plant and Equipment

Details of movements in properties, plant and equipment of the Group and the Bank are set out in Note 28 to the financial statements.

Share Capital

Details of the share capital of the Bank are set out in Note 35 to the financial statements.

Directors

The directors during the year and up to the date of this report are:

Board of Directors

Chairman:	Zhou Zaiqun [#]	(appointed on 28 April 2010)
	He Guangbei [#]	(resigned on 28 April 2010)
Vice Chairman:	Xu Gang	
	Zeng Xiaoping [#]	
Directors:	Gao Yingxin [#]	
	Zhuo Chengwen [#]	
	Li Jiuzhong [#]	(appointed on 5 March 2010)
	Zhu Yanlai [#]	
	Yuen Wai Keung	
	Chang Hsin Kang*	
	Lan Hong Tsung, David*	
	Lau Hon Chuen*	
	Cheung Yau Shing [#]	(resigned on 22 January 2010)

[#] Non-executive directors

* Independent non-executive directors

Report of the Directors (continued)

Directors (continued)

In accordance with Article 81 of the Articles of Association of the Bank, Mr. Yuen Wai Keung, Mr. Chang Hsin Kang, Mr. Lau Hon Chuen and Mr. Lan Hong Tsung, David retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Directors' Interests in Equity or Debt Securities

Saved as disclosed in Note 18, at no time during the year was the Bank or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the directors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

Directors' Interests in Contracts of Significance

No contracts of significance, in relation to the Group's business to which the Bank or any of its holding companies, subsidiaries or fellow subsidiaries was a party and in which any of the Bank's directors had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Bank were entered into or existed during the year.

Compliance with the Banking (Disclosure) Rules

The financial statements for the year ended 31 December 2010 comply with the requirements set out in the Banking (Disclosure) Rules under the Hong Kong Banking Ordinance.

Auditor

The financial statements for the year have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Zhou Zaiqun

Chairman

Hong Kong, 16 March 2011

Independent Auditor's Report

To the shareholders of Nanyang Commercial Bank, Limited

(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Nanyang Commercial Bank, Limited (the "Bank") and its subsidiaries (together, the "Group") set out on pages 5 to 170, which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated income statement, the consolidated and company statements of comprehensive income, the consolidated and company statements of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Bank are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report (continued)

To the shareholders of Nanyang Commercial Bank, Limited (continued)

(incorporated in Hong Kong with limited liability)

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Bank and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 16 March 2011

Consolidated Income Statement

For the year ended 31 December	Notes	(Restated)	
		2010 HK\$'000	2009 HK\$'000
Interest income		3,820,407	3,356,356
Interest expense		(1,062,445)	(852,755)
Net interest income	5	2,757,962	2,503,601
Fee and commission income		780,442	673,451
Fee and commission expense		(79,799)	(90,595)
Net fee and commission income	6	700,643	582,856
Net trading (loss)/gain	7	(36,185)	107,989
Net gain on financial instruments designated at fair value through profit or loss		45,047	210,750
Net gain on investment in securities	8	80,200	149
Other operating income	9	46,344	46,120
Net operating income before impairment allowances		3,594,011	3,451,465
Net (charge)/reversal of impairment allowances	10	(30,620)	89,501
Net operating income		3,563,391	3,540,966
Operating expenses	11	(1,433,785)	(1,820,626)
Operating profit		2,129,606	1,720,340
Net gain from disposal of/fair value adjustments on investment properties	12	78,674	83,110
Net gain from disposal/revaluation of properties, plant and equipment	13	3,544	11,428
Profit before taxation		2,211,824	1,814,878
Taxation	14	(377,422)	(268,427)
Profit for the year		1,834,402	1,546,451
Dividends	16	483,000	-

The notes on pages 13 to 170 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December	Notes	(Restated)	
		2010 HK\$'000	2009 HK\$'000
Profit for the year		1,834,402	1,546,451
Change in fair value of available-for-sale securities		185,775	186,868
Revaluation of premises		534,270	446,272
Change in fair value of hedging investment under net investment hedge		(23,785)	-
Currency translation difference		229,350	(1,934)
Net deferred tax effect	34	(83,601)	(96,700)
Reclassification adjustments			
Release upon disposal of available-for-sale securities		(89,538)	(149)
Amortisation with respect to available-for-sale securities transferred to held-to-maturity securities		(11,218)	(13,347)
Other comprehensive income for the year, net of tax		741,253	521,010
Total comprehensive income for the year		2,575,655	2,067,461

The notes on pages 13 to 170 are an integral part of these financial statements.

Statement of Comprehensive Income

For the year ended 31 December	Notes	(Restated)	
		2010 HK\$'000	2009 HK\$'000
Profit for the year	15	1,812,794	1,217,988
Change in fair value of available-for-sale securities		196,205	186,866
Revaluation of premises		518,116	432,113
Currency translation difference		1,018	(349)
Net deferred tax effect	34	(83,277)	(93,513)
Reclassification adjustments			
Release upon disposal of available-for-sale securities		(89,538)	(149)
Amortisation with respect to available-for-sale securities transferred to held-to-maturity securities		(11,218)	(13,347)
Other comprehensive income for the year, net of tax		531,306	511,621
Total comprehensive income for the year		2,344,100	1,729,609

The notes on pages 13 to 170 are an integral part of these financial statements.

Consolidated Balance Sheet

		(Restated)	(Restated)
	At	At	At
	31 December	31 December	1 January
Notes	2010	2009	2009
	HK\$'000	HK\$'000	HK\$'000
ASSETS			
Cash and balances with banks and other financial institutions	20	24,455,981	14,599,569
Placements with banks and other financial institutions maturing between one and twelve months		7,754,054	12,453,008
Financial assets at fair value through profit or loss	21	2,252,783	2,424,579
Derivative financial instruments	22	1,128,659	577,366
Advances and other accounts	23	124,150,176	94,250,345
Investment in securities	25	27,180,437	26,620,819
Investment properties	27	618,263	717,985
Properties, plant and equipment	28	3,439,380	2,973,248
Deferred tax assets	34	26,204	40,889
Other assets	29	1,169,252	1,410,339
Total assets		192,175,189	156,068,147
LIABILITIES			
Deposits and balances of banks and other financial institutions		18,774,689	19,964,493
Financial liabilities at fair value through profit or loss	30	1,185,375	815,306
Derivative financial instruments	22	916,211	487,033
Deposits from customers	31	141,336,905	110,039,401
Other accounts and provisions	32	6,856,327	3,930,073
Current tax liabilities		168,626	68,433
Deferred tax liabilities	34	447,058	366,065
Total liabilities		169,685,191	135,670,804
EQUITY			
Share capital	35	700,000	700,000
Reserves	36	21,789,998	19,697,343
Total equity		22,489,998	20,397,343
Total liabilities and equity		192,175,189	147,232,517

The notes on pages 13 to 170 are an integral part of these financial statements.

Approved by the Board of Directors on 16 March 2011 and signed on behalf of the Board by:

Zhuo Chengwen

Director

Lau Hon Chuen

Director

Yuen Wai Keung

Director

Leung Ka Chun

Secretary

Balance Sheet

		(Restated)	(Restated)	
	At	At	At	
	31 December	31 December	1 January	
Notes	2010	2009	2009	
	HK\$'000	HK\$'000	HK\$'000	
ASSETS				
Cash and balances with banks and other financial institutions	20	20,338,471	11,039,586	15,660,934
Placements with banks and other financial institutions maturing between one and twelve months		1,834,313	13,743,649	15,767,500
Financial assets at fair value through profit or loss	21	2,252,783	2,424,579	2,715,822
Derivative financial instruments	22	1,095,238	576,609	650,838
Advances and other accounts	23	83,912,646	65,490,742	51,887,077
Investment in securities	25	25,758,916	26,396,160	20,209,171
Investment in subsidiaries	26	5,286,630	5,286,630	2,925,485
Investment properties	27	579,940	679,287	596,556
Properties, plant and equipment	28	3,102,010	2,669,374	2,295,590
Current tax assets		-	-	5,892
Deferred tax assets	34	627	604	-
Other assets	29	1,146,077	1,342,905	583,968
Total assets		<u>145,307,651</u>	<u>129,650,125</u>	<u>113,298,833</u>
LIABILITIES				
Deposits and balances of banks and other financial institutions		8,896,221	8,024,374	2,012,654
Financial liabilities at fair value through profit or loss	30	1,185,375	815,306	700,536
Derivative financial instruments	22	888,344	486,283	716,326
Deposits from customers	31	109,845,308	97,566,575	92,523,891
Other accounts and provisions	32	2,344,087	2,634,746	1,651,366
Current tax liabilities		142,517	59,573	-
Deferred tax liabilities	34	437,612	356,181	261,099
Total liabilities		<u>123,739,464</u>	<u>109,943,038</u>	<u>97,865,872</u>
EQUITY				
Share capital	35	700,000	700,000	600,000
Reserves	36	20,868,187	19,007,087	14,832,961
Total equity		<u>21,568,187</u>	<u>19,707,087</u>	<u>15,432,961</u>
Total liabilities and equity		<u>145,307,651</u>	<u>129,650,125</u>	<u>113,298,833</u>

The notes on pages 13 to 170 are an integral part of these financial statements.

Approved by the Board of Directors on 16 March 2011 and signed on behalf of the Board by:

Zhuo Chengwen

Director

Lau Hon Chuen

Director

Yuen Wai Keung

Director

Leung Ka Chun

Secretary

Consolidated Statement of Changes in Equity

	Share capital	Share premium	Capital reserve	Premises revaluation reserve	Reserve for fair value changes of available-for-sale securities	Regulatory reserve*	Merger reserve**	Translation reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2009										
As previously reported	700,000	2,444,517	605	1,962,396	(96,857)	684,618	(764,254)	221,011	13,111,324	18,263,360
Effect of early adoption of HKAS 12 (Amendment)	-	-	-	3,479	-	-	-	-	69,258	72,737
At 1 January 2009, restated	700,000	2,444,517	605	1,965,875	(96,857)	684,618	(764,254)	221,011	13,180,582	18,336,097
Comprehensive income	-	-	-	379,684	158,811	-	-	(1,934)	1,530,900	2,067,461
Release upon disposal of premises	-	-	-	(16,959)	-	-	-	-	16,959	-
Distribution to BOCHK	-	-	-	-	-	-	(6,215)	-	-	(6,215)
Transfer from retained earnings	-	-	-	-	-	56,208	770,469	-	(826,677)	-
At 31 December 2009	700,000	2,444,517	605	2,328,600	61,954	740,826	-	219,077	13,901,764	20,397,343

	Share capital	Share premium	Capital reserve	Premises revaluation reserve	Reserve for fair value changes of available-for-sale securities	Regulatory reserve*	Merger reserve**	Translation reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2010										
As previously reported	700,000	2,444,517	605	2,323,426	61,954	740,826	-	219,077	13,818,890	20,309,295
Effect of early adoption of HKAS 12 (Amendment)	-	-	-	5,174	-	-	-	-	82,874	88,048
At 1 January 2010, restated	700,000	2,444,517	605	2,328,600	61,954	740,826	-	219,077	13,901,764	20,397,343
Comprehensive income	-	-	-	469,119	81,529	-	-	202,278	1,822,729	2,575,655
Release upon disposal of premises	-	-	-	(102,452)	-	-	-	-	102,452	-
Transfer from retained earnings	-	-	-	-	-	400,310	-	-	(400,310)	-
Interim dividend	-	-	-	-	-	-	-	-	(483,000)	(483,000)
At 31 December 2010	700,000	2,444,517	605	2,695,267	143,483	1,141,136	-	421,355	14,943,635	22,489,998

* In accordance with the requirements of the HKMA, the amounts are set aside for general banking risks, including future losses or other unforeseeable risks, in addition to the loan impairment allowances recognised under HKAS 39.

** Merger reserve arising on the reorganisation of BOCHK's Mainland branches into NCB (China). On 1 August 2009, the Bank has issued 1 million ordinary shares to BOCHK in exchange for the Mainland branches transferred.

The notes on pages 13 to 170 are an integral part of these financial statements.

Statement of Changes in Equity

	Share capital	Share premium	Premises revaluation reserve	Reserve for fair value changes of available-for-sale securities	Regulatory reserve*	Translation reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2009								
As previously reported	600,000	-	1,833,096	(96,857)	589,988	(6,773)	12,449,586	15,369,040
Effect of early adoption of HKAS 12 (Amendment)	-	-	3,479	-	-	-	60,442	63,921
At 1 January 2009, restated	600,000	-	1,836,575	(96,857)	589,988	(6,773)	12,510,028	15,432,961
Comprehensive income	-	-	368,712	158,809	-	(349)	1,202,437	1,729,609
Release upon disposal of premises	-	-	(15,162)	-	-	-	15,162	-
Shares issued	100,000	-	-	-	-	-	-	100,000
Premium on shares issued	-	2,444,517	-	-	-	-	-	2,444,517
Transfer to retained earnings	-	-	-	-	(82,682)	-	82,682	-
At 31 December 2009	700,000	2,444,517	2,190,125	61,952	507,306	(7,122)	13,810,309	19,707,087

	Share capital	Share premium	Premises revaluation reserve	Reserve for fair value changes of available-for-sale securities	Regulatory reserve*	Translation reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2010								
As previously reported	700,000	2,444,517	2,184,951	61,952	507,306	(7,122)	13,737,015	19,628,619
Effect of early adoption of HKAS 12 (Amendment)	-	-	5,174	-	-	-	73,294	78,468
At 1 January 2010, restated	700,000	2,444,517	2,190,125	61,952	507,306	(7,122)	13,810,309	19,707,087
Comprehensive income	-	-	452,609	89,351	-	1,018	1,801,122	2,344,100
Release upon disposal of premises	-	-	(99,138)	-	-	-	99,138	-
Transfer from retained earnings	-	-	-	-	131,808	-	(131,808)	-
Interim dividend	-	-	-	-	-	-	(483,000)	(483,000)
At 31 December 2010	700,000	2,444,517	2,543,596	151,303	639,114	(6,104)	15,095,761	21,568,187

* In accordance with the requirements of the HKMA, the amounts are set aside for general banking risks, including future losses or other unforeseeable risks, in addition to the loan impairment allowances recognised under HKAS 39.

The notes on pages 13 to 170 are an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December	Notes	2010 HK\$'000	2009 HK\$'000
Cash flows from operating activities			
Operating cash inflow/(outflow) before taxation	37(a)	9,200,809	(6,195,477)
Hong Kong profits tax refund		-	123
Hong Kong profits tax paid		(218,661)	(144,204)
Overseas profits tax paid		(46,017)	(77,679)
Net cash inflow/(outflow) from operating activities		8,936,131	(6,417,237)
Cash flows from investing activities			
Purchase of properties, plant and equipment	28	(111,492)	(56,308)
Proceeds from disposal of properties, plant and equipment		105,084	31,906
Proceeds from disposal of investment properties		166,221	9,000
Net cash inflow/(outflow) from investing activities		159,813	(15,402)
Cash flows from financing activities			
Distribution to BOCHK		(6,215)	-
Net cash outflow from financing activities		(6,215)	-
Increase/(decrease) in cash and cash equivalents		9,089,729	(6,432,639)
Cash and cash equivalents at 1 January		21,301,340	27,733,979
Cash and cash equivalents at 31 December	37(b)	30,391,069	21,301,340

The notes on pages 13 to 170 are an integral part of these financial statements.

Notes to the Financial Statements

1. Principal activities

Nanyang Commercial Bank, Limited was incorporated in Hong Kong (hereinafter as the “Bank”) and its subsidiaries were incorporated in Hong Kong or Shanghai (together with the Bank hereinafter as the “Group”). The Bank is a licensed bank authorised under the Hong Kong Banking Ordinance.

The principal activities of the Bank are the provision of banking and related financial services. The principal activities of the Bank’s subsidiaries are shown in “Appendix - Subsidiaries of the Bank” to the financial statements. The address of the Bank’s registered office is 151 Des Voeux Road Central, Hong Kong.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs is a collective term which includes all applicable individual Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA and the requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale securities, financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss, investment properties which are carried at fair value and premises which are carried at fair value or revalued amount less accumulated depreciation and accumulated impairment losses.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(a) Standards, amendments and interpretations already mandatorily effective for accounting periods beginning on 1 January 2010

Standard/Interpretation	Content	Applicable for financial years beginning on/after	Currently relevant to the Group
HKAS 1 (Amendment)	Presentation of Financial Statements	1 January 2010	No
HKAS 17 (Amendment)	Leases	1 January 2010	Yes
HKAS 27 (Revised)	Consolidated and Separate Financial Statements	1 July 2009	Yes
HKAS 36 (Amendment)	Impairment of Assets	1 January 2010	No
HKAS 38 (Amendment)	Intangible Assets	1 January 2010	No
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Eligible Hedged Items	1 July 2009	Yes
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting	1 January 2010	No
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Treating Loan Prepayment Penalties as Closely Related Derivatives	1 January 2010	Yes
HKFRS 1 (Revised)	First-time Adoption of HKFRS	1 July 2009	No
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions	1 January 2010	No
HKFRS 3 (Revised)	Business Combinations	1 July 2009	Yes
HKFRS 5 (Amendment)	Non-current Assets Held for Sale and Discontinued Operations	1 January 2010	Yes
HK(IFRIC)-Int 9 (Revised)	Reassessment of Embedded Derivatives	1 July 2009	No
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation	1 July 2009	Yes
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners	1 July 2009	No
HK(IFRIC)-Int 18	Transfers of Assets from Customers	1 July 2009	No
HK-Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	29 November 2010	No

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(a) Standards, amendments and interpretations already mandatorily effective for accounting periods beginning on 1 January 2010 (continued)

- HKAS 17 (Amendment), 'Leases'. The amendment, which is part of an improvement to HKFRSs in 2009, has been made to delete a specific guidance stating that a lease of land with an indefinite economic life normally is classified as an operating lease, unless at the end of the lease term title is expected to pass to the lessee. The amendment requires the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee.

As the transaction values in the Hong Kong property market have typically incorporated the market's general sentiment that the lease term specified in the Hong Kong Government land leases will be extended for a nominal amount, the risks and rewards of leasehold land would have already been substantially transferred to the lessee. Therefore the splitting between the land and buildings elements is no longer necessary as both are finance leases. The adoption of this amendment does not have an impact on the Group as the Group has not separately accounted for its land and buildings in the financial statements for the reason set out below.

Pursuant to the accounting policy of BOCHK (Holdings), the Group has adopted the valuation at the date of the merger of BOCHK (Holdings) ("the merger") as the deemed cost for its leasehold properties to reflect the circumstances at the time of the merger.

It was determined that the values of the land and buildings elements of the Group's leasehold properties cannot be reliably split and the leasehold properties are treated as finance leases.

- HKAS 27 (Revised), 'Consolidated and Separate Financial Statements'. The revised standard requires changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within other comprehensive income and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting treatment when control is lost, any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in income statement. The Group has adopted the revised standard prospectively to transactions with non-controlling interests that occur on or after 1 January 2010. There has been no impact of HKAS 27 (Revised) on the current year.

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(a) Standards, amendments and interpretations already mandatorily effective for accounting periods beginning on 1 January 2010 (continued)

- HKAS 39 (Amendment), 'Financial Instruments: Recognition and Measurement – Eligible Hedged Items'. The amendment makes two significant changes: Firstly, it prohibits designating inflation as a hedgeable component of a fixed rate debt. Inflation is not separately identifiable and reliably measurable as a risk or a portion of a financial instrument, unless it is a contractually specified portion of the cash flows of a recognised inflation-linked bond whose other cash flows are unaffected by the inflation portion. Secondly, it prohibits including time value in a one-sided hedged risk when designating options as hedges. An entity may only designate the change in the intrinsic value of an option as the hedging instrument of a one-sided risk arising from a forecast transaction in a hedging relationship. A one-sided risk is that changes in cash flows or fair value of a hedged item are above or below a specified price or other variable. There is no material impact to the financial statements of the Group as a result of this amendment.
- HKAS 39 (Amendment), 'Financial Instruments: Treating Loan Prepayment Penalties as Closely Related Derivatives'. This amendment clarifies that loan prepayment penalties are only treated as closely related embedded derivatives, if the penalties are payments that compensate the lender for loss of interest by reducing the economic loss from reinvestment risk. There is no material impact to the financial statements of the Group as a result of this amendment.
- HKFRS 3 (Revised), 'Business Combinations' and consequential amendments to HKAS 27, 'Consolidated and Separate Financial Statements', HKAS 28, 'Investments in Associates', and HKAS 31, 'Interests in Joint Ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The adoption of HKFRS 3 (Revised) and consequential amendments to HKAS 27, HKAS 28 and HKAS 31 do not have an impact on the financial statements of the Group as there is no business combination conducted during the year.

- HKFRS 5 (Amendment), 'Non-current Assets Held for Sale and Discontinued Operations'. The amendment clarifies that HKFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. There is no material impact to the financial statements of the Group as a result of this amendment.

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(a) Standards, amendments and interpretations already mandatorily effective for accounting periods beginning on 1 January 2010 (continued)

- HK(IFRIC)-Int 16, 'Hedges of a Net Investment in a Foreign Operation'. This interpretation states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within a group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of HKAS 39 that relate to a net investment hedge are satisfied. In particular, a group should clearly document its hedging strategy because of the possibility of different designations at different levels of a group.

The Group has applied such hedges for its net investments in the Mainland. As a result, part of the resulting exchange differences recognised in the translation reserve on consolidation are offset against the exchange differences attributable to the effective portion of the hedging instruments in the consolidated financial statements. The impact on the consolidated financial statements after the application of net investment hedges is not significant in 2010.

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Standards, amendments and interpretations issued that are not yet mandatorily effective and have not been early adopted by the Group in 2010

The following standards, amendments and interpretations have been issued and are mandatory for accounting periods beginning on or after 1 February 2010:

Standard/Interpretation	Content	Applicable for financial years beginning on/after	Currently relevant to the Group
HKAS 32 (Amendment)	Classification of Rights Issues	1 February 2010	No
HKFRS 7 (Amendment)	Financial Instruments: Disclosures	1 July 2011	No
HKFRS 9	Financial Instruments	1 January 2013	Yes
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010	No

- HKFRS 9, 'Financial Instruments'. The first part of HKFRS 9 was issued in November 2009 and will replace those parts of HKAS 39 relating to the classification and measurement of financial assets. In November 2010, a further pronouncement was published to address financial liabilities and derecognition. Key features are as follows:

(i) Classification and Measurement

Financial assets are required to be classified into one of the following measurement categories: (1) those to be measured subsequently at fair value or (2) those to be measured subsequently at amortised cost. Classification is to be made on transition, and subsequently on initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

A financial instrument is subsequently measured at amortised cost only if it is a debt instrument, and the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only unleveraged payments of principal and interest. All other debt instruments are to be measured at fair value through profit or loss.

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Standards, amendments and interpretations issued that are not yet mandatorily effective and have not been early adopted by the Group in 2010 (continued)

(i) Classification and Measurement (continued)

All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than income statement. Once elected to be recognised through other comprehensive income, there will be no reclassification of fair value gains and losses to income statement. Dividends are to be presented in income statement as long as they represent a return on investment.

(ii) Financial Liabilities and Derecognition

Except for the two substantial changes described below, the classification and measurement requirements of financial liabilities have been basically carried forward with little amendments from HKAS 39. For the derecognition principles, they are consistent with that of HKAS 39.

The requirements related to the fair value option for financial liabilities were changed to address own credit risk. It requires the amount of change in fair value attributable to changes in the credit risk of the liability be presented in other comprehensive income. The remaining amount of the total gain or loss is included in income statement. If this requirement creates or enlarges an accounting mismatch in profit or loss, then the whole fair value change is presented in income statement. The determination of whether there will be a mismatch will need to be made at initial recognition of individual liabilities and will not be re-assessed. Amounts presented in other comprehensive income are not subsequently reclassified to income statement but may be transferred within equity.

The standard eliminates the exception from fair value measurement contained in HKAS 39 for derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument.

While adoption of HKFRS 9 is mandatorily from 1 January 2013, earlier adoption is permitted. The Group is considering the financial impact of the standard and the timing of its application.

(c) Improvements to HKFRS

'Improvements to HKFRS' contains numerous amendments to HKFRS which the HKICPA considers non-urgent but necessary. It comprises amendments that result in accounting changes for presentation, recognition or measurement purpose as well as terminology or editorial amendments related to a variety of individual HKFRS. Most of the amendments are effective for annual periods beginning on or after 1 July 2009. For amendments that are effective for the financial year beginning on 1 January 2010, there have had no impact on the financial statements of the Group.

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(d) Amendment issued that is not yet mandatorily effective but has been early adopted by the Group

Standard/Interpretation	Content	Applicable for financial years beginning on/after	Currently relevant to the Group	Year of early adoption
HKAS 12 (Amendment)	Income Taxes	1 January 2012	Yes	2010
HKAS 24 (Revised)	Related Party Disclosures	1 January 2011	Yes	2009

- HKAS 12 (Amendment), 'Income Taxes'. The amended standard will be effective for reporting period beginning on or after 1 January 2012. Earlier application is permitted. The amendment provides a practical solution to the issue in relation to the determination of whether the carrying value of investment property measured in fair value will be recovered through use or through sale by introducing a rebuttable presumption that recovery of the carrying amount will normally be through sale. As a result, this amendment supersedes HK(SIC)-Int21 'Income Taxes – Recovery of Revalued Non-Depreciable Assets'.

Under the current Hong Kong tax legislation, capital gains on revaluation of investment properties held for long term investment purpose are not subjected to tax in Hong Kong. In prior year, deferred tax was provided against revaluation gain on investment properties on the assumption that the fair value will be recovered through use. The Group considers that the required treatment under the revised standard better reflects the tax position of the investment properties of the Group, and have early adopted the amended standard retrospectively.

Upon early adoption, deferred tax liabilities for the revaluation of investment properties would be calculated subject to a nil tax rate retrospectively. The effect of the adoption of this amended standard is set out below:

	At 31 December 2010	At 31 December 2009	At 1 January 2009
	HK\$'000	HK\$'000	HK\$'000
Items in Consolidated Balance Sheet:			
Increase in deferred tax assets	4,372	4,112	2,929
Net increase in assets	4,372	4,112	2,929
Decrease in deferred tax liabilities	71,903	83,936	69,808
Net decrease in liabilities	71,903	83,936	69,808
Increase in premises revaluation reserve	5,664	5,174	3,479
Increase in retained earnings	70,611	82,874	69,258
Net increase in equity	76,275	88,048	72,737
	2010	2009	
	HK\$'000	HK\$'000	
Items in Consolidated Income Statement:			
Increase/(Decrease) in taxation	12,263	(13,616)	

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(d) Amendment issued that is not yet mandatorily effective but has been early adopted by the Group (continued)

- HKAS 24 (Revised), 'Related Party Disclosures'. The Group early adopted the partial exemption regarding disclosure requirements for transactions with government-related entities in its annual financial statements for the year ended 31 December 2009. The application of the remainder of the revised standard which amends the definition of related parties will not have significant impact on the Group.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Bank and all of its subsidiaries made up to 31 December.

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group controls the composition of the board of directors, controls more than half of the voting power, holds more than half of the issued capital or by any other means that entitle the Group to govern the financial and operating policies of the entities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

For combination with a company under common control, the merger accounting method will be applied. The principle of merger accounting is a way to combine companies under common control as though the business of the acquiree had always been carried out by the acquirer. The Group's consolidated financial statements represent the consolidated results, consolidated cash flows and consolidated financial position of the Group as if any such combination had occurred from the date when the Bank and the acquiree first came under common control (i.e. no fair value adjustment on the date of combination is required). The difference between the consideration and carrying amount at the time of combination is recognised in other comprehensive income. The effects of all transactions between the Group and the acquiree, whether occurring before or after the combination, are eliminated in preparing the consolidated financial statements of the Group. Comparative amounts are presented as if the acquiree had been combined at the end of the previous reporting period. The transaction costs for the combination will be expensed in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the assets transferred. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In the Bank's balance sheet, the investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Bank on the basis of dividends received and receivable.

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies (continued)

2.3 Segmental reporting

The operating result of segments are reported in a manner consistent with the internal reporting provided to the Management, which is the chief operating decision maker of the Group, that allocates resources and assesses the performance of operating segments. Income and expenses directly associated with each segment are included in determining business segment performance.

2.4 Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Bank's functional and presentation currency.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions using the exchange rates prevailing at the dates of the transactions and monetary assets and liabilities denominated in foreign currencies translated at the rate of exchange at the end of the reporting period are recognised directly in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the securities and other changes in the carrying amount of the securities. Translation differences related to changes in the amortised cost are recognised in the income statement, and other changes in the carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in equity.

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies (continued)

2.4 Foreign currency translation (continued)

The results and financial positions of all the Group entities that have a functional currency different from Hong Kong dollars are translated into Hong Kong dollars as follows:

- assets and liabilities are translated at the closing rate at the end of the reporting period;
- income and expenses are translated at average exchange rates; and
- all resulting exchange differences are recognised in the currency translation reserve in equity through other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments are taken to other comprehensive income. When a foreign entity is sold, such exchange differences are recognised in the income statement, as part of the gain or loss on sale.

2.5 Derivative financial instruments

Derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently re-measured at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and through the use of valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received).

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

Derivatives are categorised as held for trading and changes in their fair value are recognised immediately in the income statement unless they are designated as hedges and are effective hedging instruments, then they are subject to measurement under the hedge accounting requirements.

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies (continued)

2.6 Hedge accounting

The Group documents at inception the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the hedging instruments that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items. These criteria should be met before a hedge can be qualified to be accounted for under hedge accounting.

The Group designates certain foreign currency deposits from customers for hedging of net investment in foreign operation (net investment hedge).

Net investment hedge

The effective portion of changes in the fair value of foreign currency deposits from customers that are designated and qualified as net investment hedges are recognised in other comprehensive income; a gain or loss on the ineffective portion is recognised immediately in the income statement. Accumulated gains and losses previously recognised in other comprehensive income are reclassified to income statement upon disposal of the foreign operation.

2.7 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.8 Interest income and expense and fee and commission income and expense

Interest income and expense are recognised in the income statement for all financial assets and financial liabilities using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (e.g. prepayment options or incentives relating to residential mortgage loans) but does not consider future credit losses.

The calculation includes fees, premiums or discounts and basis points paid or received between parties to the contract, and directly attributable origination fees and costs which represent an integral part of the effective yield are amortised as interest income or expense over the expected life of the financial instrument.

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies (continued)

2.8 Interest income and expense and fee and commission income and expense (continued)

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised on the written down value using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Subsequent unwinding of the discount allowance is recognised as interest income.

Fees and commissions that are not an integral part of the effective yield are recognised on an accrual basis ratably over the period when the related service has been provided, such as administrative fee, asset management fee and custody services fee. Loan syndication fees are recognised as revenue when the related syndication arrangement has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as that of other participants.

2.9 Financial assets

The Group classifies its financial assets into the following four categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Management determines the classification of investments at initial recognition. The classification depends on the purpose for which the financial assets were held. All financial assets are recognised initially at fair value. Except for financial assets carried at fair value through profit or loss, all transaction costs of financial assets are included in their amortised costs.

(1) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset which has been acquired or incurred principally for the purpose of selling in the short term or is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking is classified as held-for-trading. Derivatives are also classified as held for trading unless they are designated as effective hedges.

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies (continued)

2.9 Financial assets (continued)

(1) Financial assets at fair value through profit or loss (continued)

A financial asset, other than one held for trading, will be designated as a financial asset at fair value through profit or loss, if it meets the criteria set out below, and is so designated by management:

- eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring the financial assets or recognising the gains and losses on them on different bases; or
- applies to a group of financial assets, financial liabilities or both that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management; or
- relates to financial assets containing one or more embedded derivative that significantly modifies the cash flow resulting from those financial assets.

These assets are recognised initially at fair value, with transaction costs taken directly to the income statement, and are subsequently re-measured at fair value.

Gains and losses from changes in the fair value of such assets (excluding the interest component) are reported in net trading gain/ loss or net gain/loss on financial instruments designated at fair value through profit or loss. The interest component is reported as part of interest income. Dividends on equity instruments of this category are also recognised in net trading gain/ loss when the Group's right to receive payment is established.

(2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, including placements with and advances to banks and other financial institutions, investment debt securities without an active market and loans and advances to customers. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method less allowances for impairment losses.

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies (continued)

2.9 *Financial assets (continued)*

(3) Held-to-maturity

Financial assets classified as held-to-maturity are those traded in active markets, with fixed or determinable payments and fixed maturities that the Group's management has both the positive intention and the ability to hold to maturity. Were the Group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale. They are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method less allowances for impairment losses.

(4) Available-for-sale

Financial assets classified as available-for-sale are those that are either designated as such or are not classified in any of the other categories. They are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale financial assets are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at fair value. Unrealised gains and losses arising from changes in the fair value of investments are recognised directly in other comprehensive income, until the financial asset is disposed of or impaired at which time the accumulated gain or loss previously recognised in equity should be transferred to the income statement. However, interest which includes the amortisation of premium and discount is calculated using the effective interest method and is recognised in the income statement. Dividends on equity instruments classified as available-for-sale are recognised in other operating income when the Group's right to receive payment is established.

2.10 *Financial liabilities*

The Group classifies its financial liabilities under the following categories: trading liabilities, financial liabilities designated at fair value through profit or loss, deposits, and other liabilities. All financial liabilities are classified at inception and recognised initially at fair value.

(1) Trading liabilities

A financial liability is classified as held for trading if it is incurred principally for the purpose of repurchasing in the short term. Derivatives are also classified as held for trading unless they are designated as effective hedges. It is measured at fair value and any gains and losses from changes in fair value are recognised in the income statement.

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies (continued)

2.10 Financial liabilities (continued)

(2) Financial liabilities designated at fair value through profit or loss

A financial liability can be designated at fair value through profit or loss if it is so designated at inception. Financial liabilities so designated include certain deposits received from customers that are embedded with derivatives. A financial liability is typically so designated if it meets the following criteria:

- eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring the financial liabilities or recognising the gains and losses on them on different bases; or
- applies to a group of financial assets, financial liabilities or both that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management; or
- relates to financial liabilities containing one or more embedded derivative that significantly modifies the cash flow resulting from those financial liabilities.

Financial liabilities designated at fair value through profit or loss are measured at fair value and any gains and losses from changes in fair value are recognised in the income statement.

(3) Deposits and other liabilities

Deposits other than those classified as trading liabilities or designated at fair value through profit or loss, together with other liabilities are carried at amortised cost. Any difference (if available) between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period using the effective interest method.

2.11 Recognition and de-recognition of financial instruments

Purchases and sales of financial assets at fair value through profit or loss, available-for-sale and held-to-maturity investments are recognised on the trade date, the date on which the Group purchases or sells the assets. Loans and receivables (except investment securities without an active market) are recognised when cash is advanced to the borrowers. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies (continued)

2.11 Recognition and de-recognition of financial instruments (continued)

Trading liabilities and financial liabilities designated at fair value through profit or loss are recognised on the trade date. Deposits that are not trading liabilities are recognised when money is received from customers, other liabilities are recognised when such obligations arise. Financial liabilities are de-recognised from the balance sheet when and only when the obligation specified in the contract is discharged, cancelled or expired.

Securities and bills purchased from a counter-party with an obligation to re-sell to the counter-party at a pre-determined price on a specified future date under a resale agreement are referred to as Reverse repos.

Reverse repos or securities borrowing are initially recorded in the balance sheet as cash and due from banks or placements with banks and other financial institutions, as appropriate, at the actual amount of cash paid to the counter-party. The financial assets received as collateral under reverse repurchase agreements are not recorded on the balance sheet. The difference between sale and repurchase price is recognised as interest income or interest expense over the life of the agreements using the effective interest method.

2.12 Determination of fair value of financial instruments

The fair values of financial assets and financial liabilities that are quoted in active markets are based on current bid prices and current ask prices respectively. If the market for financial assets and financial liabilities is not active (such as unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies (continued)

2.13 Impairment of financial assets

The Group assesses as at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is 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 (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets may be impaired includes observable data that comes to the attention of the Group about the following probable loss events:

- (i) significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payment;
- (iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- (iv) it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- (v) the disappearance of an active market or downgrading below investment grade level for that financial asset because of financial difficulties; or
- (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
 - adverse changes in the payment status of borrowers in the group; or
 - national or local economic conditions that correlate with defaults on the assets in the group.

(1) Assets carried at amortised cost

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment together with all other financial assets that are not individually significant or for which impairment has not yet been identified. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies (continued)

2.13 Impairment of financial assets (continued)

(1) Assets carried at amortised cost (continued)

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

For the purposes of a collective assessment of impairment, financial assets are grouped on the basis of similar and relevant credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

When a loan is uncollectible, it is written off against the related allowance for impairment losses. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses in the income statement.

If, in a subsequent period, the amount of allowance for impairment losses decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Loans whose terms have been renegotiated with substantial difference in the terms are no longer considered to be past due but are treated as new loans.

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies (continued)

2.13 Impairment of financial assets (continued)

(2) Assets classified as available-for-sale

If evidence of impairment exists for available-for-sale financial assets, the accumulated losses, measured as the difference between the acquisition cost or amortised cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement, is removed from equity and recognised in the income statement. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement. With respect to equity instruments, further fair value changes are recognised in the reserve for fair value change of available-for-sale securities through other comprehensive income, impairment losses are not reversed through the income statement.

2.14 Impairment of investment in subsidiaries and non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation, but are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.15 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a contract between the holder and the debtor.

Financial guarantees are initially recognised as financial liabilities and reported under "Other accounts and provisions" in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and (ii) the amount initially recognised less, where appropriate, accumulated amortisation recognised over the life of the guarantee on a straight-line basis. Any changes in the liability relating to financial guarantees are taken to the income statement.

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies (continued)

2.16 Premises, equipment, fixtures and fittings

Premises comprise primarily branches and offices. Premises are shown at fair value based on periodic, but at least annually, valuations by external independent valuers less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. In the intervening periods, the directors review the carrying amount of premises, by reference to the open market value of similar properties, and adjustments are made when there has been a material change. All equipment, fixtures and fittings are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditures that are directly attributable to the acquisition and installation of the items.

Subsequent costs are included in an asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The item is stated at cost less impairment until it begins to generate economic benefits, then the item is subsequently measured according to the measurement basis of its respective assets class. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of premises are credited to the premises revaluation reserve through other comprehensive income. Decreases that offset previous increases of the same individual asset are charged against premises revaluation reserve through other comprehensive income; all other decreases are expensed in the income statement. Any subsequent increases are credited to the income statement up to the amount previously debited, and then to the premises revaluation reserve. Upon disposal of premises, the relevant portion of the premises revaluation reserve realised in respect of previous valuations is released and transferred from the premises revaluation reserve to retained earnings.

Depreciation is calculated on the straight-line method to write down the cost or revalued amount of such assets over their estimated useful lives as follows:

- Premises Over the remaining period of lease
- Equipment, fixtures and fittings 2 - 15 years

The useful lives of assets are reviewed, and adjusted if appropriate, as at the end of each reporting period.

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies (continued)

2.16 Premises, equipment, fixtures and fittings (continued)

At the end of each reporting period, both internal and external sources of information are considered to determine whether there is any indication that premises, equipment, fixtures and fittings are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment loss is recognised in the income statement except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Impairment loss is reversed through the premises revaluation reserve or income statement as appropriate.

Gains and losses on disposals are determined by comparing proceeds with carrying amount, relevant taxes and expenses. These are recognised in the income statement.

2.17 Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the companies in the Group, are classified as investment properties. Properties leased out within Group companies are classified as investment properties in individual companies' financial statements and as premises in consolidated financial statements. Land held under operating lease is classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it is a finance lease.

Investment properties are recognised initially at cost, including related transaction costs. After initial recognition, investment properties are measured at fair value assessed by professional valuers on the basis of open market value. If this information is not available, alternative valuation methods are used such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The item is stated at cost less impairment and is included in the carrying amount of investment properties. Once the item begins to generate economic benefits, it is then measured at fair value. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Any changes in fair value are reported directly in the income statement.

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies (continued)

2.17 Investment properties (continued)

If an investment property becomes owner-occupied, it is reclassified as premises, and its fair value at the date of reclassification becomes its cost for accounting purposes. If an item of premises becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in other comprehensive income as a revaluation of premises under HKAS 16 "Property, Plant and Equipment". However, if a fair value gain reverses a previous revaluation loss or impairment loss, the gain is recognised in the income statement up to the amount previously debited.

2.18 Leases

(1) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The total payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place. Rental income from operating leases is recognised on a straight-line basis over the lease term.

(2) Finance leases

Leases of assets where the lessee has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other liabilities. Investment properties acquired under finance leases are carried at their fair value.

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. Lease income is recognised over the term of the lease using net investment method, which reflects a constant periodic rate of return.

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies (continued)

2.19 Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise balances with original maturity less than three months from the date of acquisition, including cash, balances with banks and other financial institutions, short-term bills and notes classified as investment securities.

2.20 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

2.21 Employee benefits

(1) Retirement benefit costs

The Group contributes to defined contribution retirement schemes under either recognised ORSO schemes or MPF schemes that are available to the Group's employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries for the ORSO schemes and in accordance with the MPF rules for MPF schemes. The retirement benefit scheme costs are charged to the income statement as incurred and represent contributions payable by the Group to the schemes. Contributions made by the Group that are forfeited by those employees who leave the ORSO scheme prior to the full vesting of their entitlement to the contributions are used by the Group to reduce the existing level of contributions or to meet its expenses under the trust deed of the ORSO schemes.

The assets of the schemes are held in independently-administered funds separate from those of the Group.

(2) Leave entitlements

Employee entitlements to annual leave and sick leave are recognised when they accrue to employees. A provision is made for the estimated liability for unused annual leave and the amount of sick leave expected to be paid as a result of services rendered by employees up to the end of the reporting period.

Compensated absences other than sick leave and special approved annual leaves are non-accumulating; they lapse if the current period's entitlement is not used in full. Except for unexpired annual leaves, they do not entitle employees to a cash payment for unused entitlement on leaving the Group. Such compensated absences are recognised when the absences occur.

(3) Bonus plans

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus plans that are expected to be settled longer than twelve months will be recognised using discounted cash flow method if the amounts are significant.

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies (continued)

2.22 Current and deferred income taxes

Tax expenses for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in other comprehensive income. In this case, the tax is also recognised in other comprehensive income within the corresponding item.

Income tax payable on profits, based on the applicable tax law enacted or substantially enacted at the end of the reporting period in each jurisdiction where the Bank and the subsidiaries operate and generate taxable income, is recognised as a current income tax expense in the period in which profits arise.

Deferred income tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from asset impairment provisions, depreciation of premises and equipment, revaluation of certain assets including available-for-sale securities and premises, and tax losses carried forward. However, the deferred income tax is not recognised if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax liabilities are provided in full on all taxable temporary differences and deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is charged or credited in the income statement except for deferred income tax relating to fair value re-measurement of available-for-sale investments and revaluation of premises which are charged or credited to other comprehensive income, in which case the deferred income tax is also credited or charged to other comprehensive income and is subsequently recognised in the income statement together with the realisation of the deferred gain and loss.

Upon early adoption of "Amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets" retrospectively, deferred tax liability or deferred tax asset arising from investment property is determined based on the presumption that the carrying amount of such investment property will be recovered through sale with the corresponding tax rate applied. In prior years, it was assumed that the carrying amounts were recovered entirely through use.

2.23 Repossessed assets

Repossessed assets are initially recognised at the lower of their fair value less costs to sell and the amortised cost of the related outstanding loans on the date of repossession, and the related loans and advances together with the related impairment allowances are derecognised from the balance sheet. Subsequently, repossessed assets are measured at the lower of their cost and fair values less costs to sell and are reported as 'non-current assets held for sale' included in 'Other assets'.

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies (continued)

2.24 Fiduciary activities

The Group commonly acts as a trustee, or in other fiduciary capacities, that result in its holding or managing assets on behalf of individuals, trusts and other institutions. These assets and any gains or losses arising thereon are excluded from these financial statements, as they are not assets of the Group.

2.25 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised as a provision but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When the inflow is virtually certain, it will be recognised as an asset.

2.26 Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if the Group has the ability, directly and indirectly through one or more intermediaries, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control. Related parties may be individuals or entities.

Notes to the Financial Statements (continued)

3. Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Areas susceptible to changes in essential estimates and judgements, which affect the carrying amount of assets and liabilities, are set out below. The effect of changes to either the key assumptions or other estimation uncertainties will be presented below if it is practicable to determine. It is possible that actual results may require material adjustments to the estimates referred to below.

3.1 Impairment allowances on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and advances before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group (e.g. payment delinquency or default), or economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly.

3.2 Impairment of held-to-maturity and available-for-sale investments

The Group reviews its held-to-maturity and available-for-sale investment portfolios to assess impairment at least on a quarterly basis. In determining whether any of these investments is impaired, risk characteristics and performance such as external credit rating, market price etc will be assessed. The Group makes estimates on the default rate and loss severity of each investment with reference to market performance of the portfolios, current payment status of the issuers or performance of the underlying assets, or economic conditions that correlate with defaults on the collateralised assets. The methodology and assumptions used for the assessments are reviewed regularly.

Notes to the Financial Statements (continued)

3. Critical accounting estimates and judgements in applying accounting policies (continued)

3.3 Fair values of derivatives financial instruments

The fair values of derivatives financial instruments that are not quoted in active markets are determined by using valuation techniques. Valuation techniques used include discounted cash flows analysis and models with built-in functions available in externally acquired financial analysis or risk management systems widely used by the industry. To the extent practical, the models use only observable data.

3.4 Held-to-maturity investments

The Group follows the guidance of HKAS 39 in classifying certain non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to hold these investments to maturity other than for specific circumstances defined in HKAS 39, such as selling an insignificant amount close to maturity, it will be required to reclassify the entire portfolio of assets as available-for-sale. The investments would then be measured at fair value and not amortised cost.

3.5 Amount recoverable from assets repurchased

On 22 July 2009, the Bank agreed with the Securities and Futures Commission, the HKMA and fifteen other distributing banks to make an offer to eligible customers to repurchase their holdings in all outstanding Lehman Brothers minibonds (“Minibonds”) subscribed through the Bank (“the Repurchase Scheme”).

At the time when determining the Group’s charge to the income statement in 2009 in respect of the Minibonds, the Group took into account the estimated aggregate amount paid and payable under the Repurchase Scheme and the voluntary offer, the provision made prior to the date of the Repurchase Scheme and the amount recoverable from the Minibonds.

The amount recoverable from the Minibonds is uncertain and dependent on a number of factors including resolution of certain legal matters, which may result in a wide range of recovery outcomes. The Group has made an assessment of the amount recoverable under such uncertainties. The final amount recovered by the Group could be different from the assessment and may result in a considerable credit being recognised in the income statement in the period when it is realised.

Notes to the Financial Statements (continued)

4. Financial risk management

The Group is exposed to financial risks as a result of engaging in a variety of business activities. The principal financial risks are credit risk, market risk (including currency risk and interest rate risk) and liquidity risk. This note summarises the Group's exposures to these risks, as well as its objectives, policies and procedures for managing and the methods used to measure these risks.

Financial risk management framework

The Group's management governance structure is designed to cover all business processes and ensure various risks are properly managed and controlled in the course of conducting business. The Group has a robust risk management organisational structure with a comprehensive set of policies and procedures to identify, measure, monitor and control various risks that may arise. These risk management policies and procedures are regularly reviewed and modified to reflect changes in markets and business strategies.

The Board of Directors, representing the interests of shareholders, is the highest decision making authority of the Group and has the ultimate responsibility for risk management. The Board, with the assistance of the Risk Management Committee ("RMC"), has the primary responsibility for the formulation of risk management strategies and for ensuring that the Group has an effective risk management system to implement these strategies.

The RMC, a committee established by the Board of Directors, is responsible for overseeing the Group's various types of risks, reviewing and approving high-level risk-related policies and overseeing their implementation, reviewing and approving significant or high risk exposures or transactions.

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

Financial risk management framework (continued)

The Group has put in place appropriate internal control systems, including establishment of an organisation structure that sets adequately clear lines of authority and responsibility for monitoring compliance with policies, procedures and limits. Proper reporting lines also provide sufficient independence of the control functions from the business areas, as well as adequate segregation of duties throughout the organisation which helps to promote an appropriate internal control environment.

Pursuant to a risk-based approach, the Group's Auditing Department conducts independent reviews on areas including principal risks, regulatory compliance, adequacy and effectiveness of risk policies and internal control systems, operations and activities.

Product development

To ensure effective risk assessment and monitoring, the Group developed a comprehensive product development and management framework which clearly defines the roles and responsibilities of all related units, and the proper risk assessment procedures for the product development process.

In accordance with the strategic objectives set by the Management, the respective product management units are responsible for formulating business and product development plans, and the division of strategic development shall ensure the plans are aligned with the Group's overall strategies. Divisions that are responsible for risk management, legal and compliance and finance etc. are accountable for the relevant risk assessment and review.

Apart from product development, the respective business units identify and assess all the related risks. Risk evaluating divisions shall conduct independent review on risk management procedures and assessment results. Products can only be launched after the risk management procedures are fulfilled and endorsed by all risk evaluating divisions.

All treasury products, regardless brand new or modified, require approval from the Management or the special committee before launching

4.1 Credit Risk

Credit risk is the risk that a customer or counterparty will be unable to or unwilling to meet its obligations under a contract. It arises principally from lending, trade finance, treasury businesses and covers investments in bonds and securities as well as inter-bank transactions.

Credit risk management framework

The Group has formulated a comprehensive set of credit risk management policies and procedures, and appropriate credit risk limits to manage and control credit risk that may arise. These policies, procedures and credit risk limits are regularly reviewed to cope with changes in risk, market conditions and business strategies.

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.1 Credit Risk (continued)

Credit risk management framework (continued)

The Group's organisation structure establishes a clear set of authority and responsibility for monitoring compliance with policies, procedures and limits.

The Credit and Loans Management Committee ("CLMC"), a management committee chaired by the Chief Executive ("CE"), is responsible for the implementation of the credit risk management strategies as well as the formulation of credit policies. It also monitors various aspects of the Group's loan portfolio such as asset quality, risk concentration and specific segments of the portfolio etc. Various departments of the Group have their respective credit risk management responsibilities. Business units act as the first line of defense. They are obliged to make thorough assessment on every credit application and are fully responsible for monitoring credit performance and punctual repayments. The business activities conducted should also comply with the credit policies and procedures. The risk management units, which are independent from the business units, have the primary responsibilities for identifying, measuring, monitoring and controlling credit risk. They report directly to the CLMC, RMC and CE.

The Board of Directors is the ultimate source of credit authority. The Board of Directors delegates credit approval authority to the CE. The CE can further delegate to the subordinates within the limit authorized by the Board of Directors. The Group sets the limits of credit approval authority according to business nature, rating, level of transaction risk and extent of the credit exposure.

Credit risk measurement and control

In view of the rapidly changing market conditions, the Group has been continuously revisiting its lending strategies and conducting rigorous reviews on the concerned portfolios.

Loans and advances

Different credit approval and control procedures are adopted according to level of risk associated with the customer, counterparty or transaction. All loan applications are subject to thorough risk assessment and proper approval. In general, most of the loan applications will be reviewed by independent officer(s) of risk management unit(s) before approval, with exceptions given to certain designated products which satisfy certain conditions. These designated loans will be (randomly) reviewed by designated unit(s) which is(are) independent from the front line business units after funding being drawn. Credit rating models/scorecards are used in the process of credit approval whenever applicable. Internal rating system is used to process retail credit transactions, including small business retail exposures, residential mortgage loans and personal loans, and ratings as well as loss estimates are used to support credit approval.

Obligor ratings and loss estimates (if applicable) are also used to support credit monitoring, analysis and reporting. For corporate and financial institution, more frequent rating review and closer monitoring are required for riskier customers. For retail exposures, monthly updated ratings and loss estimates are used for credit monitoring on a portfolio basis. More comprehensive review is required for obligors being identified under high-risk pools.

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.1 Credit Risk (continued)

Credit risk measurement and control (continued)

Loans and advances (continued)

Regular credit management information reports and ad hoc reports are provided to the Management, RMC and Board of Directors to facilitate their continuous monitoring of credit risk.

The Group identifies credit concentration risk by industry, geography, customer and counterparty risk. The Group monitors changes to counterparties credit risk, quality of the credit portfolio and risk concentrations, and reports regularly to the Management.

The Group's internal loan grading system divides credit assets into 5 categories with reference to HKMA's guidelines. Regular credit management information reports and ad hoc reports are provided to the CLMC, RMC and Board of Directors to facilitate their continuous monitoring on credit risk

"Pass" represents loans where the borrower is current in meeting its repayment obligations and full repayment of interest and principal is not in doubt.

"Special Mention" represents loans where the borrowers are experiencing difficulties which may threaten the Group's position. Ultimate loss is not expected at this stage but could occur if adverse conditions persist.

"Substandard" represents loans where the borrower displays a definable weakness that is likely to jeopardise repayment.

"Doubtful" represents loans where collection in full is improbable and the Group expects to sustain a loss of principal and/or interest, taking into account the net realisable value of the collateral.

"Loss" represents loans which are considered uncollectible after all collection options (such as the realisation of collateral or the institution of legal proceedings) have been exhausted.

Debt securities and derivatives

For investments in debt securities and securitisation assets, the external credit rating and assessment on credit quality of the underlying assets are used for managing the credit risk involved. Credit limits are established on security issuer basis. For derivatives, the Group sets customer limits to manage the credit risk involved and follows the same approval and control processes as loans and advances. On-going monitoring procedures are established.

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.1 Credit Risk (continued)

Credit risk measurement and control (continued)

Debt securities and derivatives (continued)

Settlement risk arises mainly from foreign exchange transactions with counterparties and also from derivatives in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover all settlement risk arising from the Group's transactions on any single day.

Collateral held as security and other credit enhancements

The valuation and management of collateral have been documented in the policy covering acceptance criteria, validity of collateral, loan-to-value ratio, haircut ratio, valuation and insurance, etc. The collateral is revalued on a regular basis, though the frequency and the method used varies with the type of collateral involved and the nature and the risk of the underlying credit. The Group has established a mechanism to update the value of its main type of collateral, real properties, with the use of public index on a portfolio basis. Collateral is insured with the Group as the beneficiary.

For loans guaranteed by a third party guarantor, the Group will assess the guarantor's financial condition, credit history and ability to meet obligations.

As at 31 December 2010 and 2009, the Group did not hold any collateral permitted to sell or re-pledge in the absence of default by the borrower.

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(A) Credit exposures

Maximum exposures to credit risk before collateral held or other credit enhancements are summarised as follows:

	The Group	
	2010	2009
	HK\$'000	HK\$'000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Balances with banks and other financial institutions	24,059,705	14,170,209
Placements with banks and other financial institutions maturing between one and twelve months	7,754,054	12,453,008
Financial assets at fair value through profit or loss		
- debt securities	2,252,783	2,424,579
Derivative financial instruments	1,128,659	577,366
Advances and other accounts	124,150,176	94,250,345
Investment in securities		
- debt securities		
– available-for-sale	23,708,301	16,389,852
– held-to-maturity	2,382,575	9,811,280
– loans and receivables	1,054,646	383,842
Other assets	1,169,252	1,410,339
Credit risk exposures relating to off-balance sheet items are as follows:		
Letters of guarantee issued	2,911,121	1,423,056
Loan commitment and other credit related liabilities	48,548,162	30,287,873
	239,119,434	183,581,749
	239,119,434	183,581,749

	The Bank	
	2010	2009
	HK\$'000	HK\$'000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Balances with banks and other financial institutions	20,011,693	10,682,412
Placements with banks and other financial institutions maturing between one and twelve months	1,834,313	13,743,649
Financial assets at fair value through profit or loss		
- debt securities	2,252,783	2,424,579
Derivative financial instruments	1,095,238	576,609
Advances and other accounts	83,912,646	65,490,742
Investment in securities		
- debt securities		
– available-for-sale	22,286,780	16,165,193
– held-to-maturity	2,382,575	9,811,280
– loans and receivables	1,054,646	383,842
Other assets	1,146,077	1,342,905
Credit risk exposures relating to off-balance sheet items are as follows:		
Letters of guarantee issued	808,025	842,471
Loan commitment and other credit related liabilities	30,748,823	21,037,346
	167,533,599	142,501,028
	167,533,599	142,501,028

The above tables represent a worst case scenario of credit risk exposure to the Group and the Bank at 31 December 2010 and 2009, without taking account of any collateral held, master netting agreements or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts. For letters of guarantee issued, the maximum exposure to credit risk is the maximum amount that the Group and the Bank could be required to pay if the guarantees are called upon. For loan commitment and other credit related liabilities that are unconditionally cancellable or irrevocable over the life of the respective facilities or revocable in the event of a significant adverse change, the maximum exposure to credit risk is disclosed as the full amount of the committed facilities.

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross loans and advances

Gross loans and advances before loan impairment allowances are summarised by product type as follows:

	The Group	
	2010	2009
	HK\$'000	HK\$'000
Advances to customers		
Personal		
- Mortgages	16,648,970	14,548,696
- Others	2,774,624	2,108,913
Corporate		
- Commercial loans	91,651,292	74,535,503
- Trade finance	5,125,758	2,306,330
	116,200,644	93,499,442
Trade bills	7,724,207	502,155
Advances to banks and other financial institutions	858,924	852,144
Total	124,783,775	94,853,741

	The Bank	
	2010	2009
	HK\$'000	HK\$'000
Advances to customers		
Personal		
- Mortgages	13,550,012	12,914,334
- Others	2,620,594	1,943,052
Corporate		
- Commercial loans	57,392,647	47,981,677
- Trade finance	3,811,650	2,015,151
	77,374,903	64,854,214
Trade bills	6,346,654	446,792
Advances to banks and other financial institutions	546,354	542,118
Total	84,267,911	65,843,124

Advances with a specific repayment date are classified as overdue when the principal or interest is past due and remains unpaid. Advances repayable by regular instalments are classified as overdue when an instalment payment is past due and remains unpaid. Advances repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction or when the advances have remained continuously outside the approved limit that was advised to the borrower.

A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred and that loss event(s) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross loans and advances (continued)

If there is objective evidence that an impairment loss on loans has been incurred, the amount of loss is measured as the difference between the carrying amount and the present value of estimated future cash flows generated by the financial asset. Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the holder of the asset about the loss events.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty incurred by the borrower;
- A breach of contract, such as a default or delinquency in interest or principal payment;
- For economic or legal reasons related to the borrower's financial difficulty, the Group has granted to the borrower a concession that it would not otherwise consider;
- Probable that the borrower will become bankrupt or undergo other financial reorganisation; or
- Other observable data indicating that there is a measurable decrease in the estimated future cash flows from such loans and advances.

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross loans and advances (continued)

(a) Advances neither overdue nor impaired

Advances that were neither overdue nor impaired are analysed by internal credit grades as follows:

	The Group			
	2010			
	Pass	Special	Substandard	Total
HK\$'000	mention	or below	HK\$'000	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Advances to customers				
Personal				
- Mortgages	16,464,413	6,319	7,525	16,478,257
- Others	2,758,294	4,016	1,285	2,763,595
Corporate				
- Commercial loans	91,124,941	275,707	23,019	91,423,667
- Trade finance	5,097,612	20,948	-	5,118,560
	115,445,260	306,990	31,829	115,784,079
Trade bills	7,724,207	-	-	7,724,207
Advances to banks and other financial institutions	858,924	-	-	858,924
Total	124,028,391	306,990	31,829	124,367,210

	The Group			
	2009			
	Pass	Special	Substandard	Total
HK\$'000	mention	or below	HK\$'000	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Advances to customers				
Personal				
- Mortgages	14,296,021	4,991	7,925	14,308,937
- Others	2,078,598	4,025	1,718	2,084,341
Corporate				
- Commercial loans	74,126,004	112,697	52,311	74,291,012
- Trade finance	2,245,848	201	1,442	2,247,491
	92,746,471	121,914	63,396	92,931,781
Trade bills	502,155	-	-	502,155
Advances to banks and other financial institutions	852,144	-	-	852,144
Total	94,100,770	121,914	63,396	94,286,080

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross loans and advances (continued)

(a) Advances neither overdue nor impaired (continued)

	The Bank			
	2010			
	Pass	Special	Substandard	Total
	HK\$'000	mention	or below	HK\$'000
		HK\$'000	HK\$'000	HK\$'000
Advances to customers				
Personal				
- Mortgages	13,392,905	5,293	6,585	13,404,783
- Others	2,604,746	4,016	1,285	2,610,047
Corporate				
- Commercial loans	57,199,431	32,934	23,019	57,255,384
- Trade finance	3,792,947	11,505	-	3,804,452
	76,990,029	53,748	30,889	77,074,666
Trade bills	6,346,654	-	-	6,346,654
Advances to banks and other financial institutions	546,354	-	-	546,354
Total	83,883,037	53,748	30,889	83,967,674

	The Bank			
	2009			
	Pass	Special	Substandard	Total
	HK\$'000	mention	or below	HK\$'000
		HK\$'000	HK\$'000	HK\$'000
Advances to customers				
Personal				
- Mortgages	12,683,546	4,459	7,479	12,695,484
- Others	1,920,103	4,025	1,453	1,925,581
Corporate				
- Commercial loans	47,792,288	19,379	41,921	47,853,588
- Trade finance	1,972,812	201	-	1,973,013
	64,368,749	28,064	50,853	64,447,666
Trade bills	446,792	-	-	446,792
Advances to banks and other financial institutions	542,118	-	-	542,118
Total	65,357,659	28,064	50,853	65,436,576

The occurrence of loss event(s) may not necessarily result in impairment loss where the loans are fully collateralised. While such loans are of "substandard" or lower grades, they are regarded as not being impaired and have been included in the above tables.

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross loans and advances (continued)

(b) Advances overdue but not impaired

The gross amount of advances overdue but not impaired is analysed as follows:

	The Group					
	2010					
	Overdue for 3 months or less HK\$'000	Overdue for 6 months or less but over 3 months HK\$'000	Overdue for 1 year or less but over 6 months HK\$'000	Overdue for over 1 year HK\$'000	Total HK\$'000	Market value of collateral HK\$'000
Advances to customers						
Personal						
- Mortgages	161,274	1,180	-	2,127	164,581	473,711
- Others	9,698	-	-	353	10,051	30,534
Corporate						
- Commercial loans	120,206	-	126	311	120,643	205,890
- Trade finance	2,642	-	-	-	2,642	6,445
Total	293,820	1,180	126	2,791	297,917	716,580

	The Group					
	2009					
	Overdue for 3 months or less HK\$'000	Overdue for 6 months or less but over 3 months HK\$'000	Overdue for 1 year or less but over 6 months HK\$'000	Overdue for over 1 year HK\$'000	Total HK\$'000	Market value of collateral HK\$'000
Advances to customers						
Personal						
- Mortgages	225,942	9,972	-	2,455	238,369	596,842
- Others	21,683	1,052	114	149	22,998	41,674
Corporate						
- Commercial loans	104,836	-	188	-	105,024	219,789
- Trade finance	18,230	-	-	-	18,230	27,787
Total	370,691	11,024	302	2,604	384,621	886,092

	The Bank					
	2010					
	Overdue for 3 months or less HK\$'000	Overdue for 6 months or less but over 3 months HK\$'000	Overdue for 1 year or less but over 6 months HK\$'000	Overdue for over 1 year HK\$'000	Total HK\$'000	Market value of collateral HK\$'000
Advances to customers						
Personal						
- Mortgages	144,049	1,180	-	-	145,229	432,771
- Others	9,698	-	-	-	9,698	30,364
Corporate						
- Commercial loans	120,206	-	126	-	120,332	205,890
- Trade finance	2,642	-	-	-	2,642	6,445
Total	276,595	1,180	126	-	277,901	675,470

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross loans and advances (continued)

(b) Advances overdue but not impaired (continued)

	The Bank					Market value of collateral
	2009					
	Overdue for 3 months or less	Overdue for 6 months or less but over 3 months	Overdue for 1 year or less but over 6 months	Overdue for over 1 year	Total	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Advances to customers						
Personal						
- Mortgages	214,065	4,446	-	-	218,511	570,296
- Others	14,995	912	114	-	16,021	33,447
Corporate						
- Commercial loans	98,870	-	188	-	99,058	198,024
- Trade finance	1,529	-	-	-	1,529	3,163
Total	329,459	5,358	302	-	335,119	804,930

	The Group	
	2010	2009
	HK\$'000	HK\$'000
Current market value of collateral held against the covered portion of advances to customers	716,580	886,092
Covered portion of advances to customers	270,575	375,815
Uncovered portion of advances to customers	27,342	8,806

	The Bank	
	2010	2009
	HK\$'000	HK\$'000
Current market value of collateral held against the covered portion of advances to customers	675,470	804,930
Covered portion of advances to customers	251,074	327,174
Uncovered portion of advances to customers	26,827	7,945

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross loans and advances (continued)

(c) Impaired advances

Advances individually identified to be impaired are analysed by product type as follows:

	The Group			
	2010		2009	
	Gross advances	Market value of collateral	Gross advances	Market value of collateral
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Advances to customers				
Personal				
- Mortgages	6,132	5,181	1,390	1,535
- Others	978	464	1,574	131
Corporate				
- Commercial loans	106,982	-	139,467	22,428
- Trade finance	4,556	-	40,609	185
Total	118,648	5,645	183,040	24,279
Loan impairment allowances made in respect of such advances	105,289		163,525	

	The Bank			
	2010		2009	
	Gross advances	Market value of collateral	Gross advances	Market value of collateral
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Advances to customers				
Personal				
- Mortgages	-	-	339	1,200
- Others	849	-	1,450	-
Corporate				
- Commercial loans	16,931	-	29,031	5,995
- Trade finance	4,556	-	40,609	185
Total	22,336	-	71,429	7,380
Loan impairment allowances made in respect of such advances	12,447		58,013	

The loan impairment allowances were made after taking into account the value of collateral in respect of impaired advances.

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross loans and advances (continued)

(c) Impaired advances (continued)

	The Group	
	2010	2009
	HK\$'000	HK\$'000
Current market value of collateral held against the covered portion of advances to customers	5,645	24,279
Covered portion of advances to customers	5,442	16,002
Uncovered portion of advances to customers	113,206	167,038

	The Bank	
	2010	2009
	HK\$'000	HK\$'000
Current market value of collateral held against the covered portion of advances to customers	-	7,380
Covered portion of advances to customers	-	6,519
Uncovered portion of advances to customers	22,336	64,910

Classified or impaired advances to customers are analysed as follows:

	The Group	
	2010	2009
	HK\$'000	HK\$'000
Gross classified or impaired advances to customers	158,892	294,932
Gross classified or impaired advances to customers as a percentage of gross advances to customers	0.14%	0.32%
Individually assessed loan impairment allowances made in respect of such advances	105,289	163,525

	The Bank	
	2010	2009
	HK\$'000	HK\$'000
Gross classified or impaired advances to customers	58,424	140,711
Gross classified or impaired advances to customers as a percentage of gross advances to customers	0.08%	0.22%
Individually assessed loan impairment allowances made in respect of such advances	12,447	58,013

Classified or impaired advances to customers follow the definitions set out in the Banking (Disclosure) Rules and represent advances which are either classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality, or individually assessed to be impaired.

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross loans and advances (continued)

(d) Advances overdue for more than 3 months

The gross amount of advances overdue for more than 3 months is analysed as follows:

	The Group			
	2010		2009	
	Amount HK\$'000	% of gross advances to customers	Amount HK\$'000	% of gross advances to customers
Gross advances to customers which have been overdue for:				
- six months or less but over three months	2,430	0.00%	19,697	0.02%
- one year or less but over six months	3,431	0.00%	27,017	0.03%
- over one year	<u>110,660</u>	<u>0.10%</u>	<u>136,031</u>	<u>0.15%</u>
Advances overdue for over three months	<u>116,521</u>	<u>0.10%</u>	<u>182,745</u>	<u>0.20%</u>
Individually assessed loan impairment allowances made in respect of such advances	<u>102,151</u>		<u>152,286</u>	

	The Bank			
	2010		2009	
	Amount HK\$'000	% of gross advances to customers	Amount HK\$'000	% of gross advances to customers
Gross advances to customers which have been overdue for:				
- six months or less but over three months	2,430	0.00%	13,807	0.02%
- one year or less but over six months	3,431	0.00%	10,967	0.02%
- over one year	<u>11,555</u>	<u>0.02%</u>	<u>38,090</u>	<u>0.06%</u>
Advances overdue for over three months	<u>17,416</u>	<u>0.02%</u>	<u>62,864</u>	<u>0.10%</u>
Individually assessed loan impairment allowances made in respect of such advances	<u>9,309</u>		<u>46,774</u>	

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross loans and advances (continued)

(d) Advances overdue for more than 3 months (continued)

	The Group	
	2010	2009
	HK\$'000	HK\$'000
Current market value of collateral held against the covered portion of advances to customers	15,324	27,185
Covered portion of advances to customers	8,899	23,249
Uncovered portion of advances to customers	107,622	159,496

	The Bank	
	2010	2009
	HK\$'000	HK\$'000
Current market value of collateral held against the covered portion of advances to customers	2,728	11,903
Covered portion of advances to customers	1,179	8,804
Uncovered portion of advances to customers	16,237	54,060

Collateral held against overdue or impaired loans is principally represented by charges over business assets such as commercial and residential premises for corporate loans and mortgages over residential properties for personal loans.

As at 31 December 2010 and 2009, there were no advances to banks and other financial institutions overdue for more than three months.

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross loans and advances (continued)

(e) Rescheduled advances

	The Group			
	2010		2009	
	Amount HK\$'000	% of gross advances to customers	Amount HK\$'000	% of gross advances to customers
Rescheduled advances to customers net of amounts included in advances overdue for more than 3 months	27,196	0.02%	53,459	0.06%

	The Bank			
	2010		2009	
	Amount HK\$'000	% of gross advances to customers	Amount HK\$'000	% of gross advances to customers
Rescheduled advances to customers net of amounts included in advances overdue for more than 3 months	27,196	0.04%	53,459	0.08%

As at 31 December 2010, the total rescheduled advances to customers of the Group and the Bank that were rescheduled during the year both amounted to HK\$563,000 (2009: HK\$15,926,000).

As at 31 December 2010 and 2009, there were no rescheduled advances to banks and other financial institutions for the Group and the Bank.

Rescheduled advances are those advances that have been restructured or renegotiated because of deterioration in the financial position of the borrower or of the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms, either of interest or of repayment period, are non-commercial. Rescheduled advances, which have been overdue for more than three months under the revised repayment terms, are included in overdue advances.

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross loans and advances (continued)

(f) Concentration of advances to customers

(i) Sectoral analysis of gross advances to customers

The information concerning gross advances to customers has been analysed into loans used inside or outside Hong Kong by industry sectors of the borrowers as follows:

	The Group					
	2010					
Gross advances	% Covered by collateral or other security	Classified or impaired	Overdue*	Individually assessed impairment allowances	Collectively assessed impairment allowances	
HK\$'000		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loans for use in Hong Kong						
Industrial, commercial and financial						
- Property development	2,554,599	49.09%	-	-	-	7,688
- Property investment	10,635,477	79.08%	71	50,932	72	98,689
- Financial concerns	2,919,759	34.77%	-	-	-	7,749
- Stockbrokers	797	100.00%	-	-	-	6
- Wholesale and retail trade	12,182,922	57.32%	4,941	27,533	958	67,459
- Manufacturing	3,169,141	33.92%	10,685	23,553	5,188	29,303
- Transport and transport equipment	2,680,577	4.43%	-	1,197	-	10,027
- Recreational activities	56,587	-	-	-	-	147
- Information technology	1,121,494	1.13%	2,725	2,725	768	2,986
- Others	5,193,194	50.42%	1,562	31,272	1,471	28,681
Individuals						
- Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,033,976	99.97%	6,067	41,604	-	625
- Loans for purchase of other residential properties	12,515,955	99.97%	4,986	103,624	-	4,120
- Others	1,721,724	91.65%	2,577	8,452	859	1,140
Total loans for use in Hong Kong	55,786,202	65.63%	33,614	290,892	9,316	258,620
Trade finance	5,125,758	28.41%	4,556	7,199	3,131	34,729
Loans for use outside Hong Kong	55,288,684	39.85%	120,722	116,525	92,842	234,961
Gross advances to customers	116,200,644	51.72%	158,892	414,616	105,289	528,310

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross loans and advances (continued)

(f) Concentration of advances to customers (continued)

(i) Sectoral analysis of gross advances to customers (continued)

	The Group					
	2009					
Gross advances	% Covered by collateral or other security	Classified or impaired	Overdue*	Individually assessed impairment allowances	Collectively assessed impairment allowances	
HK\$'000		HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Loans for use in Hong Kong						
Industrial, commercial and financial						
- Property development	2,576,520	55.54%	-	-	-	8,583
- Property investment	10,324,041	79.69%	67	42,118	67	91,493
- Financial concerns	1,587,578	16.53%	-	-	-	5,604
- Wholesale and retail trade	2,804,368	56.37%	13,749	22,279	3,020	29,576
- Manufacturing	2,955,518	42.30%	26,750	30,788	11,471	29,094
- Transport and transport equipment	3,435,828	3.53%	-	3,340	-	11,469
- Recreational activities	35,425	-	-	-	-	93
- Information technology	2,067,417	1.30%	-	1,087	-	6,206
- Others	5,518,913	38.96%	3,066	16,721	2,300	25,708
Individuals						
- Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,194,066	99.97%	7,305	72,792	-	834
- Loans for purchase of other residential properties	11,727,037	99.99%	12,376	145,720	-	3,417
- Others	1,417,851	94.08%	4,261	13,762	1,458	3,281
Total loans for use in Hong Kong	45,644,562	64.20%	67,574	348,607	18,316	215,358
Trade finance	2,306,330	38.77%	57,891	42,138	39,698	19,784
Loans for use outside Hong Kong	45,548,550	35.32%	169,467	164,985	105,511	204,729
Gross advances to customers	93,499,442	49.50%	294,932	555,730	163,525	439,871

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross loans and advances (continued)

(f) Concentration of advances to customers (continued)

(i) Sectoral analysis of gross advances to customers (continued)

	The Bank				
	2010				
Gross advances	% Covered by collateral or other security	Classified or impaired	Overdue*	Individually assessed impairment allowances	Collectively assessed impairment allowances
HK\$'000		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loans for use in Hong Kong					
Industrial, commercial and financial					
- Property development	2,554,599	49.09%	-	-	7,688
- Property investment	10,635,477	79.08%	71	50,932	98,689
- Financial concerns	2,919,759	34.77%	-	-	7,749
- Stockbrokers	797	100.00%	-	-	6
- Wholesale and retail trade	12,065,432	57.88%	4,941	27,533	66,896
- Manufacturing	2,988,348	35.97%	10,685	23,553	28,433
- Transport and transport equipment	2,680,577	4.43%	-	1,197	10,027
- Recreational activities	56,587	-	-	-	147
- Information technology	1,121,494	1.13%	2,725	2,725	2,986
- Others	4,957,511	48.06%	1,562	31,272	27,554
Individuals					
- Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,033,976	99.97%	6,067	41,604	625
- Loans for purchase of other residential properties	12,515,955	99.97%	4,986	103,624	4,120
- Others	1,721,724	91.65%	2,577	8,452	1,140
Total loans for use in Hong Kong	55,252,236	65.84%	33,614	290,892	9,316
Trade finance	3,811,650	33.80%	4,556	7,199	3,131
Loans for use outside Hong Kong	18,311,017	27.67%	20,254	196	58,335
Gross advances to customers	77,374,903	55.23%	58,424	298,287	342,818

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross loans and advances (continued)

(f) Concentration of advances to customers (continued)

(i) Sectoral analysis of gross advances to customers (continued)

	The Bank					Collectively assessed impairment allowances HK\$'000
	2009					
Gross advances HK\$'000	% Covered by collateral or other security	Classified or impaired HK\$'000	Overdue* HK\$'000	Individually assessed impairment allowances HK\$'000		
Loans for use in Hong Kong						
Industrial, commercial and financial						
- Property development	2,576,520	55.54%	-	-	-	8,582
- Property investment	10,324,041	79.69%	67	42,118	67	91,493
- Financial concerns	1,587,578	16.53%	-	-	-	5,604
- Wholesale and retail trade	2,687,321	54.47%	13,749	22,279	3,020	28,979
- Manufacturing	2,955,518	42.30%	26,750	30,788	11,471	29,094
- Transport and transport equipment	3,435,828	3.53%	-	3,340	-	11,469
- Recreational activities	35,425	-	-	-	-	93
- Information technology	1,886,906	1.43%	-	1,087	-	5,286
- Others	5,518,913	38.96%	3,066	16,721	2,300	25,708
Individuals						
- Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,194,066	99.97%	7,305	72,792	-	834
- Loans for purchase of other residential properties	11,720,268	99.99%	12,376	145,720	-	3,382
- Others	1,158,561	98.08%	4,261	13,762	1,458	1,959
Total loans for use in Hong Kong	45,080,945	64.29%	67,574	348,607	18,316	212,483
Trade finance	2,015,151	41.97%	40,610	42,138	39,697	18,300
Loans for use outside Hong Kong	17,758,118	14.97%	32,527	3,871	-	63,586
Gross advances to customers	64,854,214	50.09%	140,711	394,616	58,013	294,369

*Advances with a specific repayment date are classified as overdue when the principal or interest is past due and remains unpaid.

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross loans and advances (continued)

(f) Concentration of advances to customers (continued)

(i) Sectoral analysis of gross advances to customers (continued)

The amount of new impairment allowances charged to the income statement, and classified or impaired loans written off during the year are shown below:

	The Group			
	2010		2009	
	New impairment allowances	Classified or impaired loans written off	New impairment allowances	Classified or impaired loans written off
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loans for use in Hong Kong				
Industrial, commercial and financial				
- Property development	-	-	-	-
- Property investment	1,086	-	9,517	-
- Financial concerns	1,673	-	-	-
- Stockbrokers	5	-	-	-
- Wholesale and retail trade	34,360	2,611	13,935	497
- Manufacturing	1,317	338	7,775	75,971
- Transport and transport equipment	-	-	-	-
- Recreational activities	45	-	6	-
- Information technology	776	-	3,237	-
- Others	2,742	750	1,387	7
Individuals				
- Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	-	-	20	-
- Loans for purchase of other residential properties	486	-	382	-
- Others	-	-	2,388	83
Total loans for use in Hong Kong	42,490	3,699	38,647	76,558
Trade finance	11,317	37,835	11,807	52,528
Loans for use outside Hong Kong	32,952	73	23,981	1,299
Gross advances to customers	86,759	41,607	74,435	130,385

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross loans and advances (continued)

(f) Concentration of advances to customers (continued)

(i) Sectoral analysis of gross advances to customers (continued)

	The Bank			
	2010		2009	
	New impairment allowances HK\$'000	Classified or impaired loans written off HK\$'000	New impairment allowances HK\$'000	Classified or impaired loans written off HK\$'000
Loans for use in Hong Kong				
Industrial, commercial and financial				
- Property development	-	-	-	-
- Property investment	1,086	-	5,199	-
- Financial concerns	1,673	-	-	-
- Stockbrokers	5	-	-	-
- Wholesale and retail trade	34,259	2,611	12,106	497
- Manufacturing	1,159	338	6,433	75,971
- Transport and transport equipment	-	-	-	-
- Recreational activities	45	-	2	-
- Information technology	776	-	2,278	-
- Others	2,537	750	1,383	7
Individuals				
- Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	-	-	20	-
- Loans for purchase of other residential properties	486	-	381	-
- Others	-	-	1,274	83
Total loans for use in Hong Kong	42,026	3,699	29,076	76,558
Trade finance	10,173	37,835	10,316	52,527
Loans for use outside Hong Kong	-	-	23,492	1,281
Gross advances to customers	52,199	41,534	62,884	130,366

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross loans and advances (continued)

(f) Concentration of advances to customers (continued)

(ii) Geographical analysis of gross advances to customers and overdue advances

The following geographical analysis of gross advances to customers and overdue advances is based on the location of the counterparties, after taking into account the transfer of risk in respect of such advances where appropriate.

Gross advances to customers

	The Group	
	2010	2009
	HK\$'000	HK\$'000
Hong Kong	58,936,068	53,108,000
Mainland China	49,414,108	35,399,104
Others	7,850,468	4,992,338
	<u>116,200,644</u>	<u>93,499,442</u>

	The Bank	
	2010	2009
	HK\$'000	HK\$'000
Hong Kong	54,917,861	50,459,746
Mainland China	16,469,710	10,349,963
Others	5,987,332	4,044,505
	<u>77,374,903</u>	<u>64,854,214</u>

Collectively assessed loan impairment allowances in respect of the gross advances to customers

	The Group	
	2010	2009
	HK\$'000	HK\$'000
Hong Kong	267,622	245,354
Mainland China	229,643	170,635
Others	31,045	23,882
	<u>528,310</u>	<u>439,871</u>

	The Bank	
	2010	2009
	HK\$'000	HK\$'000
Hong Kong	248,383	231,903
Mainland China	72,314	43,399
Others	22,121	19,067
	<u>342,818</u>	<u>294,369</u>

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross loans and advances (continued)

(f) Concentration of advances to customers (continued)

(ii) Geographical analysis of gross advances to customers and overdue advances (continued)

Overdue advances

	The Group	
	2010	2009
	HK\$'000	HK\$'000
Hong Kong	334,199	393,634
Mainland China	73,799	145,669
Others	6,618	16,427
	414,616	555,730

	The Bank	
	2010	2009
	HK\$'000	HK\$'000
Hong Kong	275,058	342,191
Mainland China	23,096	50,285
Others	133	2,140
	298,287	394,616

Individually assessed loan impairment allowances in respect of the overdue advances

	The Group	
	2010	2009
	HK\$'000	HK\$'000
Hong Kong	44,332	11,083
Mainland China	59,137	143,921
	103,469	155,004

	The Bank	
	2010	2009
	HK\$'000	HK\$'000
Hong Kong	4,091	11,083
Mainland China	6,536	38,410
	10,627	49,493

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross loans and advances (continued)

(f) Concentration of advances to customers (continued)

(ii) Geographical analysis of gross advances to customers and overdue advances (continued)

Overdue advances (continued)

Collectively assessed loan impairment allowances in respect of the overdue advances

	The Group	
	2010	2009
	HK\$'000	HK\$'000
Hong Kong	3,995	3,924
Mainland China	653	340
Others	4	30
	4,652	4,294

	The Bank	
	2010	2009
	HK\$'000	HK\$'000
Hong Kong	3,955	3,844
Mainland China	619	192
Others	-	7
	4,574	4,043

Classified or impaired advances

	The Group	
	2010	2009
	HK\$'000	HK\$'000
Hong Kong	78,234	106,736
Mainland China	60,284	156,113
Others	20,374	32,083
	158,892	294,932

	The Bank	
	2010	2009
	HK\$'000	HK\$'000
Hong Kong	28,242	60,441
Mainland China	9,928	48,187
Others	20,254	32,083
	58,424	140,711

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross loans and advances (continued)

(f) Concentration of advances to customers (continued)

(ii) Geographical analysis of gross advances to customers and overdue advances (continued)

Classified or impaired advances (continued)

Individually assessed loan impairment allowances in respect of the classified or impaired advances

	The Group	
	2010	2009
	HK\$'000	HK\$'000
Hong Kong	46,152	18,075
Mainland China	59,137	145,450
	105,289	163,525

	The Bank	
	2010	2009
	HK\$'000	HK\$'000
Hong Kong	5,911	18,075
Mainland China	6,536	39,938
	12,447	58,013

Collectively assessed loan impairment allowances in respect of the classified or impaired advances

	The Group	
	2010	2009
	HK\$'000	HK\$'000
Hong Kong	25	269
Mainland China	1	461
Others	51	84
	77	814

	The Bank	
	2010	2009
	HK\$'000	HK\$'000
Hong Kong	25	105
Others	51	84
	76	189

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(C) Repossessed assets

No assets by taking possession of collateral held as security was obtained by the Group and the Bank during the year (2009: Nil).

The estimated market value of repossessed assets held by the Group and the Bank as at 31 December 2010 amounted to HK\$2,357,000 (2009: HK\$1,557,000) and Nil (2009: Nil) respectively. They comprise properties in respect of which the Group and the Bank have acquired access or control (e.g. through court proceedings or voluntary actions by the borrowers concerned) for release in full or in part of the obligations of the borrowers.

When the repossessed assets are not readily convertible into cash, the Group may consider the following alternatives:

- adjusting the selling prices
- selling the loans together with the assets
- arranging loan restructuring

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(D) Balances and placements with banks and other financial institutions

The following tables present an analysis of balances and placements with banks and other financial institutions that are neither overdue nor impaired as at 31 December by rating agency designation, based on Moody's ratings or their equivalent.

	The Group			
	2010			
	Aaa to A3 HK\$'000	Lower than A3 HK\$'000	Unrated HK\$'000	Total HK\$'000
Central banks	6,378,971	-	-	6,378,971
Banks and other financial institutions	14,817,856	3,347,416	7,269,516	25,434,788
	<u>21,196,827</u>	<u>3,347,416</u>	<u>7,269,516</u>	<u>31,813,759</u>

	The Group			
	2009			
	Aaa to A3 HK\$'000	Lower than A3 HK\$'000	Unrated HK\$'000	Total HK\$'000
Central banks	4,088,361	-	-	4,088,361
Banks and other financial institutions	18,008,725	40,430	4,485,701	22,534,856
	<u>22,097,086</u>	<u>40,430</u>	<u>4,485,701</u>	<u>26,623,217</u>

	The Bank			
	2010			
	Aaa to A3 HK\$'000	Lower than A3 HK\$'000	Unrated HK\$'000	Total HK\$'000
Central banks	946,459	-	-	946,459
Banks and other financial institutions	11,615,783	2,086,454	7,197,310	20,899,547
	<u>12,562,242</u>	<u>2,086,454</u>	<u>7,197,310</u>	<u>21,846,006</u>

	The Bank			
	2009			
	Aaa to A3 HK\$'000	Lower than A3 HK\$'000	Unrated HK\$'000	Total HK\$'000
Central banks	1,876,891	-	-	1,876,891
Banks and other financial institutions	15,621,324	27,291	6,900,555	22,549,170
	<u>17,498,215</u>	<u>27,291</u>	<u>6,900,555</u>	<u>24,426,061</u>

As at 31 December 2010 and 2009, there were no overdue or impaired balances and placements with banks and other financial institutions for the Group and the Bank.

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(E) Debt securities

The tables below represent an analysis of the carrying value of debt securities by credit rating and credit risk characteristic, based on Moody's ratings or their equivalent to the respective issues of the debt securities.

	The Group							
	2010							
					Unrated			
	Aaa	Aa1 to Aa3	A1 to A3	Lower than A3	Hong Kong government and government bodies	Other governments and government agencies	Other	Total
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Investment in securities								
MBS/ABS	2,881	183,813	-	-	-	-	-	186,694
Other debt securities	2,858,814	6,914,704	3,306,742	759,580	5,413,400	1,067,307	6,638,281	26,958,828
Subtotal	2,861,695	7,098,517	3,306,742	759,580	5,413,400	1,067,307	6,638,281	27,145,522
Financial assets at fair value through profit or loss								
MBS/ABS	19,312	-	-	-	-	-	-	19,312
Other debt securities	255	74,484	789,759	427,258	941,715	-	-	2,233,471
Subtotal	19,567	74,484	789,759	427,258	941,715	-	-	2,252,783
Total	2,881,262	7,173,001	4,096,501	1,186,838	6,355,115	1,067,307	6,638,281	29,398,305

	The Group							
	2009							
					Unrated			
	Aaa	Aa1 to Aa3	A1 to A3	Lower than A3	Hong Kong government and government bodies	Other governments and government agencies	Other	Total
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Investment in securities								
MBS/ABS	5,399	210,299	-	-	-	-	-	215,698
Other debt securities	3,403,358	5,462,948	2,812,910	1,804,910	3,810,396	832,696	8,242,058	26,369,276
Subtotal	3,408,757	5,673,247	2,812,910	1,804,910	3,810,396	832,696	8,242,058	26,584,974
Financial assets at fair value through profit or loss								
MBS/ABS	24,902	-	-	-	-	-	-	24,902
Other debt securities	-	176,240	401,780	970,988	849,811	-	858	2,399,677
Subtotal	24,902	176,240	401,780	970,988	849,811	-	858	2,424,579
Total	3,433,659	5,849,487	3,214,690	2,775,898	4,660,207	832,696	8,242,916	29,009,553

The total amount of unrated issues of the Group amounted to HK\$14,060,703,000 (2009: HK\$13,735,819,000) as at 31 December 2010, of which only HK\$987,628,000 (2009: HK\$873,104,000) were without issuer ratings. For details, please refer to page 72.

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(E) Debt securities (continued)

	The Bank							
	2010							
					Unrated			
	Aaa	Aa1 to Aa3	A1 to A3	Lower than A3	Hong Kong government and government bodies	Other governments and government agencies	Other	Total
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Investment in securities								
MBS/ABS	2,881	183,813	-	-	-	-	-	186,694
Other debt securities	2,858,814	6,560,490	3,306,742	759,580	5,413,400	-	6,638,281	25,537,307
Subtotal	2,861,695	6,744,303	3,306,742	759,580	5,413,400	-	6,638,281	25,724,001
Financial assets at fair value through profit or loss								
MBS/ABS	19,312	-	-	-	-	-	-	19,312
Other debt securities	255	74,484	789,759	427,258	941,715	-	-	2,233,471
Subtotal	19,567	74,484	789,759	427,258	941,715	-	-	2,252,783
Total	2,881,262	6,818,787	4,096,501	1,186,838	6,355,115	-	6,638,281	27,976,784

	The Bank							
	2009							
					Unrated			
	Aaa	Aa1 to Aa3	A1 to A3	Lower than A3	Hong Kong government and government bodies	Other governments and government agencies	Other	Total
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Investment in securities								
MBS/ABS	5,399	210,299	-	-	-	-	-	215,698
Other debt securities	3,403,358	5,462,948	2,812,910	1,804,910	3,810,396	608,037	8,242,058	26,144,617
Subtotal	3,408,757	5,673,247	2,812,910	1,804,910	3,810,396	608,037	8,242,058	26,360,315
Financial assets at fair value through profit or loss								
MBS/ABS	24,902	-	-	-	-	-	-	24,902
Other debt securities	-	176,240	401,780	970,988	849,811	-	858	2,399,677
Subtotal	24,902	176,240	401,780	970,988	849,811	-	858	2,424,579
Total	3,433,659	5,849,487	3,214,690	2,775,898	4,660,207	608,037	8,242,916	28,784,894

The total amount of unrated issues of the Bank amounted to HK\$12,993,396,000 (2009: HK\$13,511,160,000) as at 31 December 2010, of which only HK\$987,628,000 (2009: HK\$648,445,000) were without issuer ratings. For details, please refer to page 72.

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(E) Debt securities (continued)

For the above debt securities with no issue rating, their issuer ratings are analysed as follows:

The Group						
2010						
	Aaa	Aa1 to Aa3	A1 to A3	Lower than A3	Unrated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Available-for-sale securities	19,903	8,090,718	2,623,309	54,487	987,360	11,775,777
Held-to-maturity securities	-	288,315	-	-	250	288,565
Loans and receivables	-	-	1,054,628	-	18	1,054,646
Financial assets at fair value through profit or loss	-	941,715	-	-	-	941,715
Total	19,903	9,320,748	3,677,937	54,487	987,628	14,060,703

The Group						
2009						
	Aaa	Aa1 to Aa3	A1 to A3	Lower than A3	Unrated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Available-for-sale securities	17,651	6,517,528	1,582,700	-	672,720	8,790,599
Held-to-maturity securities	-	2,850,869	504,198	155,276	200,366	3,710,709
Loans and receivables	-	168,941	214,883	-	18	383,842
Financial assets at fair value through profit or loss	-	850,669	-	-	-	850,669
Total	17,651	10,388,007	2,301,781	155,276	873,104	13,735,819

The Bank						
2010						
	Aaa	Aa1 to Aa3	A1 to A3	Lower than A3	Unrated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Available-for-sale securities	19,903	7,023,411	2,623,309	54,487	987,360	10,708,470
Held-to-maturity securities	-	288,315	-	-	250	288,565
Loans and receivables	-	-	1,054,628	-	18	1,054,646
Financial assets at fair value through profit or loss	-	941,715	-	-	-	941,715
Total	19,903	8,253,441	3,677,937	54,487	987,628	12,993,396

The Bank						
2009						
	Aaa	Aa1 to Aa3	A1 to A3	Lower than A3	Unrated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Available-for-sale securities	17,651	6,517,528	1,582,700	-	448,061	8,565,940
Held-to-maturity securities	-	2,850,869	504,198	155,276	200,366	3,710,709
Loans and receivables	-	168,941	214,883	-	18	383,842
Financial assets at fair value through profit or loss	-	850,669	-	-	-	850,669
Total	17,651	10,388,007	2,301,781	155,276	648,445	13,511,160

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(E) Debt securities (continued)

The following tables present an analysis of debt securities neither overdue nor impaired as at 31 December by rating agency designation, based on Moody's ratings or their equivalent to the respective issues of the debt securities.

	The Group					Total
	2010					
	Aaa	Aa1 to Aa3	A1 to A3	Lower than A3	Unrated	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Available-for-sale securities	2,700,318	6,137,409	2,725,204	369,593	11,775,777	23,708,301
Held-to-maturity securities	161,377	961,108	581,538	350,868	288,565	2,343,456
Loans and receivables	-	-	-	-	1,054,646	1,054,646
Financial assets at fair value through profit or loss	19,567	74,484	789,759	427,258	941,715	2,252,783
Total	2,881,262	7,173,001	4,096,501	1,147,719	14,060,703	29,359,186

	The Group					Total
	2009					
	Aaa	Aa1 to Aa3	A1 to A3	Lower than A3	Unrated	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Available-for-sale securities	2,649,466	2,122,416	1,794,318	1,033,053	8,790,599	16,389,852
Held-to-maturity securities	759,291	3,550,831	1,018,592	771,857	3,710,709	9,811,280
Loans and receivables	-	-	-	-	383,842	383,842
Financial assets at fair value through profit or loss	24,902	176,240	401,780	970,988	850,669	2,424,579
Total	3,433,659	5,849,487	3,214,690	2,775,898	13,735,819	29,009,553

	The Bank					Total
	2010					
	Aaa	Aa1 to Aa3	A1 to A3	Lower than A3	Unrated	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Available-for-sale securities	2,700,318	5,783,195	2,725,204	369,593	10,708,470	22,286,780
Held-to-maturity securities	161,377	961,108	581,538	350,868	288,565	2,343,456
Loans and receivables	-	-	-	-	1,054,646	1,054,646
Financial assets at fair value through profit or loss	19,567	74,484	789,759	427,258	941,715	2,252,783
Total	2,881,262	6,818,787	4,096,501	1,147,719	12,993,396	27,937,665

	The Bank					Total
	2009					
	Aaa	Aa1 to Aa3	A1 to A3	Lower than A3	Unrated	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Available-for-sale securities	2,649,466	2,122,416	1,794,318	1,033,053	8,565,940	16,165,193
Held-to-maturity securities	759,291	3,550,831	1,018,592	771,857	3,710,709	9,811,280
Loans and receivables	-	-	-	-	383,842	383,842
Financial assets at fair value through profit or loss	24,902	176,240	401,780	970,988	850,669	2,424,579
Total	3,433,659	5,849,487	3,214,690	2,775,898	13,511,160	28,784,894

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(E) Debt securities (continued)

The impaired debt securities by credit rating are analysed as follows:

	The Group and the Bank			
	2010		2009	
	<u>Carrying Value</u>	<u>Of which accumulated impairment allowances</u>	<u>Carrying Value</u>	<u>Of which accumulated impairment allowances</u>
	<u>Lower than A3 HK\$'000</u>	<u>HK\$'000</u>	<u>Lower than A3 HK\$'000</u>	<u>HK\$'000</u>
Held-to-maturity securities	39,119	(3,303)	-	-

As at 31 December 2010 and 2009, there were no US subprime MBS/ABS securities for the Group and the Bank.

As at 31 December 2010 and 2009, there were no overdue debt securities for the Group and the Bank.

MBS/ABS

The table below represents an analysis of the Group's and the Bank's exposure to MBS/ABS by geographical location.

	The Group and the Bank	
	<u>2010</u>	<u>2009</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Non-US MBS/ABS		
Residential mortgage-backed	186,694	215,698
Commercial mortgage-backed	19,312	24,902
Total MBS/ABS	206,006	240,600

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.2 Market Risk

Market risk is the risk of loss that results from the adverse movements in the value of positions held by the Group. The Group adopts Standardised Method (“STM”) for calculation of trading book market risk capital charge. The following positions held by the Group are covered by STM:

- debt securities held for trading purposes; and
- exchange rate-related contracts.

The Group’s market risk arises from trading positions taken from customer-related business and proprietary trading in the above-mentioned financial instruments, which are subject to daily marked-to-market valuation. The risk includes potential losses arising from changes in foreign exchange and interest rates.

The Group adopts robust market risk appetite to achieve balance between risk and return. The Group’s objective in managing market risk is to secure healthy growth of treasury business, by effective management of potential market risk in the Group’s treasury business, according to the Group’s overall risk appetite and strategy of treasury business and based on well established risk management regime and measures.

According to corporate governance in risk management, the Board of Directors and RMC, the Management and functional units of market risk perform their duties and responsibilities to manage the Group’s market risk. The risk management units are responsible for monitoring the market risk profile and compliance of management policies and limits of the Group to ensure that overall and individual market risks are within the Group’s acceptable level. Independent units are assigned to monitor the risk exposure against risk limits on a daily basis, together with profit and loss reports submitted to the management on a regular basis, while exceptions to limits should be reported at once when they occur.

The Group sets up market risk indicators and limits to identify, measure, monitor and control market risk. Risk indicators and limits established by the Group include but are not limited to VAR, Loss, Open Position, and Stress Testing, etc. To meet management requirements, major risk indicators and limits are classified into three levels, and approved by RMC or the Asset and Liability Management Committee respectively. Treasury business units are required to conduct their business within approved market risk indicators and limits.

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.2 Market Risk (continued)

(a) Currency risk

To ensure the currency risk exposure of the Group is kept to an acceptable level, risk limits (e.g. Position and loss limit) are used to serve as a monitoring tool. Moreover, the Group seeks to minimize the gap between asset and liability in the same currency. Foreign exchange contracts (e.g. FX swap) are usually used to manage FX risk associated with foreign currency-denominated assets and liabilities.

The tables below summarise the Group's and the Bank's exposure to foreign currency exchange rate risk as at 31 December. Included in the tables are the assets and liabilities at carrying amounts in HK\$ equivalent, categorised by the original currency.

	The Group							Total
	2010							
	Renminbi	US Dollars	HK Dollars	Euro	Japanese Yen	Pound Sterling	Others	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Assets								
Cash and balances with banks and other financial institutions	14,379,535	2,554,286	4,541,334	2,525,153	113,190	256,019	86,464	24,455,981
Placements with banks and other financial institutions maturing between one and twelve months	6,924,567	612,399	163,824	41,497	-	-	11,767	7,754,054
Financial assets at fair value through profit or loss	-	951,778	1,225,979	-	-	-	75,026	2,252,783
Derivative financial instruments	21,490	55,460	1,051,709	-	-	-	-	1,128,659
Advances and other accounts	22,225,207	44,366,864	56,169,140	229,642	95,527	-	1,063,796	124,150,176
Investment in securities								
- Available-for-sale securities	2,209,808	7,481,353	10,160,230	827,346	-	572,717	2,491,762	23,743,216
- Held-to-maturity securities	-	1,258,309	782,804	-	-	-	341,462	2,382,575
- Loans and receivables	-	8	1,054,638	-	-	-	-	1,054,646
Investment properties	38,323	-	579,940	-	-	-	-	618,263
Properties, plant and equipment	337,370	202	3,101,808	-	-	-	-	3,439,380
Other assets (including deferred tax assets)	121,809	32,902	1,029,930	3	-	-	10,812	1,195,456
Total assets	46,258,109	57,313,561	79,861,336	3,623,641	208,717	828,736	4,081,089	192,175,189
Liabilities								
Deposits and balances of banks and other financial institutions	1,029,039	14,654,047	2,549,281	19,847	270,394	9,104	242,977	18,774,689
Financial liabilities at fair value through profit or loss	-	-	1,185,375	-	-	-	-	1,185,375
Derivative financial instruments	15,497	185,196	715,518	-	-	-	-	916,211
Deposits from customers	37,208,452	23,617,510	69,015,141	5,847,770	188,356	1,155,285	4,304,391	141,336,905
Other accounts and provisions (including current and deferred tax liabilities)	4,275,964	543,893	2,527,332	42,769	34,265	5,371	42,417	7,472,011
Total liabilities	42,528,952	39,000,646	75,992,647	5,910,386	493,015	1,169,760	4,589,785	169,685,191
Net on-balance sheet position	3,729,157	18,312,915	3,868,689	(2,286,745)	(284,298)	(341,024)	(508,696)	22,489,998
Off-balance sheet net notional position*	(121,978)	(17,885,636)	14,969,644	2,286,885	280,381	332,402	511,738	373,436
Contingent liabilities and commitments	7,214,879	24,187,953	18,581,172	724,921	737,367	4,166	8,825	51,459,283

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.2 Market Risk (continued)

(a) Currency risk (continued)

	The Group							Total HK\$'000
	2009							
	Renminbi HK\$'000	US Dollars HK\$'000	HK Dollars HK\$'000	Euro HK\$'000	Japanese Yen HK\$'000	Pound Sterling HK\$'000	Others HK\$'000	
Assets								
Cash and balances with banks and other financial institutions	4,389,798	4,339,343	3,711,024	1,059,259	148,899	321,539	629,707	14,599,569
Placements with banks and other financial institutions maturing between one and twelve months	364,320	4,628,912	4,419,967	3,030,033	-	-	9,776	12,453,008
Financial assets at fair value through profit or loss	57,646	1,110,592	1,193,868	-	-	-	62,473	2,424,579
Derivative financial instruments	-	2,406	574,960	-	-	-	-	577,366
Advances and other accounts	14,431,556	23,755,684	54,612,384	698,367	41,090	-	711,264	94,250,345
Investment in securities								
- Available-for-sale securities	952,060	5,966,808	7,371,044	-	-	306,255	1,829,530	16,425,697
- Held-to-maturity securities	-	2,421,489	2,510,049	1,936,728	470,543	62,602	2,409,869	9,811,280
- Loans and receivables	-	8	214,893	-	-	-	168,941	383,842
Investment properties	38,698	-	679,287	-	-	-	-	717,985
Properties, plant and equipment	303,874	118	2,669,256	-	-	-	-	2,973,248
Other assets (including deferred tax assets)	101,409	2,072	1,347,055	-	-	13	679	1,451,228
Total assets	20,639,361	42,227,432	79,303,787	6,724,387	660,532	690,409	5,822,239	156,068,147
Liabilities								
Deposits and balances of banks and other financial institutions	4,511,349	15,094,442	171,410	16,462	25,145	11,793	133,892	19,964,493
Financial liabilities at fair value through profit or loss	-	-	815,306	-	-	-	-	815,306
Derivative financial instruments	-	734	486,299	-	-	-	-	487,033
Deposits from customers	11,748,276	20,130,260	65,273,063	6,706,625	155,097	947,221	5,078,859	110,039,401
Other accounts and provisions (including current and deferred tax liabilities)	1,094,950	466,742	2,031,186	35,195	24,614	4,099	707,785	4,364,571
Total liabilities	17,354,575	35,692,178	68,777,264	6,758,282	204,856	963,113	5,920,536	135,670,804
Net on-balance sheet position	3,284,786	6,535,254	10,526,523	(33,895)	455,676	(272,704)	(98,297)	20,397,343
Off-balance sheet net notional position*	3,625	(4,025,853)	4,498,429	9,664	(479,062)	191,360	70,525	268,688
Contingent liabilities and commitments	3,294,944	10,607,687	17,031,585	397,535	119,151	2,691	257,336	31,710,929

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.2 Market Risk (continued)

(a) Currency risk (continued)

	The Bank							Total
	2010							
	Renminbi	US Dollars	HK Dollars	Euro	Japanese Yen	Pound Sterling	Others	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Assets								
Cash and balances with banks and other financial institutions	9,066,463	2,633,926	5,858,022	2,363,329	105,374	234,971	76,386	20,338,471
Placements with banks and other financial institutions maturing between one and twelve months	-	1,821,083	13,230	-	-	-	-	1,834,313
Financial assets at fair value through profit or loss	-	951,778	1,225,979	-	-	-	75,026	2,252,783
Derivative financial instruments	-	53,250	1,041,988	-	-	-	-	1,095,238
Advances and other accounts	644,461	30,178,060	51,754,334	214,050	57,945	-	1,063,796	83,912,646
Investment in securities								
- Available-for-sale securities	788,287	7,481,353	10,160,230	827,346	-	572,717	2,491,762	22,321,695
- Held-to-maturity securities	-	1,258,309	782,804	-	-	-	341,462	2,382,575
- Loans and receivables	-	8	1,054,638	-	-	-	-	1,054,646
Investment in subsidiaries	81,653	-	5,204,977	-	-	-	-	5,286,630
Investment properties	-	-	579,940	-	-	-	-	579,940
Properties, plant and equipment	-	202	3,101,808	-	-	-	-	3,102,010
Other assets (including deferred tax assets)	1,723	23,511	1,110,658	-	-	-	10,812	1,146,704
Total assets	10,582,587	44,401,480	81,888,608	3,404,725	163,319	807,688	4,059,244	145,307,651
Liabilities								
Deposits and balances of banks and other financial institutions	1,099	5,730,902	2,595,976	34,813	260,837	21,184	251,410	8,896,221
Financial liabilities at fair value through profit or loss	-	-	1,185,375	-	-	-	-	1,185,375
Derivative financial instruments	-	183,093	705,251	-	-	-	-	888,344
Deposits from customers	10,451,016	21,593,185	66,594,645	5,636,714	171,847	1,124,437	4,273,464	109,845,308
Other accounts and provisions (including current and deferred tax liabilities)	6,834	351,855	2,483,972	20,304	15,057	3,777	42,417	2,924,216
Total liabilities	10,458,949	27,859,035	73,565,219	5,691,831	447,741	1,149,398	4,567,291	123,739,464
Net on-balance sheet position	123,638	16,542,445	8,323,389	(2,287,106)	(284,422)	(341,710)	(508,047)	21,568,187
Off-balance sheet net notional position*	24,467	(16,262,331)	13,199,894	2,286,885	280,381	332,402	511,738	373,436
Contingent liabilities and commitments	-	12,023,253	18,346,577	513,897	661,528	3,951	7,642	31,556,848

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.2 Market Risk (continued)

(a) Currency risk (continued)

	The Bank							Total
	2009							
	Renminbi	US Dollars	HK Dollars	Euro	Japanese Yen	Pound Sterling	Others	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Assets								
Cash and balances with banks and other financial institutions	934,315	4,009,641	4,062,842	953,395	139,057	313,832	626,504	11,039,586
Placements with banks and other financial institutions maturing between one and twelve months	-	5,643,472	5,070,144	3,030,033	-	-	-	13,743,649
Financial assets at fair value through profit or loss	57,646	1,110,592	1,193,868	-	-	-	62,473	2,424,579
Derivative financial instruments	-	2,406	574,203	-	-	-	-	576,609
Advances and other accounts	-	13,560,864	50,582,547	689,765	19,591	-	637,975	65,490,742
Investment in securities								
- Available-for-sale securities	727,401	5,966,808	7,371,044	-	-	306,255	1,829,530	16,201,038
- Held-to-maturity securities	-	2,421,489	2,510,049	1,936,728	470,543	62,602	2,409,869	9,811,280
- Loans and receivables	-	8	214,893	-	-	-	168,941	383,842
Investment in subsidiaries	81,652	-	5,204,978	-	-	-	-	5,286,630
Investment properties	-	-	679,287	-	-	-	-	679,287
Properties, plant and equipment	-	118	2,669,256	-	-	-	-	2,669,374
Other assets (including deferred tax assets)	620	1,104	1,341,093	-	-	13	679	1,343,509
Total assets	1,801,634	32,716,502	81,474,204	6,609,921	629,191	682,702	5,735,971	129,650,125
Liabilities								
Deposits and balances of banks and other financial institutions	1,059	7,110,341	796,301	30,506	3,911	15,830	66,426	8,024,374
Financial liabilities at fair value through profit or loss	-	-	815,306	-	-	-	-	815,306
Derivative financial instruments	-	734	485,549	-	-	-	-	486,283
Deposits from customers	1,702,770	18,750,935	64,380,852	6,589,665	145,272	935,059	5,062,022	97,566,575
Other accounts and provisions (including current and deferred tax liabilities)	3,809	361,591	1,928,433	24,622	23,127	4,099	704,819	3,050,500
Total liabilities	1,707,638	26,223,601	68,406,441	6,644,793	172,310	954,988	5,833,267	109,943,038
Net on-balance sheet position	93,996	6,492,901	13,067,763	(34,872)	456,881	(272,286)	(97,296)	19,707,087
Off-balance sheet net notional position*	3,625	(4,025,853)	4,498,429	9,664	(479,062)	191,360	70,525	268,688
Contingent liabilities and commitments	-	4,428,029	16,775,692	359,449	57,281	2,691	256,675	21,879,817

* Off-balance sheet net notional position represents the net notional amounts of foreign currency derivative financial instruments, which are principally used to reduce the Group's and the Bank's exposure to currency movements.

Notes to the Financial Statements (continued)**4. Financial risk management (continued)****4.2 Market Risk (continued)****(a) Currency risk (continued)****Sensitivity analysis to foreign exchange risk exposure (Non Structural)**

At 31 December 2010, the majority of the net positions of the Group and the Bank were denominated in US dollar and Renminbi, therefore the Group and the Bank do not expose to significant foreign exchange risk other than US dollar and Renminbi. If US dollar and Renminbi exchange rate had changed by 1% (2009: the majority of the net positions of the Group and the Bank were denominated in US dollar, US dollar exchange rate had changed by 1%), with other variables held constant, profit after tax for the year of the Group and the Bank would have been changed by HK\$1,007,000 (2009: HK\$16,103,000) and HK\$481,000 (2009: HK\$16,369,000) respectively.

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.2 Market Risk (continued)

(b) Interest rate risk

The Group's interest rate risk exposures are mainly structural. The major types of interest rate risk from structural positions are:

- Repricing risk - mismatches in the maturity or repricing periods of assets and liabilities
- Basis risk - different pricing basis for different transactions so that the yield on assets and cost of liabilities may change by different amounts within the same repricing period
- Yield curve risk - non-parallel shifts in the yield curve, e.g. steepening or flattening of the yield curve that may have an adverse impact on net interest income or economic value
- Option risk - exercise of the options embedded in assets, liabilities or off-balance sheet items that can cause a change in the cashflows of assets and liabilities

The Group has formulated "Interest Rate Risk Management Policies" which set out the framework and methodologies to identify, measure, monitor and control interest rate risk.

Both the members of the Asset and Liability Management Committee ("ALCO") and RMC are responsible for interest rate risk management. ALCO maintains oversight of interest rate risk and RMC sanctions the interest rate risk management policies formulated by ALCO. The interest rate risk is identified and measured on a weekly basis. The Finance Department manages the interest rate risk according to the established policies, and assigns the Financial Management Division closely monitors the related risks and reports the results to ALCO regularly.

Gap analysis is one of the tools used to measure the Group's exposure to repricing risk. This provides the Group with a static view of the maturity and repricing characteristics of its balance sheet positions. The Group uses interest rate derivatives to hedge its interest rate exposures and in most cases, plain vanilla interest rate swaps are used.

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.2 Market Risk (continued)

(b) Interest rate risk (continued)

Sensitivities of net interest income and economic value to interest rate changes are assessed through a hypothetical interest rate shock of 200 basis points across the yield curve on both sides. Sensitivity of net interest income is controlled within an approved percentage of the projected net interest income for the year, whereas, sensitivity of economic value is confined to a percentage of the latest capital base; both measures are sanctioned by RMC. The results are reported to ALCO and RMC on a regular basis.

The impact of basis risk is gauged by the projected change in net interest income under scenarios of imperfect correlation in the adjustment of the rates earned and paid on different instruments. Ratios of assets to liabilities with similar pricing basis are established to monitor such risk.

Stress test on yield curve risk is performed to assess the impact on economic value due to the steepening or flattening of the yield curve. The impact of options embedded in demand and savings deposits and prepayment of mortgage loans is also assessed under different stress test scenarios.

The interest rate risk exposures in the Group are controlled through the use of limits:

1. Net Interest Income sensitivity ratio.
2. Economic Value sensitivity ratio.
3. Repricing Mismatch Gap limits.

Before launching a new product or business, the relevant departments are required to go through a risk assessment process, which includes assessment of underlying interest rate risk and consideration of the adequacy of current risk management mechanism. Any material impact on interest rate risk noted during the risk assessment process will be reported to ALCO.

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.2 Market Risk (continued)

(b) Interest rate risk (continued)

The tables below summarise the Group's and the Bank's exposure to interest rate risk as at 31 December. Included in the tables are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	The Group						Total
	2010						
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Assets							
Cash and balances with banks and other financial institutions	22,428,184	-	-	-	-	2,027,797	24,455,981
Placements with banks and other financial institutions maturing between one and twelve months	-	3,785,444	3,968,610	-	-	-	7,754,054
Financial assets at fair value through profit or loss	499,986	602,052	372,231	525,799	252,715	-	2,252,783
Derivative financial instruments	-	-	-	-	-	1,128,659	1,128,659
Advances and other accounts	72,671,585	28,735,941	16,921,508	5,751,929	69,213	-	124,150,176
Investment in securities							
- Available-for-sale securities	6,312,831	5,137,573	3,743,001	7,380,402	1,134,494	34,915	23,743,216
- Held-to-maturity securities	411,433	869,061	896,781	205,300	-	-	2,382,575
- Loans and receivables	-	-	1,054,646	-	-	-	1,054,646
Investment properties	-	-	-	-	-	618,263	618,263
Properties, plant and equipment	-	-	-	-	-	3,439,380	3,439,380
Other assets (including deferred tax assets)	-	-	-	-	-	1,195,456	1,195,456
Total assets	102,324,019	39,130,071	26,956,777	13,863,430	1,456,422	8,444,470	192,175,189
Liabilities							
Deposits and balances of banks and other financial institutions	6,879,120	6,567,654	4,907,256	-	-	420,659	18,774,689
Financial liabilities at fair value through profit or loss	449,978	458,714	276,683	-	-	-	1,185,375
Derivative financial instruments	-	-	-	-	-	916,211	916,211
Deposits from customers	87,604,788	24,538,543	18,010,055	4,654,888	-	6,528,631	141,336,905
Other accounts and provisions (including current and deferred tax liabilities)	795,051	1,069,827	2,163,324	394,086	-	3,049,723	7,472,011
Total liabilities	95,728,937	32,634,738	25,357,318	5,048,974	-	10,915,224	169,685,191
Interest sensitivity gap	6,595,082	6,495,333	1,599,459	8,814,456	1,456,422	(2,470,754)	22,489,998

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.2 Market Risk (continued)

(b) Interest rate risk (continued)

	The Group						Total
	2009						
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets							
Cash and balances with banks and other financial institutions	11,723,817	-	-	-	-	2,875,752	14,599,569
Placements with banks and other financial institutions maturing between one and twelve months	-	5,363,832	7,089,176	-	-	-	12,453,008
Financial assets at fair value through profit or loss	291,649	908,801	319,313	663,817	240,999	-	2,424,579
Derivative financial instruments	-	-	-	-	-	577,366	577,366
Advances and other accounts	64,983,402	18,187,356	10,931,679	56,904	91,004	-	94,250,345
Investment in securities							
- Available-for-sale securities	2,694,095	3,811,916	1,467,907	7,087,015	1,328,919	35,845	16,425,697
- Held-to-maturity securities	2,990,180	3,424,474	1,922,853	1,473,773	-	-	9,811,280
- Loans and receivables	168,959	-	214,883	-	-	-	383,842
Investment properties	-	-	-	-	-	717,985	717,985
Properties, plant and equipment	-	-	-	-	-	2,973,248	2,973,248
Other assets (including deferred tax assets)	-	-	-	-	-	1,451,228	1,451,228
Total assets	82,852,102	31,696,379	21,945,811	9,281,509	1,660,922	8,631,424	156,068,147
Liabilities							
Deposits and balances of banks and other financial institutions	6,021,745	6,128,679	7,599,372	-	-	214,697	19,964,493
Financial liabilities at fair value through profit or loss	253,499	361,958	199,849	-	-	-	815,306
Derivative financial instruments	-	-	-	-	-	487,033	487,033
Deposits from customers	76,685,274	13,132,885	13,255,982	888,251	-	6,077,009	110,039,401
Other accounts and provisions (including current and deferred tax liabilities)	582,582	265,417	274,179	304,729	-	2,937,664	4,364,571
Total liabilities	83,543,100	19,888,939	21,329,382	1,192,980	-	9,716,403	135,670,804
Interest sensitivity gap	(690,998)	11,807,440	616,429	8,088,529	1,660,922	(1,084,979)	20,397,343

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.2 Market Risk (continued)

(b) Interest rate risk (continued)

	The Bank						Total
	2010						
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets							
Cash and balances with banks and other financial institutions	18,665,763	-	-	-	-	1,672,708	20,338,471
Placements with banks and other financial institutions maturing between one and twelve months	-	392,440	1,441,873	-	-	-	1,834,313
Financial assets at fair value through profit or loss	499,986	602,052	372,231	525,799	252,715	-	2,252,783
Derivative financial instruments	-	-	-	-	-	1,095,238	1,095,238
Advances and other accounts	57,814,227	14,856,155	6,280,175	4,893,443	68,646	-	83,912,646
Investment in securities							
- Available-for-sale securities	6,195,073	4,540,745	3,327,804	7,088,664	1,134,494	34,915	22,321,695
- Held-to-maturity securities	411,433	869,061	896,781	205,300	-	-	2,382,575
- Loans and receivables	-	-	1,054,646	-	-	-	1,054,646
Investment in subsidiaries	-	-	-	-	-	5,286,630	5,286,630
Investment properties	-	-	-	-	-	579,940	579,940
Properties, plant and equipment	-	-	-	-	-	3,102,010	3,102,010
Other assets (including deferred tax assets)	-	-	-	-	-	1,146,704	1,146,704
Total assets	83,586,482	21,260,453	13,373,510	12,713,206	1,455,855	12,918,145	145,307,651
Liabilities							
Deposits and balances of banks and other financial institutions	3,849,309	2,663,585	1,914,806	-	-	468,521	8,896,221
Financial liabilities at fair value through profit or loss	449,978	458,714	276,683	-	-	-	1,185,375
Derivative financial instruments	-	-	-	-	-	888,344	888,344
Deposits from customers	75,769,059	19,047,756	4,616,106	3,729,969	-	6,682,418	109,845,308
Other accounts and provisions (including current and deferred tax liabilities)	504,001	-	-	-	-	2,420,215	2,924,216
Total liabilities	80,572,347	22,170,055	6,807,595	3,729,969	-	10,459,498	123,739,464
Interest sensitivity gap	3,014,135	(909,602)	6,565,915	8,983,237	1,455,855	2,458,647	21,568,187

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.2 Market Risk (continued)

(b) Interest rate risk (continued)

	The Bank						Total
	2009						
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets							
Cash and balances with banks and other financial institutions	8,441,298	-	-	-	-	2,598,288	11,039,586
Placements with banks and other financial institutions maturing between one and twelve months	-	5,785,010	7,958,639	-	-	-	13,743,649
Financial assets at fair value through profit or loss	291,649	908,801	319,313	663,817	240,999	-	2,424,579
Derivative financial instruments	-	-	-	-	-	576,609	576,609
Advances and other accounts	52,836,994	8,884,372	3,667,723	22,636	79,017	-	65,490,742
Investment in securities							
- Available-for-sale securities	2,694,095	3,811,916	1,243,248	7,087,015	1,328,919	35,845	16,201,038
- Held-to-maturity securities	2,990,180	3,424,474	1,922,853	1,473,773	-	-	9,811,280
- Loans and receivables	168,959	-	214,883	-	-	-	383,842
Investment in subsidiaries	-	-	-	-	-	5,286,630	5,286,630
Investment properties	-	-	-	-	-	679,287	679,287
Properties, plant and equipment	-	-	-	-	-	2,669,374	2,669,374
Other assets (including deferred tax assets)	-	-	-	-	-	1,343,509	1,343,509
Total assets	67,423,175	22,814,573	15,326,659	9,247,241	1,648,935	13,189,542	129,650,125
Liabilities							
Deposits and balances of banks and other financial institutions	2,964,568	1,907,417	2,937,692	-	-	214,697	8,024,374
Financial liabilities at fair value through profit or loss	253,499	361,958	199,849	-	-	-	815,306
Derivative financial instruments	-	-	-	-	-	486,283	486,283
Deposits from customers	71,474,426	11,446,619	8,558,452	6,437	-	6,080,641	97,566,575
Other accounts and provisions (including current and deferred tax liabilities)	511,133	-	-	-	-	2,539,367	3,050,500
Total liabilities	75,203,626	13,715,994	11,695,993	6,437	-	9,320,988	109,943,038
Interest sensitivity gap	(7,780,451)	9,098,579	3,630,666	9,240,804	1,648,935	3,868,554	19,707,087

Interest rate risk exposure of trading book of the Group and the Bank is insignificant.

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.2 Market Risk (continued)

(b) Interest rate risk (continued)

Sensitivity analysis to market risk exposure of banking book of the Group

The Group is principally exposed to HK dollar and US dollar in terms of interest rate risk. The following example illustrates how the Group's stress test is performed. At 31 December 2010, if HK dollar and US dollar market interest rates had been 100 basis point lower with other variables held constant, net interest income for the year of the Group and the Bank would have been reduced by HK\$71,340,000 (2009: HK\$49,106,000) and HKD\$56,373,000 (2009: HK\$26,535,000) respectively, resulting from the increase in positive accumulative interest sensitivity gaps within one year. Reserves of the Group and the Bank would have been reduced by HK\$200,894,000 (2009: HK\$204,494,000) and HK\$200,894,000 (2009: HK\$204,494,000) respectively in response to a simulated 100 basis point rate hike. The negative impact is about the same as 2009.

The following is a summary of possible effects of market interest rate shocks on the Group's interest rate exposure in its banking book:

	Impact on positions at 31 December			
	2010		2009	
	The Group HK\$'000	The Bank HK\$'000	The Group HK\$'000	The Bank HK\$'000
Earnings perspective				
Scenarios				
Down 100 basis points parallel shift in HK dollar yield curves	(159,088)	(138,206)	(80,543)	(59,446)
Up 100 basis points parallel shift in US dollar yield curves	(87,748)	(81,833)	(31,437)	(32,911)

To construct stressful scenarios, severe assumptions are made, including a change in the correlation between HK dollar and US dollar interest rates, parallel movement of interest rates for the banking book positions of all repricing or maturity dates. In the absence of actions that would be taken to mitigate the impact of interest rates shock, all positions are assumed to run to maturity and reprice or mature simultaneously within a given time band.

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.3 Liquidity Risk

Liquidity risk is the risk that the Group may not be able to fund increases in assets, meet obligations as they fall due or take strategic opportunity without incurring unacceptable losses.

Liquidity risk management framework

The liquidity risk management framework of the Group comprises three levels. The Board of Directors and the RMC are the ultimate decision making authority and are responsible for the compliance with regulatory requirements. Formulation of the risk management procedures and implementation mechanism and monitoring of the compliance are mainly responsible by the ALCO. Daily management of liquidity is carried out by the Treasury Management Sub-Committee and the Treasury Division while the Financial Management Division monitors the liquidity risk and provides regular reports to the management and local regulatory bodies.

The liquidity management process is carried out both at the Group and subsidiary level. The principal subsidiaries execute their daily risk management processes independently, subject to risk policies that are consistent with those of the Group, and report to the Group's management on a regular basis.

The Group has developed a robust liquidity risk management mechanism, by maintaining an appropriate size of highly-liquifiable assets and proper liability structure, enabling the Group to meet, even under adverse market conditions, all its obligations as they fall due, and to fund all its asset growth and strategic opportunities without forced liquidation of its assets at short notice.

At present, the Group has set up Key Risk Indicators such as 1-month liquidity ratio and loan-to-deposit ratio. The indicators are used as the major tools in the identification, measurement, monitoring and control of the liquidity risk on regular basis by setting limits, assessing and monitoring the ratios. Besides, the Group also monitors deposit stability, concentration of deposits from large depositors and liquidity profile of the investment portfolio.

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

Liquidity risk management framework (continued)

The related risk management process includes:

- Perform cash-flow projections under normal and stressed scenarios, using the net mismatch gap between assets and liabilities to estimate the prospective net funding requirements;
- Maintain strong liquidity ratios to comply with both internal and external regulatory requirements;
- Maintain a diversified liability base to ensure sufficient funding sources;
- Maintain a proper level of highly liquid assets to serve as a liquidity buffer for emergency needs;
- Monitor the structure and stability of the deposit portfolio;
- Assess the ability to borrow from the inter-bank money market to avoid over-reliance on the money market for funding;
- Maintain a proper contingency plan, which includes setting early warning signals (including internal indicators and market indicators) with timely monitoring procedures and establishing a management reporting system and contingency procedures.

Before launching a new product or business, relevant departments are required to go through a risk assessment process, which includes assessment of underlying liquidity risk and consideration of the adequacy of the current risk management mechanism. Any material impact on liquidity risk noted during the risk assessment process will be reported to ALCO.

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

(A) Liquidity ratio

	2010	2009
Average liquidity ratio	<u>38.35%</u>	<u>40.16%</u>

The average liquidity ratio is calculated as the simple average of each calendar month's average liquidity ratio of the Bank for the year.

The liquidity ratio is computed on the solo basis (the Hong Kong offices only) and is in accordance with the Fourth Schedule to the Banking Ordinance.

(B) Analysis of undiscounted cash flows by contractual maturities

(a) Non-derivative cash flows

The tables below summarise the cash flows of the Group and the Bank as at 31 December for non-derivative financial liabilities by remaining contractual maturities.

	The Group				Total
	2010				
	Up to 1 month	1-3 months	3-12 months	1-5 years	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial liabilities					
Deposits and balances of banks and other financial institutions	7,305,360	6,588,410	4,979,464	-	18,873,234
Financial liabilities at fair value through profit or loss	450,000	459,000	277,000	-	1,186,000
Deposits from customers	91,787,934	25,158,199	18,843,268	6,279,970	142,069,371
Other financial liabilities	2,757,670	1,057,872	2,178,242	264,715	6,258,499
Total financial liabilities	102,300,964	33,263,481	26,277,974	6,544,685	168,387,104

	The Group				Total
	2009				
	Up to 1 month	1-3 months	3-12 months	1-5 years	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial liabilities					
Deposits and balances of banks and other financial institutions	6,268,684	6,152,705	7,655,500	-	20,076,889
Financial liabilities at fair value through profit or loss	253,500	362,000	200,000	-	815,500
Deposits from customers	82,775,799	11,900,725	14,592,474	987,884	110,256,882
Other financial liabilities	2,911,006	335,598	330,045	304,729	3,881,378
Total financial liabilities	92,208,989	18,751,028	22,778,019	1,292,613	135,030,649

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

(B) Analysis of undiscounted cash flows by contractual maturities (continued)

(a) Non-derivative cash flows (continued)

	The Bank				
	2010				
	Up to 1 month	1-3 months	3-12 months	1-5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial liabilities					
Deposits and balances of banks and other financial institutions	4,319,228	2,665,944	1,923,543	-	8,908,715
Financial liabilities at fair value through profit or loss	450,000	459,000	277,000	-	1,186,000
Deposits from customers	81,291,802	19,646,753	5,238,568	3,857,963	110,035,086
Other financial liabilities	1,798,899	-	-	-	1,798,899
Total financial liabilities	87,859,929	22,771,697	7,439,111	3,857,963	121,928,700

	The Bank				
	2009				
	Up to 1 month	1-3 months	3-12 months	1-5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial liabilities					
Deposits and balances of banks and other financial institutions	2,579,188	1,907,899	3,537,823	-	8,024,910
Financial liabilities at fair value through profit or loss	253,500	362,000	200,000	-	815,500
Deposits from customers	77,563,298	10,209,793	9,819,280	6,636	97,599,007
Other financial liabilities	2,527,091	44,703	55,866	-	2,627,660
Total financial liabilities	82,923,077	12,524,395	13,612,969	6,636	109,067,077

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

(B) Analysis of undiscounted cash flows by contractual maturities (continued)

(b) Derivative cash flows

(i) Derivatives settled on a net basis

The Group's derivatives that will be settled on a net basis include:

- Foreign exchange contracts: non-deliverable currency forwards;
- Interest rate contracts: interest rate swaps; and
- Bullion contracts: bullion margin contracts.

The tables below analyse the Group's and the Bank's derivative financial liabilities as at 31 December that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the net contractual undiscounted cash flows of derivatives with net negative fair value.

	The Group					
	2010					
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Foreign exchange contracts	(427,411)	(33,531)	(48,676)	136,223	-	(373,395)
Interest rate contracts	(1,134)	(4,682)	(91,000)	(189,832)	(21,078)	(307,726)
Bullion contracts	(7,870)	-	-	-	-	(7,870)
	(436,415)	(38,213)	(139,676)	(53,609)	(21,078)	(688,991)

	The Group					
	2009					
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Foreign exchange contracts	(281,586)	-	3,125	-	-	(278,461)
Interest rate contracts	58	(9,861)	(94,610)	(204,497)	(35,158)	(344,068)
Bullion contracts	(734)	-	-	-	-	(734)
	(282,262)	(9,861)	(91,485)	(204,497)	(35,158)	(623,263)

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

(B) Analysis of undiscounted cash flows by contractual maturities (continued)

(b) Derivative cash flows (continued)

(i) Derivatives settled on a net basis (continued)

	The Bank					Total
	2010					
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Foreign exchange contracts	(427,411)	(33,531)	(48,676)	136,223	-	(373,395)
Interest rate contracts	(132)	(3,803)	(80,459)	(185,879)	(21,078)	(291,351)
Bullion contracts	(7,870)	-	-	-	-	(7,870)
	(435,413)	(37,334)	(129,135)	(49,656)	(21,078)	(672,616)

	The Bank					Total
	2009					
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Foreign exchange contracts	(281,586)	-	3,125	-	-	(278,461)
Interest rate contracts	58	(9,919)	(93,090)	(204,497)	(35,158)	(342,606)
Bullion contracts	(734)	-	-	-	-	(734)
	(282,262)	(9,919)	(89,965)	(204,497)	(35,158)	(621,801)

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

(B) Analysis of undiscounted cash flows by contractual maturities (continued)

(b) Derivative cash flows (continued)

(ii) Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis include foreign exchange derivatives: currency forwards, currency swap, currency options and cross currency interest rate swaps.

The tables below analyse the Group's and the Bank's derivative financial instruments as at 31 December that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the tables are the gross contractual undiscounted cash flows for all derivatives that are settled on a gross basis.

	The Group				
	2010				
	Up to 1 month	1-3 months	3-12 months	1-5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Foreign exchange contracts:					
- Outflow	(14,506,757)	(7,394,285)	(3,345,066)	(34,332)	(25,280,440)
- Inflow	14,541,213	7,387,103	3,350,384	34,392	25,313,092
Total outflow	(14,506,757)	(7,394,285)	(3,345,066)	(34,332)	(25,280,440)
Total inflow	14,541,213	7,387,103	3,350,384	34,392	25,313,092

	The Bank				
	2010				
	Up to 1 month	1-3 months	3-12 months	1-5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Foreign exchange contracts:					
- Outflow	(13,647,452)	(5,999,636)	(557,364)	-	(20,204,452)
- Inflow	13,682,848	5,993,963	557,262	-	20,234,073
Total outflow	(13,647,452)	(5,999,636)	(557,364)	-	(20,204,452)
Total inflow	13,682,848	5,993,963	557,262	-	20,234,073

	The Group and the Bank				
	2009				
	Up to 1 month	1-3 months	3-12 months	1-5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Foreign exchange contracts:					
- Outflow	(6,308,913)	(1,851,634)	(1,932,321)	-	(10,092,868)
- Inflow	6,365,771	1,832,958	1,925,723	-	10,124,452
Total outflow	(6,308,913)	(1,851,634)	(1,932,321)	-	(10,092,868)
Total inflow	6,365,771	1,832,958	1,925,723	-	10,124,452

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

(B) Analysis of undiscounted cash flows by contractual maturities (continued)

(c) Off-balance sheet items

Loan commitments

The contractual amounts of the Group's and the Bank's off-balance sheet financial instruments as at 31 December 2010 that the Group and the Bank commit to extend credit to customers and other facilities amounting to HK\$41,155,065,000 (2009: HK\$26,850,032,000) and HK\$28,530,515,000 (2009: HK\$18,827,789,000). Those loan commitments can be drawn within 1 year.

Financial guarantees and other financial facilities

Financial guarantees and other financial facilities of the Group and the Bank as at 31 December 2010 amounting to HK\$10,304,218,000 (2009: HK\$4,860,897,000) and HK\$3,026,333,000 (2009: HK\$3,052,028,000) are maturing no later than 1 year.

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

(C) Maturity analysis

Tables below analyse assets and liabilities of the Group and the Bank as at 31 December into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	The Group							Total
	2010							
	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Assets								
Cash and balances with banks and other financial institutions	15,059,112	9,396,869	-	-	-	-	-	24,455,981
Placements with banks and other financial institutions maturing between one and twelve months	-	-	3,785,444	3,968,610	-	-	-	7,754,054
Financial assets at fair value through profit or loss								
- debt securities held for trading								
- others	-	499,986	224,182	217,954	-	326	-	942,448
- debt securities designated at fair value through profit or loss								
- others	-	-	-	154,277	884,357	271,701	-	1,310,335
Derivative financial instruments	799,269	77,473	52,771	112,209	86,937	-	-	1,128,659
Advances and other accounts								
- advances to customers	3,160,441	4,682,144	11,133,015	30,716,918	43,232,938	22,563,939	77,650	115,567,045
- trade bills	502	715,056	4,176,691	2,831,958	-	-	-	7,724,207
- advances to banks and other financial institutions	-	-	190	312,414	546,320	-	-	858,924
Investment in securities								
- debt securities held for available-for-sale								
- certificates of deposit held	-	-	-	880,265	1,194,204	-	-	2,074,469
- others	-	5,160,435	1,496,013	3,616,135	10,226,755	1,134,494	-	21,633,832
- debt securities held for held-to-maturity								
- certificates of deposit held	-	-	23,806	-	-	-	-	23,806
- others	-	182,318	260,967	1,365,233	508,001	3,131	39,119	2,358,769
- debt securities held for loans and receivables	-	-	-	1,054,646	-	-	-	1,054,646
- equity securities	-	-	-	-	-	-	34,915	34,915
Investment properties	-	-	-	-	-	-	618,263	618,263
Properties, plant and equipment	-	-	-	-	-	-	3,439,380	3,439,380
Other assets (including deferred tax assets)	115,156	1,011,957	83	29,425	35,701	-	3,134	1,195,456
Total assets	19,134,480	21,726,238	21,153,162	45,260,044	56,715,213	23,973,591	4,212,461	192,175,189

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

(C) Maturity analysis (continued)

	The Group							Total
	2010							
	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Liabilities								
Deposits and balances of banks and other financial institutions	725,905	6,573,874	6,567,654	4,907,256	-	-	-	18,774,689
Financial liabilities at fair value through profit or loss								
– others	-	449,978	458,714	276,683	-	-	-	1,185,375
Derivative financial instruments	434,812	41,079	51,574	124,550	223,331	40,865	-	916,211
Deposits from customers	59,480,174	32,298,417	25,111,853	18,603,052	5,843,409	-	-	141,336,905
Other accounts and provisions (including current and deferred tax liabilities)	2,030,798	778,885	1,624,214	2,365,056	673,058	-	-	7,472,011
Total liabilities	62,671,689	40,142,233	33,814,009	26,276,597	6,739,798	40,865	-	169,685,191
Net liquidity gap	(43,537,209)	(18,415,995)	(12,660,847)	18,983,447	49,975,415	23,932,726	4,212,461	22,489,998

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

(C) Maturity analysis (continued)

	The Group							Total
	2009							
	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Assets								
Cash and balances with banks and other financial institutions	6,448,689	8,150,880	-	-	-	-	-	14,599,569
Placements with banks and other financial institutions maturing between one and twelve months	-	-	5,363,832	7,089,176	-	-	-	12,453,008
Financial assets at fair value through profit or loss								
- debt securities held for trading								
- others	-	222,994	408,823	220,631	154	356	-	852,958
- debt securities designated at fair value through profit or loss								
- others	-	68,655	64,260	174,770	998,391	265,545	-	1,571,621
Derivative financial instruments	513,683	61,337	666	1,680	-	-	-	577,366
Advances and other accounts								
- advances to customers	1,476,770	3,808,509	5,492,470	20,799,697	42,617,195	18,564,864	136,541	92,896,046
- trade bills	-	229,657	272,498	-	-	-	-	502,155
- advances to banks and other financial institutions	-	-	-	-	852,144	-	-	852,144
Investment in securities								
- debt securities held for available-for-sale								
- certificates of deposit held	-	-	403,605	308,448	840,024	-	-	1,552,077
- others	-	2,380,984	1,446,179	1,159,459	8,522,234	1,328,919	-	14,837,775
- debt securities held for held-to-maturity								
- certificates of deposit held	-	1,478,407	42,342	984,233	20,976	-	-	2,525,958
- others	-	1,031,114	495,506	3,280,473	2,472,830	5,399	-	7,285,322
- debt securities held for loans and receivables	-	168,959	-	214,883	-	-	-	383,842
- equity securities	-	-	-	-	-	-	35,845	35,845
Investment properties	-	-	-	-	-	-	717,985	717,985
Properties, plant and equipment	-	-	-	-	-	-	2,973,248	2,973,248
Other assets (including deferred tax assets)	71,277	1,322,990	1,862	7,722	42,616	-	4,761	1,451,228
Total assets	8,510,419	18,924,486	13,992,043	34,241,172	56,366,564	20,165,083	3,868,380	156,068,147

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

(C) Maturity analysis (continued)

	The Group							Total
	2009							
	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Liabilities								
Deposits and balances of banks and other financial institutions	491,366	5,744,013	6,130,640	7,598,474	-	-	-	19,964,493
Financial liabilities at fair value through profit or loss								
– others	-	253,499	361,958	199,849	-	-	-	815,306
Derivative financial instruments	282,410	8,393	25,375	11,537	121,255	38,063	-	487,033
Deposits from customers	56,319,097	26,451,896	11,888,221	14,492,662	887,525	-	-	110,039,401
Other accounts and provisions (including current and deferred tax liabilities)	862,787	2,096,915	348,023	387,667	669,179	-	-	4,364,571
Total liabilities	57,955,660	34,554,716	18,754,217	22,690,189	1,677,959	38,063	-	135,670,804
Net liquidity gap	(49,445,241)	(15,630,230)	(4,762,174)	11,550,983	54,688,605	20,127,020	3,868,380	20,397,343

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

(C) Maturity analysis (continued)

	The Bank							Total
	2010							
	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Assets								
Cash and balances with banks and other financial institutions	10,840,177	9,498,294	-	-	-	-	-	20,338,471
Placements with banks and other financial institutions maturing between one and twelve months	-	-	392,440	1,441,873	-	-	-	1,834,313
Financial assets at fair value through profit or loss								
- debt securities held for trading								
- others	-	499,986	224,182	217,954	-	326	-	942,448
- debt securities designated at fair value through profit or loss								
- others	-	-	-	154,277	884,357	271,701	-	1,310,335
Derivative financial instruments	799,269	77,040	49,148	88,512	81,269	-	-	1,095,238
Advances and other accounts								
- advances to customers	1,865,589	2,307,058	6,371,515	18,600,365	31,013,863	16,791,220	70,028	77,019,638
- trade bills	502	350,877	3,596,583	2,398,692	-	-	-	6,346,654
- advances to banks and other financial institutions	-	-	-	34	546,320	-	-	546,354
Investment in securities								
- debt securities held for available-for-sale								
- certificates of deposit held	-	-	-	880,265	1,194,204	-	-	2,074,469
- others	-	5,042,678	899,185	3,200,938	9,935,016	1,134,494	-	20,212,311
- debt securities held for held-to-maturity								
- certificates of deposit held	-	-	23,806	-	-	-	-	23,806
- others	-	182,318	260,967	1,365,233	508,001	3,131	39,119	2,358,769
- debt securities held for loans and receivables	-	-	-	1,054,646	-	-	-	1,054,646
- equity securities	-	-	-	-	-	-	34,915	34,915
Investment in subsidiaries	-	-	-	-	-	-	5,286,630	5,286,630
Investment properties	-	-	-	-	-	-	579,940	579,940
Properties, plant and equipment	-	-	-	-	-	-	3,102,010	3,102,010
Other assets (including deferred tax assets)	133,097	1,010,740	80	1,723	628	-	436	1,146,704
Total assets	13,638,634	18,968,991	11,817,906	29,404,512	44,163,658	18,200,872	9,113,078	145,307,651

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

(C) Maturity analysis (continued)

	The Bank							Total
	2010							
	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Liabilities								
Deposits and balances of banks and other financial institutions	865,513	3,452,317	2,663,585	1,914,806	-	-	-	8,896,221
Financial liabilities at fair value through profit or loss								
– others	-	449,978	458,714	276,683	-	-	-	1,185,375
Derivative financial instruments	434,811	40,715	47,750	105,880	218,323	40,865	-	888,344
Deposits from customers	53,948,382	27,336,860	19,621,066	5,209,103	3,729,897	-	-	109,845,308
Other accounts and provisions (including current and deferred tax liabilities)	1,103,153	697,266	545,501	163,054	415,242	-	-	2,924,216
Total liabilities	56,351,859	31,977,136	23,336,616	7,669,526	4,363,462	40,865	-	123,739,464
Net liquidity gap	(42,713,225)	(13,008,145)	(11,518,710)	21,734,986	39,800,196	18,160,007	9,113,078	21,568,187

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

(C) Maturity analysis (continued)

	The Bank							Total
	2009							
	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Assets								
Cash and balances with banks and other financial institutions	3,662,295	7,377,291	-	-	-	-	-	11,039,586
Placements with banks and other financial institutions maturing between one and twelve months	-	-	5,785,010	7,958,639	-	-	-	13,743,649
Financial assets at fair value through profit or loss								
- debt securities held for trading								
- others	-	222,994	408,823	220,631	154	356	-	852,958
- debt securities designated at fair value through profit or loss								
- others	-	68,655	64,260	174,770	998,391	265,545	-	1,571,621
Derivative financial instruments	513,683	61,337	655	934	-	-	-	576,609
Advances and other accounts								
- advances to customers	1,476,703	2,266,905	3,367,223	10,691,538	31,366,799	15,224,774	107,890	64,501,832
- trade bills	-	203,836	242,956	-	-	-	-	446,792
- advances to banks and other financial institutions	-	-	-	-	542,118	-	-	542,118
Investment in securities								
- debt securities held for available-for-sale								
- certificates of deposit held	-	-	403,605	308,448	840,024	-	-	1,552,077
- others	-	2,380,984	1,446,179	934,800	8,522,234	1,328,919	-	14,613,116
- debt securities held for held-to-maturity								
- certificates of deposit held	-	1,478,407	42,342	984,233	20,976	-	-	2,525,958
- others	-	1,031,114	495,506	3,280,473	2,472,830	5,399	-	7,285,322
- debt securities held for loans and receivables	-	168,959	-	214,883	-	-	-	383,842
- equity securities	-	-	-	-	-	-	35,845	35,845
Investment in subsidiaries	-	-	-	-	-	-	5,286,630	5,286,630
Investment properties	-	-	-	-	-	-	679,287	679,287
Properties, plant and equipment	-	-	-	-	-	-	2,669,374	2,669,374
Other assets (including deferred tax assets)	17,238	1,320,752	1,862	1,472	639	-	1,546	1,343,509
Total assets	5,669,919	16,581,234	12,258,421	24,770,821	44,764,165	16,824,993	8,780,572	129,650,125

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

(C) Maturity analysis (continued)

	The Bank							Total
	2009							
	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Liabilities								
Deposits and balances of banks and other financial institutions	597,155	1,981,978	1,907,418	3,537,823	-	-	-	8,024,374
Financial liabilities at fair value through profit or loss								
– others	-	253,499	361,958	199,849	-	-	-	815,306
Derivative financial instruments	282,410	8,393	25,363	10,799	121,255	38,063	-	486,283
Deposits from customers	52,429,924	25,130,444	10,202,502	9,797,298	6,407	-	-	97,566,575
Other accounts and provisions (including current and deferred tax liabilities)	525,776	2,008,402	48,284	113,473	354,565	-	-	3,050,500
Total liabilities	53,835,265	29,382,716	12,545,525	13,659,242	482,227	38,063	-	109,943,038
Net liquidity gap	(48,165,346)	(12,801,482)	(287,104)	11,111,579	44,281,938	16,786,930	8,780,572	19,707,087

The above maturity classifications have been prepared in accordance with relevant provisions under the Banking (Disclosure) Rules. The Group has reported assets such as advances and debt securities which have been overdue for not more than one month as “Repayable on demand”. In the case of an asset that is repayable by different payments or instalments, only that portion of the asset that is actually overdue is reported as overdue. Any part of the asset that is not due is reported according to the residual maturity unless the repayment of the asset is in doubt in which case the amount is reported as “Indefinite”. The above assets are stated after deduction of provisions, if any.

The analysis of debt securities by remaining period to maturity is disclosed in order to comply with relevant provisions under the Banking (Disclosure) Rules. The disclosure does not imply that the securities will be held to maturity.

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.4 Capital Management

The major objective of the Group's capital management is to maximise total shareholders' return while maintaining a capital adequacy position in relation to the Group's overall risk profile. The Group periodically reviews its capital structure and adjusts the capital mix where appropriate to achieve the required rate of return on capital.

The Group will develop and maintain a sound framework of policies and controls on capital management to support the development of the Group's business and to meet the statutory capital adequacy ratio. ALCO monitors the Group's capital adequacy. The Group has complied with all the statutory capital standards for all the periods.

For the implementation of Basel II, the Group has adopted the standardised approach under Pillar One since 2007 to calculate the capital charge on credit risk, market risk and operational risk in compliance with the Banking (Capital) Rules. This new regulatory capital framework aligns regulatory capital requirements more closely with the inherent risks. The Basel Committee has announced the Basel III regulations in December 2010. The Group has analyzed the possible impact of the new capital requirements to ensure that the bank is well prepared for the implementation of the new regulations.

The Group has established an Internal Capital Adequacy Assessment Process (ICAAP). Through this process, each material risk from the Group's main activities is assessed by pre-defined assessment models, and a comprehensive judgment of the overall risk profile is decided subsequently by taking into account the Group's governance structure, risk management quality, internal control environment and capital strength. Finally, the minimum CAR is derived through the procedures to relate the Group's overall risk profile to its capital adequacy. The minimum CAR aims to cover the various material risks undertaken by the Group. The Group considers this ICAAP process as an on-going process for capital management and periodically reviews and adjusts its capital structure in relation to the overall risk profile.

In addition, the annual capital plans of the Group are drawn up and discussed by the ALCO and submitted to the board for approval. The plan is built up by assessing the impacts by various factors upon CAR such as the business strategies, return on equity, risk appetite, credit rating, as well as regulatory requirements, and based on this study to derive our future capital demand and the way to obtain the capital sources. The plan is to ensure the Group's capital adequacy and achieve optimal capital structure in order to align with our business development and risk profile.

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.4 Capital Management (continued)

(a) Capital adequacy ratio

	<u>2010</u>	<u>2009</u>
Capital adequacy ratio	<u>15.52%</u>	<u>16.46%</u>
Core capital ratio	<u>14.18%</u>	<u>15.36%</u>

The capital ratios are computed on the consolidated basis that comprises the positions of the Bank and certain subsidiaries specified by the HKMA for its regulatory purposes and in accordance with the Banking (Capital) Rules.

The differences between the basis of consolidation for accounting and regulatory purposes are described in "Appendix - Subsidiaries of the Bank" on page 182.

(b) Components of capital base after deductions

The consolidated capital base after deductions used in the calculation of the above capital adequacy ratio as at 31 December and reported to the HKMA is analysed as follows:

	<u>2010</u>	<u>2009</u>
	HK\$'000	HK\$'000
Core capital:		
Paid up ordinary share capital	700,000	700,000
Reserves	16,025,907	14,383,912
Profit and loss account	1,289,509	1,451,475
	<u>18,015,416</u>	<u>16,535,387</u>
Deductions from core capital	<u>(26,479)</u>	<u>(27,084)</u>
Core capital	<u>17,988,937</u>	<u>16,508,303</u>
Supplementary capital:		
Fair value gains arising from holdings of available-for-sale securities	74,499	30,988
Fair value gains arising from holdings of securities designated at fair value through profit or loss	24,357	-
Collective loan impairment allowances	516,672	439,871
Regulatory reserve	1,115,997	740,826
	<u>1,731,525</u>	<u>1,211,685</u>
Deductions from supplementary capital	<u>(26,479)</u>	<u>(27,084)</u>
Supplementary capital	<u>1,705,046</u>	<u>1,184,601</u>
Total capital base after deductions	<u>19,693,983</u>	<u>17,692,904</u>

Subsidiaries which are not included in the consolidation group for the calculation of capital adequacy ratios are denoted in "Appendix – Subsidiaries of the Bank" on page 182. Investment costs in such subsidiaries are deducted from the capital base.

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.4 Capital Management (continued)

(c) Capital charge for credit, market and operational risks

The capital adequacy ratios shown above are calculated on the consolidation basis for regulatory purposes in accordance with the Banking (Capital) Rules. The table below summaries the capital requirements and capital charge calculated by applying 8% on the risk-weighted amounts, computed on the same consolidation basis for credit, market, and operational risks.

	2010	2009
	HK\$'000	HK\$'000
Credit risk	9,639,352	8,337,820
Market risk	323,674	70,330
Operational risk	486,057	448,005
	10,449,083	8,856,155

(i) Capital requirements for credit risk

	2010					Capital requirement**
	Total exposures	Exposures after CRM*		Risk-weighted amount		
		Rated	Unrated	Rated	Unrated	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
On-balance sheet exposures						
Sovereign	13,475,201	15,907,240	-	232,281	-	18,582
Public sector entity	55,467	1,224,061	-	244,812	-	19,585
Multilateral development bank	344,344	344,344	-	-	-	-
Bank	49,843,206	44,332,214	9,193,496	13,185,572	3,119,698	1,304,422
Securities firm	797	-	-	-	-	-
Corporate	95,004,095	8,610,238	73,388,716	5,738,294	73,388,716	6,330,161
Cash items	396,276	-	396,276	-	-	-
Regulatory retail	4,795,550	-	3,593,883	-	2,695,413	215,633
Residential mortgage loans	20,336,874	-	19,141,285	-	8,617,142	689,371
Other exposures which are not past due	5,232,915	-	4,939,751	-	4,939,751	395,180
Past due exposures	42,046	-	42,046	-	48,398	3,872
Total for on-balance sheet exposures	189,547,771	70,418,097	110,695,453	19,400,959	92,809,118	8,976,806
Off-balance sheet exposures						
Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	7,905,901	1,845,284	6,060,617	1,623,880	5,835,365	596,740
OTC derivative transactions	1,181,766	603,134	578,632	240,085	578,632	65,497
Total for off-balance sheet exposures	9,087,667	2,448,418	6,639,249	1,863,965	6,413,997	662,237
Total for non-securitisation exposures	198,635,438	72,866,515	117,334,702	21,264,924	99,223,115	9,639,043
Securitisation exposures	19,312	19,312	-	3,861	-	309
	198,654,750	72,885,827	117,334,702	21,268,785	99,223,115	9,639,352

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.4 Capital Management (continued)

(c) Capital charge for credit, market and operational risks (continued)

(i) Capital requirements for credit risk (continued)

	2009					Capital requirement**
	Total exposures	Exposures after CRM*		Risk-weighted amount		
	HK\$'000	Rated HK\$'000	Unrated HK\$'000	Rated HK\$'000	Unrated HK\$'000	
On-balance sheet exposures						
Sovereign	8,774,932	10,483,563	-	77,404	-	6,192
Public sector entity	288,254	1,580,012	-	316,002	-	25,280
Multilateral development bank	787,304	787,304	-	-	-	-
Bank	40,786,137	37,341,126	5,069,622	11,996,772	1,787,004	1,102,702
Corporate	76,570,785	8,790,679	62,477,770	6,330,883	62,477,770	5,504,693
Cash items	429,360	-	429,360	-	-	-
Regulatory retail	3,968,317	-	3,219,285	-	2,414,464	193,157
Residential mortgage loans	17,696,832	-	16,371,974	-	6,879,439	550,355
Other exposures which are not past due	4,292,984	-	4,208,899	-	4,208,899	336,712
Past due exposures	77,504	-	77,504	-	75,750	6,060
Total for on-balance sheet exposures	153,672,409	58,982,684	91,854,414	18,721,061	77,843,326	7,725,151
Off-balance sheet exposures						
Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	8,178,648	1,098,593	7,080,055	786,358	6,808,467	607,586
OTC derivative transactions	167,392	151,824	15,568	43,528	15,037	4,685
Total for off-balance sheet exposures	8,346,040	1,250,417	7,095,623	829,886	6,823,504	612,271
Total for non-securitisation exposures	162,018,449	60,233,101	98,950,037	19,550,947	84,666,830	8,337,422
Securitisation exposures	24,902	24,902	-	4,980	-	398
Total	162,043,351	60,258,003	98,950,037	19,555,927	84,666,830	8,337,820

* Recognised credit risk mitigation satisfying the requirements and conditions set out in the Banking (Capital) Rules.

** For disclosure purposes, capital requirement is calculated by applying 8% on the risk-weighted amount, which may differ from the Group's actual regulatory capital.

As at 31 December 2010, credit exposures deducted from the capital base amounted to HK\$32,909,000 (2009: HK\$34,119,000).

The Group used the STC approach for calculation of credit risk.

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.4 Capital Management (continued)

(c) Capital charge for credit, market and operational risks (continued)

(i) Capital requirements for credit risk (continued)

The ECAIs recognised by the Group includes Standard & Poor's, Moody's and Fitch. The Group adopted external rating based approach to determine the risk weight of the following classes of exposures, including those of securitisation exposures:

- Sovereign
- Public sector entity
- Multilateral development bank
- Bank
- Securities firm
- Corporate

The process the Group used to map ECAI issuer ratings to exposures booked in the banking book is a process prescribed in Part 4 of the Banking (Capital) Rules.

From year 2011, the Group will adopt Foundation IRB approach to determine the risk weight of most of the classes of exposures mentioned above, and Retail IRB approach to determine the risk weight of the retail portfolio. For those exposures not covered by either Foundation IRB approach or Retail IRB approach, the current treatment still apply.

Counterparty credit risk exposures

Counterparty credit risk arising from over-the-counter "OTC" derivative transactions and repo-style transactions in trading book and banking book are subject to the same risk management framework. The Group established credit limit through formal credit approval procedures to control the pre-settlement credit risk arising from transactions and settlement limit to control the settlement risk arising from foreign exchange-related transactions in both the trading book and banking book. The Group monitors the risk exposure daily due to fluctuations in the market value by determining the current exposure value of the transactions. Exceptions or excesses are timely and closely identified and monitored by the risk management units.

Currently, the Group has not assigned any internal capital for counterparty credit exposures.

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.4 Capital Management (continued)

(c) Capital charge for credit, market and operational risks (continued)

(i) Capital requirements for credit risk (continued)

Counterparty credit risk exposures (continued)

The Group's policy for securing and managing collateral is applicable in managing counterparty credit risk. Policy is formulated for classification of credit assets according to the creditworthiness of individual counterparty and the period of overdue.

The following table summarises the Group's exposures to counterparty credit risk arising from OTC derivative and repo-style transactions:

	2010		2009	
	OTC derivative HK\$'000	Repo-style HK\$'000	OTC derivative HK\$'000	Repo-style HK\$'000
Gross total positive fair value	334,345	-	60,155	-
Credit equivalent amount	1,181,766	-	167,392	-
Net credit exposures	-	1,649,946	-	-
Less: recognised collateral	-	-	-	-
Credit equivalent amount/ net credit exposures net of recognised collateral	1,181,766	1,649,946	167,392	-
Credit equivalent amount/ net credit exposures net of recognised collateral				
Analysed by type of issuer:				
Sovereign	-	-	-	-
Bank	603,445	1,649,946	152,886	-
Corporate	578,213	-	14,506	-
Others	108	-	-	-
	1,181,766	1,649,946	167,392	-
Risk weighted amount analysed by type of issuer:				
Sovereign	-	-	-	-
Bank	240,396	824,973	44,060	-
Corporate	578,213	-	14,506	-
Others	108	-	-	-
	818,717	824,973	58,566	-
Notional amount of recognised credit derivative contracts which provide credit protection	-	-	-	-

There is no effect of valid bilateral netting agreement on the credit equivalent amounts of the derivative transactions as at 31 December 2010 (2009: Nil).

There are no outstanding credit derivative contracts as at 31 December 2010 and 2009.

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.4 Capital Management (continued)

(c) Capital charge for credit, market and operational risks (continued)

(i) Capital requirements for credit risk (continued)

Credit risk mitigation

For those collaterals recognised under capital management, the Group has well-defined policies and procedures for collateral valuation and management which is compliant with the operational requirements for recognised collateral for credit risk mitigation stated in the Banking (Capital) Rules.

The main types of recognised collaterals include cash deposit, gold bullion, debt securities, equities and funds for non past-due exposures. In addition, real property collaterals are recognised for past due exposures. Those collaterals taken by the Group are compliant with the comprehensive approach in its treatment of recognised collateral for credit risk mitigation in capital calculation as mentioned in Banking (Capital) Rules.

According to the Banking (Capital) Rules, the recognised guarantees for credit risk mitigation under STC approach includes the guarantee given by sovereign, public sector entity, multilateral development bank, bank, securities firm with lower risk weights than the counterparty; or corporate with external credit rating A- or above.

Up to the date of report, the Group has not used any recognised credit derivative contracts, on- or off-balance sheet recognised netting for credit risk mitigation yet.

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.4 Capital Management (continued)

(c) Capital charge for credit, market and operational risks (continued)

(i) Capital requirements for credit risk (continued)

Credit risk mitigation (continued)

Exposures, other than those arising from OTC derivative transactions and repo-style transactions, covered by recognised credit risk mitigation are analysed as follows:

	2010		2009	
	Covered by recognised collateral	Covered by recognised guarantees	Covered by recognised collateral	Covered by recognised guarantees
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
On-balance sheet exposures				
Public sector entity	-	23,463	-	17,658
Bank	-	-	-	102,798
Corporate	7,961,218	6,813,173	2,573,013	4,346,538
Regulatory retail	154,078	1,022,930	161,677	558,345
Residential mortgage loans	3,963	1,191,625	16,456	1,308,403
Other exposures which are not past due	314,041	-	84,085	-
Past due exposures	12,096	8,194	68,273	10,257
Off-balance sheet exposures	1,725,194	1,320,674	940,409	978,433
	10,170,590	10,380,059	3,843,913	7,322,432

Asset securitisation

The Group has not acted as an originating institution in respect of securitisation transactions during the year.

Securitisation exposures arising from the Group's investing activities are analysed as follows:

	2010			
	Total exposures	Risk weighted amounts	Capital requirement	Exposures deducted from capital base
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Traditional securitisations				
Commercial mortgages	19,312	3,862	309	-
	19,312	3,862	309	-
	2009			
	Total exposures	Risk weighted amounts	Capital requirement	Exposures deducted from capital base
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Traditional securitisations				
Commercial mortgages	24,902	4,980	398	-
	24,902	4,980	398	-

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.4 Capital Management (continued)

(c) Capital charge for credit, market and operational risks (continued)

(ii) Capital charge for market risk

	<u>2010</u>	<u>2009</u>
	HK\$'000	HK\$'000
Interest rate exposures	30,142	1,379
Foreign exchange exposures	293,532	68,951
	<u>323,674</u>	<u>70,330</u>

The Group used the STM approach for calculation of market risk.

The Group's positions covered by the STM approach are as follows:

	<u>2010</u>		<u>2009</u>	
	Long	Short	Long	Short
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest rate exposures	44,261,397	44,495,279	2,698,912	2,664,005
Foreign exchange exposures (Net)	3,669,144	-	861,888	-
	<u>47,930,541</u>	<u>44,495,279</u>	<u>3,560,800</u>	<u>2,664,005</u>

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.4 Capital Management (continued)

(c) Capital charge for credit, market and operational risks (continued)

(iii) Capital charge for operational risk

	<u>2010</u>	<u>2009</u>
	HK\$'000	HK\$'000
Capital charge for operational risk	<u>486,057</u>	<u>448,005</u>

The Group used the STO approach for calculation of operational risk.

(d) Equity exposures in banking book

Equity holdings in other entities are accounted for in accordance with the underlying intentions of holdings, at the outset of the acquisition of the respective equity exposures. Bookings for the equity holdings taken for relationship and strategic reasons will be separated from the bookings for equity holdings taken for other reasons (including the reason of capital appreciation).

Gains or losses related to equity exposures are summarised below:

	<u>2010</u>	<u>2009</u>
	HK\$'000	HK\$'000
Realised gains from sales	-	149
Unrealised gains on revaluation recognised in reserves but not through profit or loss	<u>23,588</u>	<u>24,518</u>
Unrealised gains included in supplementary capital	<u>10,615</u>	<u>11,033</u>

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.5 Fair values of financial assets and liabilities

(a) Financial instruments not measured at fair value

Fair value estimates are made at a specific point in time based on relevant market information and information about various financial instruments. The following methods and assumptions have been used to estimate the fair value of each class of financial instrument as far as practicable.

Balances with banks and other financial institutions and Trade bills

The maturities of these financial assets and liabilities are within one year and the carrying value approximates fair value.

Advances to customers, banks and other financial institutions

Substantially all the advances to customers, banks and other financial institutions are on floating rate terms, bear interest at prevailing market interest rates and their carrying value approximates fair value.

Held-to-maturity securities

Fair value for held-to-maturity securities is based on market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics. The carrying value and fair value of the Group and the Bank as at 31 December 2010 both amounted to HK\$2,382,575,000 (2009: HK\$9,811,280,000) and HK\$2,404,820,000 (2009: HK\$9,861,363,000) respectively.

Loans and receivables

A discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity and their carrying value approximates fair value.

Deposits from customers

Substantially all the deposits from customers mature within one year from the balance sheet date and their carrying value approximates fair value.

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.5 Fair values of financial assets and liabilities (continued)

(b) Financial instruments measured at fair value

Financial instruments measured at fair value are classified into following three levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities including certain foreign exchange derivative contracts.
- Level 2: Valuation technique using inputs other than quoted prices included within level 1 that are observable for the asset and liability, either directly or indirectly. This level includes the majority of the OTC derivative contracts and debt securities with quote from pricing services providers.
- Level 3: Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs). This level includes equity investment and debt instruments with significant unobservable components.

The Group uses valuation techniques or broker/dealer quotations to determine the fair value of financial instruments when unable to obtain the open market quotation in active market.

The main parameters used in valuation techniques for financial instruments held by the Group include bond prices, interest rates, foreign exchange rates, equity and stock prices, volatilities, counterparty credit spreads and others, which are all observable and obtainable from open market.

For certain illiquid debt securities and unlisted private equities held by the Group, Management obtains valuation quotations from counterparties. The fair value of these financial instruments may be based on unobservable inputs which may have significant impact on the valuation of these financial instruments, and therefore, these instruments have been classified by the Group as level 3. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

There have been no significant transfers between level 1 and 2 during the year 2010 and 2009.

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.5 Fair values of financial assets and liabilities (continued)

(b) Financial instruments measured at fair value (continued)

(i) Fair value hierarchy

	The Group			
	2010			
	Level 1	Level 2	Level 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets				
Financial assets at fair value through profit or loss				
- Trading securities				
- Debt securities	-	942,448	-	942,448
- Financial assets designated at fair value through profit or loss				
- Debt securities	-	1,291,023	19,312	1,310,335
Derivative financial instruments	799,184	329,475	-	1,128,659
Available-for-sale securities				
- Debt securities	-	23,708,301	-	23,708,301
- Equity securities	-	-	34,915	34,915
Financial liabilities				
Financial liabilities at fair value through profit or loss				
- Trading liabilities	-	1,185,375	-	1,185,375
Derivative financial instruments	434,172	482,039	-	916,211

	The Group			
	2009			
	Level 1	Level 2	Level 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets				
Financial assets at fair value through profit or loss				
- Trading securities				
- Debt securities	-	852,958	-	852,958
- Financial assets designated at fair value through profit or loss				
- Debt securities	-	1,546,719	24,902	1,571,621
Derivative financial instruments	512,791	64,575	-	577,366
Available-for-sale securities				
- Debt securities	-	16,389,852	-	16,389,852
- Equity securities	-	-	35,845	35,845
Financial liabilities				
Financial liabilities at fair value through profit or loss				
- Trading liabilities	-	815,306	-	815,306
Derivative financial instruments	282,410	204,623	-	487,033

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.5 Fair values of financial assets and liabilities (continued)

(b) Financial instruments measured at fair value (continued)

(i) Fair value hierarchy (continued)

	The Bank			
	2010			
	Level 1	Level 2	Level 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets				
Financial assets at fair value through profit or loss				
- Trading securities				
- Debt securities	-	942,448	-	942,448
- Financial assets designated at fair value through profit or loss				
- Debt securities	-	1,291,023	19,312	1,310,335
Derivative financial instruments	799,184	296,054	-	1,095,238
Available-for-sale securities				
- Debt securities	-	22,286,780	-	22,286,780
- Equity securities	-	-	34,915	34,915

Financial liabilities

Financial liabilities at fair value through profit or loss				
- Trading liabilities	-	1,185,375	-	1,185,375
Derivative financial instruments	434,172	454,172	-	888,344

	The Bank			
	2009			
	Level 1	Level 2	Level 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets				
Financial assets at fair value through profit or loss				
- Trading securities				
- Debt securities	-	852,958	-	852,958
- Financial assets designated at fair value through profit or loss				
- Debt securities	-	1,546,719	24,902	1,571,621
Derivative financial instruments	512,791	63,818	-	576,609
Available-for-sale securities				
- Debt securities	-	16,165,193	-	16,165,193
- Equity securities	-	-	35,845	35,845

Financial liabilities

Financial liabilities at fair value through profit or loss				
- Trading liabilities	-	815,306	-	815,306
Derivative financial instruments	282,410	203,873	-	486,283

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.5 Fair values of financial assets and liabilities (continued)

(b) Financial instruments measured at fair value (continued)

(ii) Reconciliation of level 3 items

	The Group and the Bank		
	2010		
	Financial assets		
	Financial assets designated at fair value through profit or loss	Available-for-sale securities	
	Debt securities	Debt securities	Equity securities
	HK\$'000	HK\$'000	HK\$'000
At 1 January 2010	24,902	-	35,845
Gains /(losses)			
- Profit or loss	1,739	-	-
- Other comprehensive income	-	-	(930)
Sales	(7,329)	-	-
At 31 December 2010	<u>19,312</u>	<u>-</u>	<u>34,915</u>
Total gains for the year included in profit or loss for assets held as at 31 December 2010	<u>1,739</u>	<u>-</u>	<u>-</u>

	The Group and the Bank		
	2009		
	Financial assets		
	Financial assets designated at fair value through profit or loss	Available-for-sale securities	
	Debt securities	Debt securities	Equity securities
	HK\$'000	HK\$'000	HK\$'000
At 1 January 2009	26,678	227,950	31,856
Gains			
- Profit or loss	421	-	-
- Other comprehensive income	-	-	4,050
Sales	(2,197)	(227,950)	(61)
At 31 December 2009	<u>24,902</u>	<u>-</u>	<u>35,845</u>
Total gains for the year included in profit or loss for assets held as at 31 December 2009	<u>421</u>	<u>-</u>	<u>-</u>

Notes to the Financial Statements (continued)

4. Financial risk management (continued)

4.5 Fair values of financial assets and liabilities (continued)

(b) Financial instruments measured at fair value (continued)

(ii) Reconciliation of level 3 items (continued)

Gains included in profit or loss for the year as well as gains relating to assets held as at 31 December 2010 and 2009 are presented in “Net trading (loss)/gain” or “Net gain on financial instruments designated at fair value through profit or loss” depending on the nature or the category of the related financial instruments.

Notes to the Financial Statements (continued)

5. Net interest income

	2010	2009
	HK\$'000	HK\$'000
Interest income		
Cash and due from banks and other financial institutions	410,284	429,684
Advances to customers	2,692,941	2,258,176
Listed investments	317,802	303,955
Unlisted investments	368,893	346,654
Others	30,487	17,887
	<u>3,820,407</u>	<u>3,356,356</u>
Interest expense		
Due to banks, customers and other financial institutions	(994,390)	(826,387)
Others	(68,055)	(26,368)
	<u>(1,062,445)</u>	<u>(852,755)</u>
Net interest income	<u>2,757,962</u>	<u>2,503,601</u>

Included within interest income is HK\$704,000 (2009: HK\$1,650,000) of interest with respect to income recognised on advances classified as impaired for the year ended 31 December 2010.

Included within interest income and interest expense are HK\$3,760,190,000 (2009: HK\$3,286,750,000) and HK\$1,060,700,000 (2009: HK\$852,193,000) for financial assets and financial liabilities that are not recognised at fair value through profit or loss respectively.

Notes to the Financial Statements (continued)

6. Net fee and commission income

	2010 HK\$'000	2009 HK\$'000
Fee and commission income		
Securities brokerage		
- Stockbroking	257,610	288,649
- Bonds	1,207	2,048
Credit cards	190	249
Loan commissions	125,098	78,993
Bills commissions	144,100	101,389
Payment services	68,200	67,967
Insurance	56,589	28,984
Currency exchange	886	1,088
Safe deposit box	19,566	19,391
Funds distribution	32,547	17,698
Others	74,449	66,995
	780,442	673,451
Fee and commission expense		
Securities brokerage	(41,481)	(46,068)
Payment services	(6,771)	(6,935)
Others	(31,547)	(37,592)
	(79,799)	(90,595)
Net fee and commission income	700,643	582,856
Of which arise from		
- financial assets or financial liabilities not at fair value through profit or loss		
- Fee and commission income	168,821	93,980
- Fee and commission expense	(634)	(483)
	168,187	93,497
- trust and other fiduciary activities		
- Fee and commission income	19,074	13,708
- Fee and commission expense	(947)	(815)
	18,127	12,893

7. Net trading (loss)/gain

	2010 HK\$'000	2009 HK\$'000
Net (loss)/gain from:		
- foreign exchange and foreign exchange products	58,299	82,644
- interest rate instruments	(94,484)	25,345
	(36,185)	107,989

Notes to the Financial Statements (continued)

8. Net gain on investment in securities

	2010	2009
	HK\$'000	HK\$'000
Net gain from disposal of available-for-sale securities	80,200	149

9. Other operating income

	2010	2009
	HK\$'000	HK\$'000
Dividend income from investment in securities		
- unlisted investments	4,763	4,606
Gross rental income from investment properties	32,590	33,019
Less: Outgoings in respect of investment properties	(2,859)	(3,521)
Others	11,850	12,016
	46,344	46,120

Included in the "Outgoings in respect of investment properties" is HK\$507,000 (2009: HK\$1,422,000) of direct operating expenses related to investment properties that were not let during the year.

10. Net (charge)/reversal of impairment allowances

	2010	2009
	HK\$'000	HK\$'000
Advances to customers		
Individually assessed		
- new allowances	(4,935)	(42,236)
- releases	22,991	24,692
- recoveries	36,450	137,572
Net reversal of individually assessed loan impairment allowances (Note 24)	54,506	120,028
Collectively assessed		
- new allowances	(81,823)	(32,199)
- releases	-	1,631
Net charge of collectively assessed loan impairment allowances (Note 24)	(81,823)	(30,568)
Net (charge)/reversal of loan impairment allowances	(27,317)	89,460
Held-to-maturity securities		
Net charge of impairment allowances on held-to-maturity securities		
- Individually assessed (Note 25)	(3,303)	-
Others	-	41
Net (charge)/reversal of impairment allowances	(30,620)	89,501

Notes to the Financial Statements (continued)

11. Operating expenses

	2010	2009
	HK\$'000	HK\$'000
Staff costs (including directors' emoluments)		
- salaries and other costs	725,659	653,800
- termination benefit	865	654
- pension cost	75,322	69,329
	801,846	723,783
Premises and equipment expenses (excluding depreciation)		
- rental of premises	108,311	102,173
- information technology	101,958	116,985
- others	35,079	36,219
	245,348	255,377
Depreciation (Note 28)	102,348	85,285
Auditor's remuneration		
- audit services	6,929	6,600
- non-audit services	602	3,222
Lehman Brothers related products*	7,019	520,030
Other operating expenses	269,693	226,329
	1,433,785	1,820,626

* Expenses incurred on Lehman Brothers related products were primarily in relation to the Lehman Brothers minibonds ("Minibonds") repurchase arrangements announced on 22 July 2009.

12. Net gain from disposal of/fair value adjustments on investment properties

	2010	2009
	HK\$'000	HK\$'000
Net gain/(loss) on disposal of investment properties	4	(140)
Net gain on fair value adjustments on investment properties (Note 27)	78,670	83,250
	78,674	83,110

13. Net gain from disposal/revaluation of properties, plant and equipment

	2010	2009
	HK\$'000	HK\$'000
Net (loss)/gain on disposal of premises	(90)	10,813
Net loss on disposal of other fixed assets	(2,049)	(75)
Net gain on revaluation of premises (Note 28)	5,683	690
	3,544	11,428

Notes to the Financial Statements (continued)

14. Taxation

Taxation in the income statement represents:

	2010	(Restated) 2009
	HK\$'000	HK\$'000
Hong Kong profits tax		
Current tax		
- current year taxation	303,862	218,476
- under/(over)-provision in prior years	8,825	(4,428)
	<u>312,687</u>	<u>214,048</u>
Deferred tax charge (Note 34)	<u>12,551</u>	<u>951</u>
	<u>325,238</u>	<u>214,999</u>
Overseas taxation	<u>52,184</u>	<u>53,428</u>
	<u>377,422</u>	<u>268,427</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

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

	2010	(Restated) 2009
	HK\$'000	HK\$'000
Profit before taxation	<u>2,211,824</u>	<u>1,814,878</u>
Calculated at a taxation rate of 16.5% (2009: 16.5%)	364,951	299,455
Effect of different taxation rates in other countries	12,256	(6,377)
Income not subject to taxation	(18,865)	(27,572)
Expenses not deductible for taxation purposes	9,490	7,844
Tax losses not recognised	6	2
Utilisation of previously unrecognised tax losses	-	(508)
Under/(over)-provision in prior years	8,825	(4,428)
Others	759	11
	<u>377,422</u>	<u>268,427</u>
Taxation charge	<u>377,422</u>	<u>268,427</u>
Effective tax rate	<u>17.06%</u>	<u>14.79%</u>

15. Profit attributable to the equity holders of the Bank

The profit of the Bank for the year ended 31 December 2010 attributable to the equity holders of the Bank and dealt with in the financial statements of the Bank amounted to HK\$1,812,794,000 (2009: HK\$1,217,988,000).

Notes to the Financial Statements (continued)

16. Dividends

	2010		2009	
	Per share HK\$	Total HK\$'000	Per share HK\$	Total HK\$'000
Interim dividend	69	483,000	-	-

On 8 December 2010, the Board declared an interim dividend of HK\$69 per ordinary share for 2010 amounting to HK\$483,000,000.

17. Retirement benefit costs

The principal defined contribution schemes for the Group's employees are ORSO scheme exempted under the MPF Schemes Ordinance and the BOC-Prudential Easy Choice MPF Scheme. Under the ORSO scheme, employees make monthly contributions to the ORSO scheme equal to 5% of their basic salaries, while the employer makes monthly contributions equal to 5% to 15% of the employees' monthly basic salaries, depending on years of service. The employees are entitled to receive 100% of the employer's contributions upon termination of employment after completing 20 years of service, or at a scale ranging from 20% to 95% for employees who have completed between 3 to 20 years of service, on conditions of retirement, early retirement, permanent incapacity and ill-health or termination of employment other than summary dismissal.

With the implementation of the MPF Schemes Ordinance on 1 December 2000, the Group also participates in the BOC-Prudential Easy Choice MPF Scheme, of which the trustee is BOCI-Prudential Trustee and the investment manager is BOCI-Prudential Manager, which are related parties of the Bank.

The Group's total contributions made to the ORSO scheme for the year ended 31 December 2010 amounted to approximately HK\$34,967,000 (2009: approximately HK\$36,189,000), after a deduction of forfeited contributions of approximately HK\$1,110,000 (2009: approximately HK\$672,000). For the MPF Scheme, the Group contributed approximately HK\$3,812,000 (2009: approximately HK\$3,395,000) for the year ended 31 December 2010.

Notes to the Financial Statements (continued)

18. Share option schemes

(a) Share Option Scheme and Sharesave Plan

The principal terms of the Share Option Scheme and the Sharesave Plan were approved and adopted by written resolutions of all the shareholders of BOCHK (Holdings) dated 10 July 2002.

The purpose of the Share Option Scheme is to provide the participants with the opportunity to acquire proprietary interests in BOCHK (Holdings). The Board of BOCHK (Holdings) may, in its absolute discretion, offer to grant options under the Share Option Scheme to any person as the Board of BOCHK (Holdings) may select. The subscription price for the shares shall be determined on the date of grant by the Board of BOCHK (Holdings) as an amount per share calculated on the basis of established rules. An option may be exercised in whole or in part at any time after the date prescribed by the Board of BOCHK (Holdings) and from time to time as specified in the offer and on or before the termination date prescribed by the Board of BOCHK (Holdings).

The purpose of the Sharesave Plan is to encourage broad-based employee ownership of the shares of BOCHK (Holdings). The amount of the monthly contribution under the savings contract to be made in connection with an option shall be the amount which the relevant eligible employee is willing to contribute, which amount shall not be less than 1% and not more than 10% of the eligible employee's monthly salary as at the date of application or such other maximum or minimum amounts as permitted by the Board of BOCHK (Holdings). When an option is exercised during an exercise period, it may be exercised in whole or in part.

No options were granted pursuant to the Share Option Scheme or the Sharesave Plan during the year 2010 (2009: Nil).

Notes to the Financial Statements (continued)

18. Share option schemes (continued)

(b) Pre-Listing Share Option Scheme

On 5 July 2002, several directors together with management personnel of the Group were granted options by BOC (BVI), the immediate holding company of BOCHK (Holdings), pursuant to a Pre-Listing Share Option Scheme to purchase from BOC (BVI) an aggregate of 5,615,200 existing issued shares of BOCHK (Holdings). The Group has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2 under which the new recognition and measurement policies have not been applied to all options granted to employees on or before 7 November 2002.

Details of the share options outstanding as at 31 December 2010 and 2009 are disclosed as follows:

	Total number of share options to directors and senior management	Average exercise price (HK\$ per share)
At 1 January 2010	-	
Add: Share options of director appointed during the year	1,084,500	8.50
At 31 December 2010	1,084,500	
Exercisable at 31 December 2010	1,084,500	
	Total number of share options to directors and senior management	Average exercise price (HK\$ per share)
At 1 January 2009	723,000	8.50
Less: Share options exercised during the year	(723,000)	8.50
At 31 December 2009	-	
Exercisable at 31 December 2009	-	

No share options was exercised during the year 2010. The weighted average share price during the year 2009 was HK\$16.80.

The options granted under this scheme can be exercised at HK\$8.50 per share in respect of the option price of HK\$1.00. These options have a vesting period of four years from the date on which dealings in the shares commenced on the Stock Exchange with a valid exercise period of ten years. No offer to grant any options under the Pre-Listing Share Option Scheme will be made on or after the date on which dealings in the shares commenced on the Stock Exchange.

Notes to the Financial Statements (continued)**19. Directors' and senior management's emoluments****(a) Directors' emoluments**

Details of the emoluments paid to or receivable by the directors of the Bank in respect of their services rendered for the Bank and managing the subsidiaries within the Group during the year are as follows:

	<u>2010</u>	<u>2009</u>
	HK\$'000	HK\$'000
Fees	2,325	1,707
Other emoluments	<u>10,481</u>	<u>6,679</u>
	<u>12,806</u>	<u>8,386</u>

In July 2002, options were granted to several directors of the Bank by BOC (BVI), the immediate holding company of BOCHK (Holdings) under the Pre-Listing Share Option Scheme as set out in Note 18(b). Full details of the scheme are stated in Note 18. During the year, no options were exercised, and no benefits arising from the granting of these share options were included in the Directors' emoluments disclosed above or recognised in the income statement.

Notes to the Financial Statements (continued)

19. Directors' and senior management's emoluments (continued)

(b) Remuneration for the senior management and key personnel

Pursuant to CG-5 Guideline on a Sound Remuneration System issued by the HKMA, details of the remuneration for the senior management and key personnel of the Group during the year are as follows:

	2010	2009
Number of beneficiaries	11	9
	2010	2009
	HK\$'000	HK\$'000
Fixed remuneration	16,169	13,842
Variable remuneration		
Cash	5,343	3,510
Shares and shares-linked instruments	-	-
Other instruments	-	-
	5,343	3,510
Deferred remuneration		
Vested	-	-
Unvested	-	-
	-	-
At 1 January	-	-
Awarded	-	-
Paid out	-	-
Reduced through performance adjustments	-	-
At 31 December	-	-

For detailed information on the decision-making process used to determine the remuneration policy and the key design characteristics of the remuneration system, please refer to the section of "Corporate Governance".

20. Cash and balances with banks and other financial institutions

	The Group		The Bank	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash	396,276	429,360	326,778	357,174
Balances with central banks	6,378,971	4,088,361	946,459	1,876,891
Balances with banks and other financial institutions	8,283,865	1,930,968	9,566,940	1,428,230
Placements with banks and other financial institutions maturing within one month	9,396,869	8,150,880	9,498,294	7,377,291
	24,455,981	14,599,569	20,338,471	11,039,586

Notes to the Financial Statements (continued)

21. Financial assets at fair value through profit or loss

	The Group and the Bank					
	Trading securities		Financial assets designated at fair value through profit or loss		Total	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
At fair value						
Debt securities						
- Listed in Hong Kong	152	154	252,389	304,903	252,541	305,057
- Listed outside Hong Kong	-	-	699,388	874,344	699,388	874,344
	152	154	951,777	1,179,247	951,929	1,179,401
- Unlisted	942,296	852,804	358,558	392,374	1,300,854	1,245,178
Total	942,448	852,958	1,310,335	1,571,621	2,252,783	2,424,579

Financial assets at fair value through profit or loss are analysed by type of issuer as follows:

	The Group and the Bank	
	2010 HK\$'000	2009 HK\$'000
Sovereigns	941,715	849,811
Public sector entities	733	108,443
Banks and other financial institutions	283,532	398,556
Corporate entities	1,026,803	1,067,769
	2,252,783	2,424,579

Financial assets at fair value through profit or loss are analysed as follows:

	The Group and the Bank	
	2010 HK\$'000	2009 HK\$'000
Treasury bills	941,715	849,811
Other financial assets at fair value through profit or loss	1,311,068	1,574,768
	2,252,783	2,424,579

Notes to the Financial Statements (continued)

22. Derivative financial instruments

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

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

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

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

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

Notes to the Financial Statements (continued)

22. Derivative financial instruments (continued)

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

Derivatives are also used to manage the interest rate risk of the banking book. A derivative instrument must be included in the approved product list before any transactions for that instrument can be made. Every derivative transaction must be input into the relevant system for settlement, mark to market revaluation, reporting and control.

The following tables summarise the contract/notional amounts of each significant type of derivative financial instrument as at 31 December:

	The Group		
	2010		
	Trading	Not qualified for hedge accounting*	Total
	HK\$'000	HK\$'000	HK\$'000
Exchange rate contracts			
Spot and forwards	36,586,262	-	36,586,262
Swaps	19,775,431	-	19,775,431
Foreign currency option contracts			
- Options purchased	28,195	-	28,195
- Options written	28,195	-	28,195
	56,418,083	-	56,418,083
Interest rate contracts			
Swaps	19,913,690	870,305	20,783,995
Bullion contracts	638,364	-	638,364
Other contracts	6,588	-	6,588
Total	76,976,725	870,305	77,847,030

* Derivative transactions which do not qualify as hedges for accounting purposes but are managed in conjunction with the financial instruments designated at fair value through profit or loss are separately disclosed in compliance with the requirements set out in the Banking (Disclosure) Rules.

Notes to the Financial Statements (continued)
22. Derivative financial instruments (continued)

	The Group		
	2009		
	Trading	Not qualified for hedge accounting	Total
	HK\$'000	HK\$'000	HK\$'000
Exchange rate contracts			
Spot and forwards	10,243,220	-	10,243,220
Swaps	8,091,521	68,000	8,159,521
Foreign currency option contracts			
- Options purchased	82,185	-	82,185
- Options written	82,185	-	82,185
	<u>18,499,111</u>	<u>68,000</u>	<u>18,567,111</u>
Interest rate contracts			
Swaps	1,996,376	969,014	2,965,390
Bullion contracts	168,524	-	168,524
Other contracts	8,376	-	8,376
Total	<u>20,672,387</u>	<u>1,037,014</u>	<u>21,709,401</u>

Notes to the Financial Statements (continued)
22. Derivative financial instruments (continued)

	The Bank		
	2010		
	Trading	Not qualified for hedge accounting	Total
	HK\$'000	HK\$'000	HK\$'000
Exchange rate contracts			
Spot and forwards	33,945,772	-	33,945,772
Swaps	17,339,933	-	17,339,933
Foreign currency option contracts			
- Options purchased	28,195	-	28,195
- Options written	28,195	-	28,195
	<u>51,342,095</u>	<u>-</u>	<u>51,342,095</u>
Interest rate contracts			
Swaps	3,902,675	870,305	4,772,980
Bullion contracts	638,364	-	638,364
Other contracts	6,588	-	6,588
Total	<u>55,889,722</u>	<u>870,305</u>	<u>56,760,027</u>

	The Bank		
	2009		
	Trading	Not qualified for hedge accounting	Total
	HK\$'000	HK\$'000	HK\$'000
Exchange rate contracts			
Spot and forwards	10,243,220	-	10,243,220
Swaps	8,091,521	68,000	8,159,521
Foreign currency option contracts			
- Options purchased	82,185	-	82,185
- Options written	82,185	-	82,185
	<u>18,499,111</u>	<u>68,000</u>	<u>18,567,111</u>
Interest rate contracts			
Swaps	1,267,249	969,014	2,236,263
Bullion contracts	168,524	-	168,524
Other contracts	8,376	-	8,376
Total	<u>19,943,260</u>	<u>1,037,014</u>	<u>20,980,274</u>

Notes to the Financial Statements (continued)

22. Derivative financial instruments (continued)

The following tables summarise the fair values of each class of derivative financial instrument as at 31 December:

	The Group					
	2010					
	Fair value assets			Fair value liabilities		
	Trading	Not qualified for hedge accounting	Total	Trading	Not qualified for hedge accounting	Total
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Exchange rate contracts						
Spot and forwards	983,762	-	983,762	(671,594)	-	(671,594)
Swaps	78,086	-	78,086	(45,081)	-	(45,081)
Foreign currency option contracts						
- Options purchased	190	-	190	-	-	-
- Options written	-	-	-	(190)	-	(190)
	<u>1,062,038</u>	<u>-</u>	<u>1,062,038</u>	<u>(716,865)</u>	<u>-</u>	<u>(716,865)</u>
Interest rate contracts						
Swaps	13,925	-	13,925	(97,490)	(93,986)	(191,476)
Bullion contracts	52,676	-	52,676	(7,870)	-	(7,870)
Other contracts	20	-	20	-	-	-
Total	<u>1,128,659</u>	<u>-</u>	<u>1,128,659</u>	<u>(822,225)</u>	<u>(93,986)</u>	<u>(916,211)</u>

	The Group					
	2009					
	Fair value assets			Fair value liabilities		
	Trading	Not qualified for hedge accounting	Total	Trading	Not qualified for hedge accounting	Total
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Exchange rate contracts						
Spot and forwards	511,570	-	511,570	(284,755)	-	(284,755)
Swaps	62,138	108	62,246	(21,208)	(1,196)	(22,404)
Foreign currency option contracts						
- Options purchased	382	-	382	-	-	-
- Options written	-	-	-	(382)	-	(382)
	<u>574,090</u>	<u>108</u>	<u>574,198</u>	<u>(306,345)</u>	<u>(1,196)</u>	<u>(307,541)</u>
Interest rate contracts						
Swaps	757	-	757	(98,546)	(80,212)	(178,758)
Bullion contracts	2,406	-	2,406	(734)	-	(734)
Other contracts	5	-	5	-	-	-
Total	<u>577,258</u>	<u>108</u>	<u>577,366</u>	<u>(405,625)</u>	<u>(81,408)</u>	<u>(487,033)</u>

Notes to the Financial Statements (continued)
22. Derivative financial instruments (continued)

	The Bank					
	2010					
	Fair value assets			Fair value liabilities		
	Trading	Not qualified for hedge accounting	Total	Trading	Not qualified for hedge accounting	Total
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Exchange rate contracts						
Spot and forwards	965,087	-	965,087	(658,613)	-	(658,613)
Swaps	76,881	-	76,881	(43,472)	-	(43,472)
Foreign currency option contracts						
- Options purchased	190	-	190	-	-	-
- Options written	-	-	-	(190)	-	(190)
	1,042,158	-	1,042,158	(702,275)	-	(702,275)
Interest rate contracts						
Swaps	384	-	384	(84,213)	(93,986)	(178,199)
Bullion contracts	52,676	-	52,676	(7,870)	-	(7,870)
Other contracts	20	-	20	-	-	-
Total	1,095,238	-	1,095,238	(794,358)	(93,986)	(888,344)

	The Bank					
	2009					
	Fair value assets			Fair value liabilities		
	Trading	Not qualified for hedge accounting	Total	Trading	Not qualified for hedge accounting	Total
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Exchange rate contracts						
Spot and forwards	511,570	-	511,570	(284,755)	-	(284,755)
Swaps	62,138	108	62,246	(21,208)	(1,196)	(22,404)
Foreign currency option contracts						
- Options purchased	382	-	382	-	-	-
- Options written	-	-	-	(382)	-	(382)
	574,090	108	574,198	(306,345)	(1,196)	(307,541)
Interest rate contracts						
Swaps	-	-	-	(97,796)	(80,212)	(178,008)
Bullion contracts	2,406	-	2,406	(734)	-	(734)
Other contracts	5	-	5	-	-	-
Total	576,501	108	576,609	(404,875)	(81,408)	(486,283)

Notes to the Financial Statements (continued)

22. Derivative financial instruments (continued)

The credit risk weighted amounts of the above derivative financial instruments are as follows:

	The Group		The Bank	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Exchange rate contracts				
Forwards	715,286	12,916	672,931	12,916
Swaps	77,199	38,974	65,682	38,974
Interest rate contracts				
Swaps	26,231	6,676	8,258	6,319
	818,716	58,566	746,871	58,209

The credit risk weighted amounts are calculated in accordance with the Banking (Capital) Rules. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

There is no effect of valid bilateral netting agreement on the fair values or the credit risk weighted amounts of the derivative financial instruments.

Notes to the Financial Statements (continued)

23. Advances and other accounts

	The Group		The Bank	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Personal loans and advances	19,423,594	16,657,609	16,170,606	14,857,386
Corporate loans and advances	96,777,050	76,841,833	61,204,297	49,996,828
Advances to customers	116,200,644	93,499,442	77,374,903	64,854,214
Loan impairment allowances				
- Individually assessed	(105,289)	(163,525)	(12,447)	(58,013)
- Collectively assessed	(528,310)	(439,871)	(342,818)	(294,369)
	115,567,045	92,896,046	77,019,638	64,501,832
Trade bills	7,724,207	502,155	6,346,654	446,792
Advances to banks and other financial institutions	858,924	852,144	546,354	542,118
Total	124,150,176	94,250,345	83,912,646	65,490,742

As at 31 December 2010, advances to customers of the Group and the Bank included accrued interest on gross advances of HK\$277,031,000 (2009: HK\$139,207,000) and HK\$109,641,000 (2009: HK\$63,882,000) respectively.

As at 31 December 2010 and 2009, no impairment allowance was made in respect of trade bills and advances to banks and other financial institutions.

24. Loan impairment allowances

	The Group			The Bank		
	2010					
	Individual assessment					
	Personal HK\$'000	Corporate HK\$'000	Total HK\$'000	Personal HK\$'000	Corporate HK\$'000	Total HK\$'000
At 1 January 2010	2,304	161,221	163,525	1,457	56,556	58,013
Credited to income statement	(2,342)	(52,164)	(54,506)	(1,306)	(10,940)	(12,246)
Loans written off during the year as uncollectible	-	(41,607)	(41,607)	-	(41,534)	(41,534)
Recoveries	2,242	34,208	36,450	716	8,048	8,764
Unwind of discount on impairment allowances	(15)	(689)	(704)	-	(442)	(442)
Exchange difference	-	2,131	2,131	(8)	(100)	(108)
At 31 December 2010	2,189	103,100	105,289	859	11,588	12,447

Notes to the Financial Statements (continued)
24. Loan impairment allowances (continued)

	The Group			The Bank		
	2010					
	Collective assessment					
	Personal	Corporate	Total	Personal	Corporate	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2010	5,329	434,542	439,871	4,782	289,587	294,369
Charged to income statement	1,212	80,611	81,823	783	47,340	48,123
Exchange difference	34	6,582	6,616	-	326	326
At 31 December 2010	6,575	521,735	528,310	5,565	337,253	342,818

	The Group			The Bank		
	2009					
	Individual assessment					
	Personal	Corporate	Total	Personal	Corporate	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2009	2,739	275,196	277,935	1,744	192,744	194,488
Credited to income statement	(10,418)	(109,610)	(120,028)	(2,690)	(50,553)	(53,243)
Loans written off during the year as uncollectible	(108)	(130,277)	(130,385)	(89)	(130,277)	(130,366)
Recoveries	10,088	127,484	137,572	2,488	44,748	47,236
Unwind of discount on impairment allowances	-	(1,650)	(1,650)	-	(279)	(279)
Exchange difference	3	78	81	4	173	177
At 31 December 2009	2,304	161,221	163,525	1,457	56,556	58,013

	The Group			The Bank		
	2009					
	Collective assessment					
	Personal	Corporate	Total	Personal	Corporate	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2009	6,960	402,405	409,365	6,371	234,050	240,421
(Credited)/charged to income statement	(1,631)	32,199	30,568	(1,589)	44,544	42,955
Transfer from BOCHK	-	-	-	-	10,992	10,992
Exchange difference	-	(62)	(62)	-	1	1
At 31 December 2009	5,329	434,542	439,871	4,782	289,587	294,369

Notes to the Financial Statements (continued)
25. Investment in securities

	The Group		The Bank	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
(a) Available-for-sale securities				
Debt securities, at fair value				
- Listed in Hong Kong	1,209,278	1,091,863	1,209,278	1,091,863
- Listed outside Hong Kong	5,890,914	4,044,703	5,890,914	4,044,703
	7,100,192	5,136,566	7,100,192	5,136,566
- Unlisted	16,608,109	11,253,286	15,186,588	11,028,627
	23,708,301	16,389,852	22,286,780	16,165,193
Equity securities, at fair value				
- Unlisted	34,915	35,845	34,915	35,845
	23,743,216	16,425,697	22,321,695	16,201,038
(b) Held-to-maturity securities				
Listed, at amortised cost				
- in Hong Kong	-	79,831	-	79,831
- outside Hong Kong	991,678	2,400,941	991,678	2,400,941
	991,678	2,480,772	991,678	2,480,772
Unlisted, at amortised cost	1,394,200	7,330,508	1,394,200	7,330,508
	2,385,878	9,811,280	2,385,878	9,811,280
Impairment allowances	(3,303)	-	(3,303)	-
	2,382,575	9,811,280	2,382,575	9,811,280
(c) Loans and receivables				
Unlisted, at amortised cost	1,054,646	383,842	1,054,646	383,842
Total	27,180,437	26,620,819	25,758,916	26,396,160
Market value of listed held-to-maturity securities	989,242	2,483,205	989,242	2,483,205

Notes to the Financial Statements (continued)

25. Investment in securities (continued)

Investment in securities is analysed by type of issuer as follows:

	The Group			
	2010			
	Available- for-sale securities HK\$'000	Held-to- maturity securities HK\$'000	Loans and receivables HK\$'000	Total HK\$'000
Sovereigns	7,077,036	-	-	7,077,036
Banks and other financial institutions	14,596,042	1,552,391	1,054,646	17,203,079
Corporate entities	2,070,138	830,184	-	2,900,322
	<u>23,743,216</u>	<u>2,382,575</u>	<u>1,054,646</u>	<u>27,180,437</u>

	The Group			
	2009			
	Available- for-sale securities HK\$'000	Held-to- maturity securities HK\$'000	Loans and receivables HK\$'000	Total HK\$'000
Sovereigns	4,172,550	470,542	-	4,643,092
Public sector entities	-	111,818	-	111,818
Banks and other financial institutions	10,097,418	7,957,549	383,842	18,438,809
Corporate entities	2,155,729	1,271,371	-	3,427,100
	<u>16,425,697</u>	<u>9,811,280</u>	<u>383,842</u>	<u>26,620,819</u>

	The Bank			
	2010			
	Available- for-sale securities HK\$'000	Held-to- maturity securities HK\$'000	Loans and receivables HK\$'000	Total HK\$'000
Sovereigns	5,655,515	-	-	5,655,515
Banks and other financial institutions	14,596,042	1,552,391	1,054,646	17,203,079
Corporate entities	2,070,138	830,184	-	2,900,322
	<u>22,321,695</u>	<u>2,382,575</u>	<u>1,054,646</u>	<u>25,758,916</u>

	The Bank			
	2009			
	Available- for-sale securities HK\$'000	Held-to- maturity securities HK\$'000	Loans and receivables HK\$'000	Total HK\$'000
Sovereigns	3,947,891	470,542	-	4,418,433
Public sector entities	-	111,818	-	111,818
Banks and other financial institutions	10,097,418	7,957,549	383,842	18,438,809
Corporate entities	2,155,729	1,271,371	-	3,427,100
	<u>16,201,038</u>	<u>9,811,280</u>	<u>383,842</u>	<u>26,396,160</u>

Notes to the Financial Statements (continued)

25. Investment in securities (continued)

The movements in investment in securities are summarised as follows:

	The Group		
	2010		
	Available- for-sale securities HK\$'000	Held-to- maturity securities HK\$'000	Loans and receivables HK\$'000
At 1 January 2010	16,425,697	9,811,280	383,842
Additions	142,128,114	1,049,647	1,044,738
Disposals, redemptions and maturity	(135,349,515)	(8,300,533)	(382,059)
Amortisation	97,494	(34,373)	12,161
Change in fair value	185,775	-	-
Impairment losses (Note 10)	-	(3,303)	-
Exchange difference	255,651	(140,143)	(4,036)
At 31 December 2010	23,743,216	2,382,575	1,054,646

	The Group		
	2009		
	Available- for-sale securities HK\$'000	Held-to- maturity securities HK\$'000	Loans and receivables HK\$'000
At 1 January 2009	4,086,084	12,049,276	4,073,811
Additions	55,827,259	10,816,196	2,947,722
Disposals, redemptions and maturity	(43,866,136)	(13,441,443)	(6,814,145)
Amortisation	74,721	(90,050)	53,048
Change in fair value	186,719	-	-
Exchange difference	117,050	477,301	123,406
At 31 December 2009	16,425,697	9,811,280	383,842

	The Bank		
	2010		
	Available- for-sale securities HK\$'000	Held-to- maturity securities HK\$'000	Loans and receivables HK\$'000
At 1 January 2010	16,201,038	9,811,280	383,842
Additions	140,113,771	1,049,647	1,044,738
Disposals, redemptions and maturity	(134,512,054)	(8,300,533)	(382,059)
Amortisation	68,296	(34,373)	12,161
Change in fair value	196,205	-	-
Impairment losses	-	(3,303)	-
Exchange difference	254,439	(140,143)	(4,036)
At 31 December 2010	22,321,695	2,382,575	1,054,646

Notes to the Financial Statements (continued)

25. Investment in securities (continued)

	The Bank		
	2009		
	Available- for-sale securities HK\$'000	Held-to- maturity securities HK\$'000	Loans and receivables HK\$'000
At 1 January 2009	4,086,084	12,049,276	4,073,811
Additions	55,547,308	10,816,196	2,947,722
Disposals, redemptions and maturity	(43,809,337)	(13,441,443)	(6,814,145)
Amortisation	73,216	(90,050)	53,048
Change in fair value	186,717	-	-
Exchange difference	117,050	477,301	123,406
At 31 December 2009	<u>16,201,038</u>	<u>9,811,280</u>	<u>383,842</u>

Available-for-sale and held-to-maturity securities are analysed as follows:

	The Group			
	Available-for-sale securities		Held-to-maturity securities	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Treasury bills	6,815,656	4,035,056	-	470,542
Certificates of deposit held	2,074,469	1,552,077	23,806	2,525,958
Others	14,853,091	10,838,564	2,358,769	6,814,780
	<u>23,743,216</u>	<u>16,425,697</u>	<u>2,382,575</u>	<u>9,811,280</u>

	The Bank			
	Available-for-sale securities		Held-to-maturity securities	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Treasury bills	5,394,135	3,810,397	-	470,542
Certificates of deposit held	2,074,469	1,552,077	23,806	2,525,958
Others	14,853,091	10,838,564	2,358,769	6,814,780
	<u>22,321,695</u>	<u>16,201,038</u>	<u>2,382,575</u>	<u>9,811,280</u>

The movements in impairment allowances on held-to-maturity securities are summarised as follows:

	The Group and the Bank	
	2010 HK\$'000	2009 HK\$'000
At 1 January	-	-
Charge to income statement (Note 10)	<u>3,303</u>	-
At 31 December	<u>3,303</u>	-

Notes to the Financial Statements (continued)**26. Investment in subsidiaries**

	The Bank	
	2010	2009
	HK\$'000	HK\$'000
Unlisted shares, at cost	5,286,630	5,286,630

The particulars of all direct and indirect subsidiaries of the Bank are set out in "Appendix - Subsidiaries of the Bank".

Notes to the Financial Statements (continued)

27. Investment properties

	The Group		The Bank	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
At 1 January	717,985	611,646	679,287	596,556
Disposals	(166,217)	(9,140)	(162,797)	(5,410)
Fair value gains	78,670	83,250	77,110	78,732
Reclassification (to)/from properties, plant and equipment (Note 28)	(13,660)	32,197	(13,660)	9,409
Exchange difference	1,485	32	-	-
At 31 December	618,263	717,985	579,940	679,287

As at 31 December 2010, investment properties are included in the balance sheets at valuation carried out at 31 December 2010 on the basis of their fair value by an independent firm of chartered surveyors, Savills Valuation and Professional Services Limited.

The carrying value of investment properties is analysed based on the remaining terms of the leases as follows:

	The Group		The Bank	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Held in Hong Kong				
On long-term lease (over 50 years)	530,650	633,467	530,650	633,467
On medium-term lease (10 – 50 years)	49,290	45,820	49,290	45,820
Held outside Hong Kong				
On long-term lease (over 50 years)	5,874	1,385	-	-
On medium-term lease (10 – 50 years)	32,449	37,313	-	-
	618,263	717,985	579,940	679,287

Notes to the Financial Statements (continued)

28. Properties, plant and equipment

	The Group		
	Premises	Equipment, fixtures and fittings	Total
	HK\$'000	HK\$'000	HK\$'000
Net book value at 1 January 2010	2,757,277	215,971	2,973,248
Additions	24,616	86,876	111,492
Disposals	(105,151)	(2,072)	(107,223)
Revaluation	539,953	-	539,953
Depreciation for the year (Note 11)	(43,014)	(59,334)	(102,348)
Reclassification from investment properties (Note 27)	13,660	-	13,660
Transfer	2,942	(2,942)	-
Exchange difference	6,629	3,969	10,598
Net book value at 31 December 2010	<u>3,196,912</u>	<u>242,468</u>	<u>3,439,380</u>
At 31 December 2010			
Cost or valuation	3,196,912	519,239	3,716,151
Accumulated depreciation	-	(276,771)	(276,771)
Net book value at 31 December 2010	<u>3,196,912</u>	<u>242,468</u>	<u>3,439,380</u>
Net book value at 1 January 2009	2,391,264	217,300	2,608,564
Additions	-	56,308	56,308
Disposals	(20,967)	(202)	(21,169)
Revaluation	446,962	-	446,962
Depreciation for the year (Note 11)	(34,072)	(51,213)	(85,285)
Reversal of impairment losses on premises	75	-	75
Reclassification to investment properties (Note 27)	(32,197)	-	(32,197)
Transfer	6,168	(6,168)	-
Exchange difference	44	(54)	(10)
Net book value at 31 December 2009	<u>2,757,277</u>	<u>215,971</u>	<u>2,973,248</u>
At 31 December 2009			
Cost or valuation	2,757,277	463,463	3,220,740
Accumulated depreciation	-	(247,492)	(247,492)
Net book value at 31 December 2009	<u>2,757,277</u>	<u>215,971</u>	<u>2,973,248</u>
The analysis of cost or valuation of the above assets is as follows:			
At 31 December 2010			
At cost	-	519,239	519,239
At valuation	3,196,912	-	3,196,912
	<u>3,196,912</u>	<u>519,239</u>	<u>3,716,151</u>
At 31 December 2009			
At cost	-	463,463	463,463
At valuation	2,757,277	-	2,757,277
	<u>2,757,277</u>	<u>463,463</u>	<u>3,220,740</u>

Notes to the Financial Statements (continued)
28. Properties, plant and equipment (continued)

	The Bank		
	Premises	Equipment, fixtures and fittings	Total
	HK\$'000	HK\$'000	HK\$'000
Net book value at 1 January 2010	2,580,328	89,046	2,669,374
Additions	24,616	25,341	49,957
Disposals	(92,296)	(1,816)	(94,112)
Revaluation	520,572	-	520,572
Depreciation for the year	(34,167)	(23,274)	(57,441)
Reclassification from investment properties (Note 27)	13,660	-	13,660
Transfer	2,942	(2,942)	-
Net book value at 31 December 2010	3,015,655	86,355	3,102,010
At 31 December 2010			
Cost or valuation	3,015,655	260,543	3,276,198
Accumulated depreciation	-	(174,188)	(174,188)
Net book value at 31 December 2010	3,015,655	86,355	3,102,010
Net book value at 1 January 2009	2,191,744	103,846	2,295,590
Additions	-	16,878	16,878
Disposals	(13,670)	-	(13,670)
Revaluation	432,684	-	432,684
Depreciation for the year	(27,172)	(25,527)	(52,699)
Reclassification to investment properties (Note 27)	(9,409)	-	(9,409)
Transfer	6,151	(6,151)	-
Net book value at 31 December 2009	2,580,328	89,046	2,669,374
At 31 December 2009			
Cost or valuation	2,580,328	260,761	2,841,089
Accumulated depreciation	-	(171,715)	(171,715)
Net book value at 31 December 2009	2,580,328	89,046	2,669,374
The analysis of cost or valuation of the above assets is as follows:			
At 31 December 2010			
At cost	-	260,543	260,543
At valuation	3,015,655	-	3,015,655
	3,015,655	260,543	3,276,198
At 31 December 2009			
At cost	-	260,761	260,761
At valuation	2,580,328	-	2,580,328
	2,580,328	260,761	2,841,089

Notes to the Financial Statements (continued)

28. Properties, plant and equipment (continued)

The carrying value of premises is analysed based on the remaining terms of the leases as follows:

	The Group		The Bank	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Held in Hong Kong				
On long-term lease (over 50 years)	2,138,489	2,037,878	2,138,489	2,037,878
On medium-term lease (10 – 50 years)	875,756	541,250	875,756	541,250
Held outside Hong Kong				
On long-term lease (over 50 years)	34,796	18,685	-	-
On medium-term lease (10 – 50 years)	134,744	145,356	1,410	1,200
On short-term lease (less than 10 years)	13,127	14,108	-	-
	3,196,912	2,757,277	3,015,655	2,580,328

As at 31 December 2010, premises are included in the balance sheets at valuation carried out at 31 December 2010 on the basis of their fair value by an independent firm of chartered surveyors, Savills Valuation and Professional Services Limited.

As a result of the above-mentioned revaluations, changes in value of the Group's and the Bank's premises were recognised in the Group's and the Bank's premises revaluation reserves and the income statements respectively as follows:

	The Group		The Bank	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Increase in valuation credited to premises revaluation reserve	534,270	446,272	518,116	432,113
Increase in valuation credited to income statement	5,683	690	2,456	571
	539,953	446,962	520,572	432,684

As at 31 December 2010, the net book value of premises that would have been included in the Group's and the Bank's balance sheets had the assets been carried at cost less accumulated depreciation was HK\$233,627,000 (2009: HK\$215,408,000) and HK\$190,818,000 (2009: HK\$165,878,000).

29. Other assets

	The Group		The Bank	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Repossession assets	50	50	-	-
Accounts receivable and prepayments	1,169,202	1,410,289	1,146,077	1,342,905
	1,169,252	1,410,339	1,146,077	1,342,905

Notes to the Financial Statements (continued)

30. Financial liabilities at fair value through profit or loss

	The Group and the Bank	
	2010	2009
	HK\$'000	HK\$'000
Trading liabilities		
- Short positions in Exchange Fund Bills and Notes	1,185,375	815,306

As at 31 December 2010, there was no financial liabilities designated at fair value through profit or loss (2009: Nil).

31. Deposits from customers and hedge accounting

(a) Deposits from customers

	The Group		The Bank	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current, savings and other deposit accounts (per balance sheets)	141,336,905	110,039,401	109,845,308	97,566,575
Analysed by :				
Demand deposits and current accounts				
- corporate customers	8,898,591	7,422,648	5,760,692	5,276,783
- individual customers	1,709,136	1,472,503	1,574,135	1,416,199
	10,607,727	8,895,151	7,334,827	6,692,982
Savings deposits				
- corporate customers	16,875,977	14,579,354	15,275,293	13,247,821
- individual customers	31,736,950	32,215,663	31,079,284	31,881,832
	48,612,927	46,795,017	46,354,577	45,129,653
Time, call and notice deposits				
- corporate customers	48,789,231	27,379,923	28,058,909	20,684,170
- individual customers	33,327,020	26,969,310	28,096,995	25,059,770
	82,116,251	54,349,233	56,155,904	45,743,940
	141,336,905	110,039,401	109,845,308	97,566,575

(b) Hedge accounting

Hedges of net investments in foreign operations

As at 31 December 2010, a proportion of the Group's RMB-denominated deposits from customers of RMB1,680,000,000 (2009: Nil) are designated as a hedging instrument to hedge against the net investments in foreign operations. No net investment hedge was applied in 2009.

There are no gains or losses on ineffective portion recognised in the income statement during the year (2009: Nil).

Notes to the Financial Statements (continued)

32. Other accounts and provisions

	The Group		The Bank	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Other accounts payable	6,822,767	3,872,077	2,310,527	2,576,750
Provisions	33,560	57,996	33,560	57,996
	<u>6,856,327</u>	<u>3,930,073</u>	<u>2,344,087</u>	<u>2,634,746</u>

33. Assets pledged as security

As at 31 December 2010, liabilities of the Group and the Bank both amounting to HK\$1,855,245,000 (2009: HK\$499,810,000) were secured by assets deposited with central depositories to facilitate settlement operations. The amount of assets pledged by the Group and the Bank to secure these liabilities was HK\$1,858,552,000 (2009: HK\$500,822,000) included in "Trading securities" and "Available-for-sale securities".

34. Deferred taxation

Deferred tax is recognised in respect of the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements in accordance with HKAS 12 "Income Taxes".

The major components of deferred tax (assets)/liabilities recorded in the balance sheets, and the movements during the year showing the impact of the early adoption of HKAS 12 (Amendment) "Income Taxes", are as follows:

Notes to the Financial Statements (continued)
34. Deferred taxation (continued)

	The Group					
	2010					
	Accelerated tax depreciation HK\$'000	Property revaluation HK\$'000	Losses HK\$'000	Impairment allowances HK\$'000	Other temporary differences HK\$'000	Total HK\$'000
At 1 January 2010, as previously reported	10,899	515,655	(22,864)	(83,823)	(6,643)	413,224
Effect of early adoption of HKAS 12 (Amendment)	-	(88,048)	-	-	-	(88,048)
At 1 January 2010, as restated	10,899	427,607	(22,864)	(83,823)	(6,643)	325,176
Charged/(credited) to income statement (Note 14)	1,689	(1,646)	22,680	(8,938)	(1,234)	12,551
Charged to other comprehensive income	-	68,439	-	-	15,162	83,601
Exchange difference	(34)	1,253	184	(1,436)	(441)	(474)
At 31 December 2010	<u>12,554</u>	<u>495,653</u>	<u>-</u>	<u>(94,197)</u>	<u>6,844</u>	<u>420,854</u>
	The Group					
	2009					
	Accelerated tax depreciation HK\$'000	Property revaluation HK\$'000	Losses HK\$'000	Impairment allowances HK\$'000	Other temporary differences HK\$'000	Total HK\$'000
At 1 January 2009, as previously reported	7,347	436,847	(16,719)	(80,668)	(46,908)	299,899
Effect of early adoption of HKAS 12 (Amendment)	-	(72,737)	-	-	-	(72,737)
At 1 January 2009, as restated	7,347	364,110	(16,719)	(80,668)	(46,908)	227,162
Charged/(credited) to income statement (Note 14)	3,547	(3,091)	(6,138)	(3,500)	10,133	951
Charged to other comprehensive income	-	66,588	-	-	30,112	96,700
Exchange difference	5	-	(7)	345	20	363
At 31 December 2009	<u>10,899</u>	<u>427,607</u>	<u>(22,864)</u>	<u>(83,823)</u>	<u>(6,643)</u>	<u>325,176</u>

Notes to the Financial Statements (continued)
34. Deferred taxation (continued)

	The Bank				
	2010				
	Accelerated tax depreciation	Property revaluation	Impairment allowances	Other temporary differences	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2010, as previously reported	11,798	467,607	(46,976)	1,616	434,045
Effect of early adoption of HKAS 12 (Amendment)	-	(78,468)	-	-	(78,468)
At 1 January 2010, as restated	11,798	389,139	(46,976)	1,616	355,577
Charged/(credited) to income statement	1,689	2,419	(8,938)	2,984	(1,846)
Charged to other comprehensive income	-	65,507	-	17,770	83,277
Exchange difference	-	-	(23)	-	(23)
At 31 December 2010	13,487	457,065	(55,937)	22,370	436,985

	The Bank				
	2009				
	Accelerated tax depreciation	Property revaluation	Impairment allowances	Other temporary differences	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2009, as previously reported	9,707	389,419	(39,158)	(34,948)	325,020
Effect of early adoption of HKAS 12 (Amendment)	-	(63,921)	-	-	(63,921)
At 1 January 2009, as restated	9,707	325,498	(39,158)	(34,948)	261,099
Charged/(credited) to income statement	2,091	240	(7,817)	6,452	966
Charged to other comprehensive income	-	63,401	-	30,112	93,513
Exchange difference	-	-	(1)	-	(1)
At 31 December 2009	11,798	389,139	(46,976)	1,616	355,577

Notes to the Financial Statements (continued)

34. Deferred taxation (continued)

Deferred tax assets and liabilities are offset on an individual entity basis when there is a legal right to set off current tax assets against current tax liabilities and when the deferred taxation relates to the same authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheets:

	The Group			The Bank		
		(Restated)	(Restated)		(Restated)	(Restated)
	At	At	At	At	At	At
31 December 2010	31 December 2009	1 January 2009	31 December 2010	31 December 2009	1 January 2009	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Deferred tax assets	(26,204)	(40,889)	(43,540)	(627)	(604)	-
Deferred tax liabilities	447,058	366,065	270,702	437,612	356,181	261,099
	420,854	325,176	227,162	436,985	355,577	261,099

	The Group			The Bank		
		(Restated)	(Restated)		(Restated)	(Restated)
	At	At	At	At	At	At
31 December 2010	31 December 2009	1 January 2009	31 December 2010	31 December 2009	1 January 2009	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Deferred tax assets to be recovered after more than twelve months	(26,204)	(40,889)	(43,510)	(627)	(604)	-
Deferred tax liabilities to be settled after more than twelve months	424,688	364,449	305,651	415,242	354,565	296,048
	398,484	323,560	262,141	414,615	353,961	296,048

The deferred tax charged for each component of other comprehensive income during the year is as follows:

	The Group		The Bank	
		(Restated)		(Restated)
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fair value changes of available-for-sale securities	15,162	30,112	17,770	30,112
Revaluation of premises	68,439	66,588	65,507	63,401
	83,601	96,700	83,277	93,513

Notes to the Financial Statements (continued)**35. Share capital**

	<u>2010</u>	<u>2009</u>
	HK\$'000	HK\$'000
Authorised:		
7,000,000 ordinary shares of HK\$100 each	<u>700,000</u>	<u>700,000</u>
Issued and fully paid:		
7,000,000 ordinary shares of HK\$100 each	<u>700,000</u>	<u>700,000</u>

36. Reserves

The Group's and the Bank's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity and statement of changes in equity respectively on pages 10 to 11 of the financial statements.

Notes to the Financial Statements (continued)

37. Notes to consolidated cash flow statement

(a) Reconciliation of operating profit to operating cash inflow/(outflow) before taxation

	2010	2009
	HK\$'000	HK\$'000
Operating profit	2,129,606	1,720,340
Depreciation	102,348	85,285
Net charge/(reversal) of impairment allowances	30,620	(89,460)
Unwind of discount on impairment	(704)	(1,650)
Advances written off net of recoveries	(5,157)	7,187
Change in cash and balances with banks and other financial institutions with original maturity over three months	59,069	890,042
Change in treasury bills with original maturity over three months	(888,426)	(141,626)
Change in placements with banks and other financial institutions with original maturity over three months	3,682,808	(557,541)
Write back on impairment allowances on premises	-	(75)
Change in financial assets at fair value through profit or loss	263,700	208,971
Change in derivative financial instruments	(122,115)	(155,821)
Change in certificates of deposit held with original maturity over three months	656,618	(583,022)
Change in advances and other accounts	(29,930,034)	(12,138,116)
Change in investment in securities	(147,604)	(1,677,110)
Change in other assets	241,087	(617,691)
Change in deposits and balances of banks and other financial institutions	(1,189,804)	(3,393,819)
Change in financial liabilities at fair value through profit or loss	370,069	114,770
Change in deposits from customers	31,297,504	9,358,421
Change in other accounts and provisions	2,449,469	777,011
Exchange difference	201,755	(1,573)
Operating cash inflow/(outflow) before taxation	9,200,809	(6,195,477)
Cash flows from operating activities included:		
- interest received	3,600,836	3,615,016
- interest paid	(796,067)	(1,094,716)
- dividend received	4,763	4,606

(b) Analysis of the balances of cash and cash equivalents

	2010	2009
	HK\$'000	HK\$'000
Cash and balances with banks and other financial institutions with original maturity within three months	22,885,392	12,969,911
Placements with banks and other financial institutions with original maturity within three months	1,672,685	2,688,831
Treasury bills with original maturity within three months	5,832,992	4,319,456
Certificates of deposit held with original maturity within three months	-	1,323,142
	30,391,069	21,301,340

Notes to the Financial Statements (continued)

38. Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liability and commitment and the corresponding aggregate credit risk weighted amount:

	The Group		The Bank	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Direct credit substitutes	3,941,792	1,111,321	350,961	405,250
Transaction-related contingencies	1,400,471	549,046	449,710	416,412
Trade-related contingencies	4,961,955	3,200,530	2,225,662	2,230,366
Commitments that are unconditionally cancellable without prior notice	31,241,831	11,939,008	23,483,714	10,481,027
Other commitments with an original maturity of				
- up to one year	2,022,481	3,053,806	963,253	1,300,371
- over one year	7,890,753	11,857,218	4,083,548	7,046,391
	51,459,283	31,710,929	31,556,848	21,879,817
Credit risk weighted amount	7,462,170	7,597,750	2,772,797	4,245,995

The credit risk weighted amount is calculated in accordance with the Banking (Capital) Rules. The amount is dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

39. Capital commitments

The Group and the Bank have the following outstanding capital commitments not provided for in the financial statements:

	The Group		The Bank	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Authorised and contracted for but not provided for	9,208	7,815	5,618	-
Authorised but not contracted for	12,600	7,691	3,366	7,691
	21,808	15,506	8,984	7,691

The above capital commitments mainly relate to commitments to purchase computer equipment and software, and to renovate the premises.

Notes to the Financial Statements (continued)

40. Operating lease commitments

(a) As lessee

The Group and the Bank have commitments to make the following future minimum lease payments under non-cancellable operating leases:

	The Group		The Bank	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Land and buildings				
- not later than one year	112,056	76,779	38,139	35,288
- later than one year but not later than five years	102,752	152,363	37,414	31,629
- later than five years	11,850	-	-	-
	226,658	229,142	75,553	66,917
Other commitments				
- not later than one year	-	23	-	-
	226,658	229,165	75,553	66,917

(b) As lessor

The Group and the Bank have contracted with tenants for the following future minimum lease receivables under non-cancellable operating leases:

	The Group		The Bank	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Land and buildings				
- not later than one year	31,133	20,877	28,263	20,039
- later than one year but not later than five years	40,425	10,211	32,214	5,692
	71,558	31,088	60,477	25,731

The Group leases its investment properties (Note 27) under operating lease arrangements, with leases typically for a period from one to three years. The terms of the leases generally require the tenants to pay security deposits.

Notes to the Financial Statements (continued)

41. Litigation

The Group is currently being served a number of claims and counterclaims by various independent parties. These claims and counterclaims are in relation to the normal commercial activities of the Group.

No material provision was made against these claims and counterclaims because the directors believe that the Group has meritorious defences against the claimants or the amounts involved in these claims are not expected to be material.

42. Segmental reporting

(a) By class of business

The Group divides its business into four classes, Personal Banking, Corporate Banking, Treasury and Investment.

Both Personal Banking business and Corporate Banking business provide general banking services. Personal Banking serves individual customers while Corporate Banking deals with non individual customers. The Treasury segment is responsible for managing the capital, liquidity, and the interest rate and foreign exchange positions of the Group in addition to proprietary trades. It provides funds to other business segments and receives funds from deposit taking activities of Personal Banking and Corporate Banking. These inter-segment funding transactions are mainly priced at market bid rates match with the currencies and the tenors of the transactions. The profit and loss information about Treasury business presented in this note includes the above inter-segment charging/income transactions. The assets and liabilities of Treasury have not been adjusted to reflect the effect of inter-segment borrowing and lending (i.e. the profit and loss information in relation to Treasury is not comparable to the assets and liabilities information about Treasury).

Investment includes bank premises and equipment used by supporting units. Charges are paid to this segment from other business segments based on market rates per square foot for their occupation of the Group's premises. The exchange difference arising from capital of our subsidiary, Nanyang Commercial Bank (China), Limited, that is recognised in its income statement is also included in this class.

"Others" refers to other group operations and mainly comprises of items related to the Group as a whole and totally independent of the other four business segments.

Operating expenses of a functional unit are allocated to the relevant business segment that is the predominant user of the services provided by the unit. For those functional units supporting the Group's business as a whole, their operating expenses are allocated to the four business segments by reasonable allocation rules. Operating expenses, which are totally independent of the four business segments, are grouped under other group operations.

Notes to the Financial Statements (continued)

42. Segmental reporting (continued)

(a) By class of business (continued)

	The Group							Consolidated HK\$'000
	2010							
	Personal HK\$'000	Corporate HK\$'000	Treasury HK\$'000	Investment HK\$'000	Others HK\$'000	Subtotal HK\$'000	Eliminations HK\$'000	
Net interest income/(expense)								
- external	125,733	2,130,625	501,573	31	-	2,757,962	-	2,757,962
- inter-segment	186,511	(371,219)	184,708	-	-	-	-	-
	312,244	1,759,406	686,281	31	-	2,757,962	-	2,757,962
Net fee and commission income	346,875	344,093	3,076	6,599	-	700,643	-	700,643
Net trading gain/(loss)	94,267	(78,623)	11,090	(62,919)	-	(36,185)	-	(36,185)
Net gain on financial instruments designated at fair value through profit or loss	-	40,617	4,430	-	-	45,047	-	45,047
Net gain on investment in securities	-	-	80,200	-	-	80,200	-	80,200
Other operating income	267	4	187	127,524	11,233	139,215	(92,871)	46,344
Net operating income before impairment allowances	753,653	2,065,497	785,264	71,235	11,233	3,686,882	(92,871)	3,594,011
Net reversal/(charge) of impairment allowances	1,130	(28,447)	(3,303)	-	-	(30,620)	-	(30,620)
Net operating income	754,783	2,037,050	781,961	71,235	11,233	3,656,262	(92,871)	3,563,391
Operating expenses	(676,122)	(678,436)	(20,142)	(102,629)	(49,327)	(1,526,656)	92,871	(1,433,785)
Operating profit/(loss)	78,661	1,358,614	761,819	(31,394)	(38,094)	2,129,606	-	2,129,606
Net gain from disposal of/fair value adjustments on investment properties	-	-	-	78,674	-	78,674	-	78,674
Net gain from disposal/revaluation of properties, plant and equipment	-	-	-	3,544	-	3,544	-	3,544
Profit/(loss) before taxation	78,661	1,358,614	761,819	50,824	(38,094)	2,211,824	-	2,211,824
Assets								
Segment assets	21,602,864	109,061,573	57,296,898	4,103,797	110,057	192,175,189	-	192,175,189
Liabilities								
Segment liabilities	69,005,849	78,856,743	20,372,055	487,830	962,714	169,685,191	-	169,685,191
Other information								
Capital expenditure	-	-	-	111,492	-	111,492	-	111,492
Depreciation	-	-	-	102,348	-	102,348	-	102,348
Amortisation of securities	-	-	75,282	-	-	75,282	-	75,282

Notes to the Financial Statements (continued)

42. Segmental reporting (continued)

(a) By class of business (continued)

	The Group							Consolidated HK\$'000
	2009							
	Personal HK\$'000	Corporate HK\$'000	Treasury HK\$'000	Investment HK\$'000	Others HK\$'000	Subtotal HK\$'000	Eliminations HK\$'000	
Net interest income/(expense)								
- external	53,073	1,967,521	482,962	45	-	2,503,601	-	2,503,601
- inter-segment	365,628	(477,486)	111,858	-	-	-	-	-
	418,701	1,490,035	594,820	45	-	2,503,601	-	2,503,601
Net fee and commission income/(expense)	345,612	242,483	(5,810)	571	-	582,856	-	582,856
Net trading gain/(loss)	55,788	59,326	(3,776)	(3,349)	-	107,989	-	107,989
Net gain/(loss) on financial instruments designated at fair value through profit or loss	-	214,300	(3,550)	-	-	210,750	-	210,750
Net gain on investment in securities	-	-	149	-	-	149	-	149
Other operating income	830	3,106	-	128,693	7,958	140,587	(94,467)	46,120
Net operating income before impairment allowances	820,931	2,009,250	581,833	125,960	7,958	3,545,932	(94,467)	3,451,465
Net reversal of impairment allowances	12,050	77,376	-	75	-	89,501	-	89,501
Net operating income	832,981	2,086,626	581,833	126,035	7,958	3,635,433	(94,467)	3,540,966
Operating expenses	(614,208)	(640,505)	(19,018)	(85,306)	(556,056)	(1,915,093)	94,467	(1,820,626)
Operating profit/(loss)	218,773	1,446,121	562,815	40,729	(548,098)	1,720,340	-	1,720,340
Net gain from disposal of/fair value adjustments on investment properties	-	-	-	83,110	-	83,110	-	83,110
Net gain from disposal/revaluation of properties, plant and equipment	-	-	-	11,428	-	11,428	-	11,428
Profit/(loss) before taxation	218,773	1,446,121	562,815	135,267	(548,098)	1,814,878	-	1,814,878
Assets								
Segment assets	18,978,594	82,703,630	50,547,966	3,733,448	104,509	156,068,147	-	156,068,147
Liabilities								
Segment liabilities	62,479,680	50,690,039	21,756,127	6,105	738,853	135,670,804	-	135,670,804
Other information								
Capital expenditure	-	-	-	56,308	-	56,308	-	56,308
Depreciation	-	-	-	85,285	-	85,285	-	85,285
Amortisation of securities	-	-	37,719	-	-	37,719	-	37,719

Notes to the Financial Statements (continued)

42. Segmental reporting (continued)

(a) By class of business (continued)

	The Bank							
	2010							
	Personal	Corporate	Treasury	Investment	Others	Subtotal	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net interest income/(expense)								
- external	120,122	1,278,487	517,042	31	-	1,915,682	-	1,915,682
- inter-segment	209,214	(136,939)	(72,275)	-	-	-	-	-
	329,336	1,141,548	444,767	31	-	1,915,682	-	1,915,682
Net fee and commission income/(expense)	314,517	301,576	(5,237)	-	-	610,856	-	610,856
Net trading gain/(loss)	92,119	(101,165)	5,963	-	-	(3,083)	-	(3,083)
Net gain on financial instruments designated at fair value through profit or loss	-	40,617	4,430	-	-	45,047	-	45,047
Net gain on investment in securities	-	-	80,200	-	-	80,200	-	80,200
Other operating income	505	1	187	330,086	197	330,976	(92,871)	238,105
Net operating income before impairment allowances	736,477	1,382,577	530,310	330,117	197	2,979,678	(92,871)	2,886,807
Net reversal/(charge) of impairment allowances	523	(36,400)	(3,303)	-	-	(39,180)	-	(39,180)
Net operating income	737,000	1,346,177	527,007	330,117	197	2,940,498	(92,871)	2,847,627
Operating expenses	(498,740)	(270,343)	(20,142)	(57,723)	(49,327)	(896,275)	92,871	(803,404)
Operating profit/(loss)	238,260	1,075,834	506,865	272,394	(49,130)	2,044,223	-	2,044,223
Net gain from disposal of fair value adjustments on investment properties	-	-	-	77,119	-	77,119	-	77,119
Net gain from disposal/revaluation of properties, plant and equipment	-	-	-	734	-	734	-	734
Profit/(loss) before taxation	238,260	1,075,834	506,865	350,247	(49,130)	2,122,076	-	2,122,076
Assets								
Segment assets	18,363,278	72,071,893	45,850,624	9,003,494	18,362	145,307,651	-	145,307,651
Liabilities								
Segment liabilities	62,738,803	49,364,450	10,398,236	487,333	750,642	123,739,464	-	123,739,464
Other information								
Capital expenditure	-	-	-	49,957	-	49,957	-	49,957
Depreciation	-	-	-	57,441	-	57,441	-	57,441
Amortisation of securities	-	-	46,084	-	-	46,084	-	46,084

Notes to the Financial Statements (continued)

42. Segmental reporting (continued)

(a) By class of business (continued)

	The Bank							Consolidated HK\$'000
	2009							
	Personal HK\$'000	Corporate HK\$'000	Treasury HK\$'000	Investment HK\$'000	Others HK\$'000	Subtotal HK\$'000	Eliminations HK\$'000	
Net interest income/(expense)								
- external	44,586	1,044,095	689,233	45	-	1,777,959	-	1,777,959
- inter-segment	380,063	(183,485)	(196,578)	-	-	-	-	-
	424,649	860,610	492,655	45	-	1,777,959	-	1,777,959
Net fee and commission income/(expense)	323,773	181,268	(4,772)	(4)	-	500,265	-	500,265
Net trading gain/(loss)	55,788	56,695	(19,288)	-	-	93,195	-	93,195
Net gain/(loss) on financial instruments designated at fair value through profit or loss	-	214,300	(3,550)	-	-	210,750	-	210,750
Net gain on investment in securities	-	-	149	-	-	149	-	149
Other operating (expenses)/income	(7,914)	-	-	129,126	8,113	129,325	(94,467)	34,858
Net operating income before impairment allowances	796,296	1,312,873	465,194	129,167	8,113	2,711,643	(94,467)	2,617,176
Net reversal of impairment allowances	4,279	6,009	-	-	-	10,288	-	10,288
Net operating income	800,575	1,318,882	465,194	129,167	8,113	2,721,931	(94,467)	2,627,464
Operating expenses	(484,605)	(262,118)	(19,018)	(52,718)	(556,211)	(1,374,670)	94,467	(1,280,203)
Operating profit/(loss)	315,970	1,056,764	446,176	76,449	(548,098)	1,347,261	-	1,347,261
Net gain from disposal of fair value adjustments on investment properties	-	-	-	78,659	-	78,659	-	78,659
Net gain from disposal/revaluation of properties, plant and equipment	-	-	-	11,232	-	11,232	-	11,232
Profit/(loss) before taxation	315,970	1,056,764	446,176	166,340	(548,098)	1,437,152	-	1,437,152
Assets								
Segment assets	17,105,245	55,739,469	48,118,895	8,671,265	15,251	129,650,125	-	129,650,125
Liabilities								
Segment liabilities	60,004,666	39,514,535	9,741,494	5,116	677,227	109,943,038	-	109,943,038
Other information								
Capital expenditure	-	-	-	16,878	-	16,878	-	16,878
Depreciation	-	-	-	52,699	-	52,699	-	52,699
Amortisation of securities	-	-	36,214	-	-	36,214	-	36,214

Notes to the Financial Statements (continued)

42. Segmental reporting (continued)

(b) By geographical area

The following information is presented based on the principal places of operations of the subsidiaries, or in the case of the Bank, on the locations of the branches responsible for reporting the results or booking the assets:

	The Group			
	2010		2009	
	Net operating income before impairment allowance HK\$'000	Profit before taxation HK\$'000	Net operating income before impairment allowance HK\$'000	Profit before taxation HK\$'000
Hong Kong	2,655,688	1,900,950	2,577,943	1,412,421
Mainland China	913,611	298,079	852,941	394,691
Others	24,712	12,795	20,581	7,766
Total	3,594,011	2,211,824	3,451,465	1,814,878

	The Group			
	2010			
	Total assets HK\$'000	Total liabilities HK\$'000	Non-current assets HK\$'000	Contingent liabilities and commitments HK\$'000
Hong Kong	129,338,045	118,195,285	3,681,748	30,528,444
Mainland China	61,436,838	50,164,651	385,190	20,592,813
Others	1,400,306	1,325,255	202	338,026
Total	192,175,189	169,685,191	4,067,140	51,459,283

	The Group			
	2009			
	Total assets HK\$'000	Total liabilities HK\$'000	Non-current assets HK\$'000	Contingent liabilities and commitments HK\$'000
Hong Kong	113,081,127	102,077,866	3,348,578	20,649,042
Mainland China	41,589,811	32,258,536	344,265	10,852,823
Others	1,397,209	1,334,402	118	209,064
Total	156,068,147	135,670,804	3,692,961	31,710,929

Notes to the Financial Statements (continued)
42. Segmental reporting (continued)
(b) By geographical area (continued)

	The Bank			
	2010		2009	
	Net operating income before impairment allowance HK\$'000	Profit before taxation HK\$'000	Net operating income before impairment allowance HK\$'000	Profit before taxation HK\$'000
Hong Kong	2,852,929	2,098,478	2,577,761	1,415,128
Mainland China	9,166	10,803	18,834	14,258
Others	24,712	12,795	20,581	7,766
Total	2,886,807	2,122,076	2,617,176	1,437,152

	The Bank			
	2010			
	Total assets HK\$'000	Total liabilities HK\$'000	Non-current assets HK\$'000	Contingent liabilities and commitments HK\$'000
Hong Kong	139,854,841	118,530,665	3,681,748	30,605,234
Mainland China	4,052,504	3,883,544	-	613,588
Others	1,400,306	1,325,255	202	338,026
Total	145,307,651	123,739,464	3,681,950	31,556,848

	The Bank			
	2009			
	Total assets HK\$'000	Total liabilities HK\$'000	Non-current assets HK\$'000	Contingent liabilities and commitments HK\$'000
Hong Kong	121,974,675	102,508,848	3,348,578	20,715,946
Mainland China	6,278,241	6,099,788	-	954,807
Others	1,397,209	1,334,402	118	209,064
Total	129,650,125	109,943,038	3,348,696	21,879,817

Notes to the Financial Statements (continued)

43. Loans to directors and officers

Particulars of advances made to directors and officers of the Bank pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

	<u>2010</u>	<u>2009</u>
	HK\$'000	HK\$'000
Aggregate amount of relevant loans outstanding at year end	<u>59</u>	<u>2,035</u>
Maximum aggregate amount of relevant loans outstanding during the year	<u>2,035</u>	<u>2,892</u>

44. Significant related party transactions

Related parties are those parties that have the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individual or other entities.

The Group is subject to the control of the State Council of the PRC Government through CIC, its wholly-owned subsidiary Central Huijin, BOC and BOCHK in which Central Huijin has controlling equity interests.

(a) Transactions with the parent companies and the other companies controlled by the parent companies

(i) General information of the parent companies

The Group is controlled by BOCHK. Central Huijin is the controlling entity of BOCHK, and it is a wholly-owned subsidiary of CIC which is a wholly state-owned company engaging in foreign currency investment and management.

Central Huijin has controlling equity interests in certain other entities in the PRC.

The Group enters into banking transactions with these companies in the normal course of business. These include loans, investment securities and money market transactions.

Notes to the Financial Statements (continued)

44. Significant related party transactions (continued)

(a) Transactions with the parent companies and the other companies controlled by the parent companies (continued)

(ii) Transactions with government authorities, agencies, affiliates and other state controlled entities

The Group is subject to the control of the State Council of the PRC Government through CIC and Central Huijin, which also directly and indirectly controls a significant number of entities through its government authorities, agencies, affiliates and other state controlled entities. The Group enters into banking transactions with government authorities, agencies, affiliates and other state controlled entities in the normal course of business and commercial terms.

These transactions may include, but are not limited to, the following:

- lending, provision of credits and guarantees, and deposit taking;
- inter-bank balance taking and placing;
- sales, purchase, underwriting and redemption of bonds issued by other state-controlled entities;
- rendering of foreign exchange, remittance and investment related services;
- provision of fiduciary activities; and
- purchase of utilities, transport, telecommunication and postage services.

Notes to the Financial Statements (continued)

44. Significant related party transactions (continued)

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

The aggregate income and expenses arising from related party transactions with other related parties of the Group are summarised as follows:

	2010	2009
	Other related parties	Other related parties
	HK\$'000	HK\$'000
Income statement items:		
Interest income	7,227	6,112
Interest expense	(28,714)	(10,870)
Insurance premium paid/insurance commission received (net)	7,322	5,387
Administrative services fees paid/payable	(15,655)	(15,548)
Rental fees received/receivable	16,792	15,793
Securities brokerage commission paid/payable (net)	(22,610)	(28,449)
Rental paid/payable	(295)	(295)
Funds selling commission received	8,614	7,503
Other expense	(3,603)	(2,964)
Other commission income	3,325	3,131
Other fees and commission expense	(4,919)	(4,167)
Dividend income	3,341	3,283
Net trading gains	43	640
Balance sheet items:		
Cash and balances with banks and other financial institutions	4,161	3,195
Placements with banks and other financial institutions maturing between one and twelve months	-	114,306
Derivative financial instruments assets	797	78
Advances and other accounts	1,347,528	947,800
Investment in securities	32,909	34,119
Other assets	192,662	282,467
Deposits and balances of banks and other financial institutions	(568,921)	(2,831)
Deposits from customers	(4,821,035)	(3,283,837)
Derivative financial instruments liabilities	-	(4)
Other accounts and provisions	(194,658)	(275,684)

(c) Key management personnel

Key management are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and senior management. The Group accepts deposits from and grants loans and credit facilities to key management personnel in the ordinary course of business. During both the current and prior years, no material transaction was conducted with key management personnel of the Bank, its holding companies and parties related to them.

The key management compensation for the year ended 31 December 2010 and 2009 is detailed as follows:

	2010	2009
	HK\$'000	HK\$'000
Salaries and other short-term employee benefits	26,635	18,330
Post-employment benefits	1,761	1,496
	28,396	19,826

Notes to the Financial Statements (continued)

45. Currency concentrations

The following is a summary of the major foreign currency exposures arising from trading, non-trading and structural positions.

	2010						Total
	Equivalent in thousand of HK\$						
	US Dollars	Japanese Yen	Euro	Australian Dollars	Renminbi	Others	
Spot assets	56,965,719	208,717	3,623,641	2,847,305	43,611,708	2,061,197	109,318,287
Spot liabilities	(38,818,498)	(493,014)	(5,910,385)	(2,593,025)	(42,564,121)	(3,165,230)	(93,544,273)
Forward purchases	17,787,839	707,878	2,548,734	292,624	15,172,833	1,709,797	38,219,705
Forward sales	(35,803,212)	(427,497)	(261,849)	(549,682)	(15,288,819)	(608,599)	(52,939,658)
Net long/(short) position	<u>131,848</u>	<u>(3,916)</u>	<u>141</u>	<u>(2,778)</u>	<u>931,601</u>	<u>(2,835)</u>	<u>1,054,061</u>
Net structural position	<u>295,431</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,868,676</u>	<u>-</u>	<u>3,164,107</u>

	2009						Total
	Equivalent in thousand of HK\$						
	US Dollars	Japanese Yen	Euro	Australian Dollars	Renminbi	Others	
Spot assets	42,047,623	660,944	6,728,270	3,939,994	18,173,696	2,569,604	74,120,131
Spot liabilities	(35,723,674)	(204,856)	(6,760,271)	(3,712,860)	(17,336,151)	(3,166,420)	(66,904,232)
Forward purchases	3,787,914	667,517	192,855	753,134	238,766	1,276,997	6,917,183
Forward sales	(8,044,021)	(1,146,579)	(183,191)	(992,316)	(235,133)	(763,888)	(11,365,128)
Net long/(short) position	<u>2,067,842</u>	<u>(22,974)</u>	<u>(22,337)</u>	<u>(12,048)</u>	<u>841,178</u>	<u>(83,707)</u>	<u>2,767,954</u>
Net structural position	<u>294,716</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,597,657</u>	<u>-</u>	<u>2,892,373</u>

46. Cross-border claims

The information on cross-border claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any transfer of risk. 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. Only regions constituting 10% or more of the aggregate cross-border claims are analysed by geographical areas and disclosed as follows:

Notes to the Financial Statements (continued)
46. Cross-border claims (continued)

	Banks	Public sector entities	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2010				
Asia, other than Hong Kong				
- Mainland China	16,487,143	449,307	21,293,117	38,229,567
- Others	9,136,703	-	3,195,757	12,332,460
	25,623,846	449,307	24,488,874	50,562,027
North America				
- United States	118,751	68,603	3,433,777	3,621,131
- Others	846,198	-	93,456	939,654
	964,949	68,603	3,527,233	4,560,785
Western Europe				
- Germany	998,645	-	21,282	1,019,927
- Others	5,168,287	-	120,307	5,288,594
	6,166,932	-	141,589	6,308,521
	Banks	Public sector entities	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2009				
Asia, other than Hong Kong				
- Mainland China	13,703,312	2,339,192	16,507,404	32,549,908
- Others	8,896,367	470,542	3,153,742	12,520,651
	22,599,679	2,809,734	19,661,146	45,070,559
North America				
- United States	128,556	21,723	1,751,882	1,902,161
- Others	796,072	-	58,325	854,397
	924,628	21,723	1,810,207	2,756,558
Western Europe				
- Germany	1,936,852	-	22,157	1,959,009
- Others	11,157,667	-	200,140	11,357,807
	13,094,519	-	222,297	13,316,816

Notes to the Financial Statements (continued)

47. Non-bank Mainland China exposures

Non-bank counterparties are identified in accordance with the definitions set out in the prudential return "Quarterly Analysis of Loans and Advances and Provisions" issued by the HKMA. Exposures in Mainland China arising from non-bank counterparties at 31 December are summarised as follows:

	2010			
	On- balance sheet exposure HK\$'000	Off- balance sheet exposure HK\$'000	Total exposure HK\$'000	Individually assessed impairment allowances HK\$'000
Mainland China entities	49,032,202	9,771,147	58,803,349	51,271
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	5,540,402	1,478,260	7,018,662	4,276
Other non-bank Mainland China exposures	13,697,935	732,217	14,430,152	43,339
	<u>68,270,539</u>	<u>11,981,624</u>	<u>80,252,163</u>	<u>98,886</u>

	2009			
	On- balance sheet exposure HK\$'000	Off- balance sheet exposure HK\$'000	Total exposure HK\$'000	Individually assessed impairment allowances HK\$'000
Mainland China entities	39,727,000	5,657,656	45,384,656	64,331
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	4,265,487	2,113,798	6,379,285	21,863
Other non-bank Mainland China exposures	6,375,388	884,484	7,259,872	41,180
	<u>50,367,875</u>	<u>8,655,938</u>	<u>59,023,813</u>	<u>127,374</u>

48. Ultimate holding company

The Group is subject to the control of the State Council of the PRC Government through CIC, its wholly-owned subsidiary Central Huijin, BOC and BOCHK in which Central Huijin has controlling equity interests.

49. Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 16 March 2011.

Management of Risks

The Overview

The principal types of risk inherent in the business of the Group include credit risk, liquidity risk, market risk, interest rate risk, foreign exchange risk and operational risk. The Group's risk management goal is to maximise shareholder value by managing risk exposures within our acceptance level.

Risk Management Structure

The Bank's Board of Directors (the "Board") holds the ultimate responsibility for the Group's overall risk management. It determines the risk management strategies and the risk management structure.

To achieve the Group's goals in risk management, the Board sets up the Risk Management Committee, which comprises of independent non-executive directors, to approve the risk management policies.

According to the risk management strategies established by the Board, risk management policies and controls are devised and reviewed regularly by relevant departments and respective management committees chaired by the Chief Executive (the "CE").

The Risk Management Department develops policies and procedures for identifying, measuring, monitoring and controlling credit risk, market risk, foreign exchange risk, operational risk, reputation risk, legal and compliance risk, and strategic risk; to set appropriate risk limits; and to continually monitor risks. The Finance Department is responsible for developing policies and procedures for measuring, monitoring and controlling bank-wide interest rate risk and liquidity risk. The Risk Management Department reports the risk levels to the Risk Management Committee on a regular basis.

The Auditing Department conducts independent reviews on the adequacy and effectiveness of risk management policies and controls to ensure that the Group is operating according to the established policies, procedures and limits.

Independence is crucial to effective risk management. To ensure the independence of the Risk Management Department and the Auditing Department, they report directly to the Risk Management Committee and the Audit Committee respectively. Both committees are specialised committees set up by the Board and all members are directors of the Bank.

Management of Risks (continued)

Risk Management Structure (continued)

(i) Credit risk management

Details of management of credit risk are set out in Note 4 to the financial statements.

(ii) Liquidity risk management

Details of liquidity risk management are set out in Note 4 to the financial statements.

(iii) Market risk management

Details of market risk management are set out in Note 4 to the financial statements.

(iv) Operational risk management

Operational risk is the risk of loss resulting from human errors, inadequate or failed internal processes and systems or from external events. The risk is inherent in every aspect of operations. The Board recognises operational risk as a distinct risk category that should be managed with full attention and should be kept up with the best practice of the industry.

The Group has formulated and implemented the Operational Risk Management Policy which provides a bank-wide classification of operational risks and sets out the requirements on risk identification, assessment, reporting, monitoring and mitigation.

To ensure operational risks being under proper monitoring and supervision, effective internal control system has been enforced by means of computer systems and rigorous procedures. In addition, through coaching and frequent training, the Group has maintained teams of experienced and competent staff in all business and management areas to execute and monitor the operations of the Group.

The Group's policies and procedures will be reviewed vigilantly and updated in accordance with the new promulgated requirements from time to time. Furthermore, the Auditing Department performs independent checking to ascertain that the procedures are properly followed and reports discrepancies found directly to the Audit Committee.

In order to meet regulatory bodies' requirements and to facilitate the implementation of operational risk management framework, a dedicated division in the Risk Management Department monitors, collects, analyzes, reports the records and details of the operational risk losses and incidents.

The Group has reviewed and enhanced the Business Continuity Plan of all critical banking services. To ensure practicality of the plan, drill on contingency plans on certain critical business functions has been duly performed annually and the result was satisfactory.

Management of Risks (continued)

Risk Management Structure (continued)

(v) Reputation risk management

Reputation risk is the risk that negative publicity regarding the business practices, financial status, conduct of staff (whether genuine or not), will cause impact on confidence in the Group, a potential decline in the customer base or lead to costly litigation or settlement, revenue erosion, public condemnation or penalty by regulators. Reputation risk is inherent in every aspect of the Group's business operation and covers a wide spectrum of issues. Market rumors or public perceptions are significant factors in determining the level of risk in this category.

In order to mitigate reputation risk, the Group has formulated and implemented - Reputation Risk Management Policy, which establishes standards to prevent and to manage reputation risk proactively at an early stage. In order to eliminate or alleviate the negative impact on the Group's reputation, incidents related to reputation risk are handled promptly in accordance with the Business Continuity Plan and Negative Incident Response Mechanism.

In addition, precautionary measures have been taken and special attention has been drawn in the combat of the Anti-Money Laundering and Anti-Terrorist Financing activities. Specific procedure manuals and self-checking compliance list have been issued and trainings have been provided to all staff to stipulate the Group's policy and stance in order to prevent the Group's services being used by the villains for illegal activities.

(vi) Legal and compliance risk management

Legal risk is the risk that unenforceable contracts, lawsuits or adverse judgments may disrupt or otherwise negatively affect the operations or financial condition of the Group.

Compliance risk is the risk of legal and regulatory sanctions, loss in finance or reputation that the Group may suffer as a result of its failure to comply with all applicable laws and regulations. By establishing and maintaining appropriate policies and guidelines, the Group ensures to conduct its business in compliance with the requirements of relevant laws and regulations.

(vii) Strategic risk management

Strategic risk generally refers to the risks that may induce some current or future negative impacts on the earnings, capital, reputation or market position of the Group because of poor strategic decisions, improper implementation of strategies and lack of response to the market. The Group has developed its Strategic Risk Management Policy that defines the responsibilities of the Board and the Management when implementing its desired strategies.

Corporate Governance

The Group strives to achieve high standards of corporate governance and has followed the module on “Corporate Governance of Locally Incorporated Authorised Institutions” under the Supervisory Policy Manual (CG-1) issued by the Hong Kong Monetary Authority in September 2001.

Board of Directors and the Management

The Board is responsible for setting objectives and formulating long term strategies as well as managing the Group’s overall business. It currently comprises eleven Directors with a variety of different experience and professionalism. Among them, two are Executive Directors, while the remaining nine are Non-executive Directors. Of the nine Non-executive Directors, three are Independent Non-executive Directors whose indispensable function is to provide independent scrutiny. The Board meets regularly and four board meetings were held in the year with attendance rate of 100%. The Management, led by the Chief Executive, is responsible for formulating and implementing detailed programmes to effect the approved strategies and policies, and providing detailed reports on the Group’s performance to the Board on a regular basis to enable the Board to discharge its responsibilities effectively. In order to focus its attention on strategic and material issues that have significant impact on the Group’s finances and long-term development, the Board has set up three committees to oversee the major areas of the Group. The details of the committees are given below:

Executive Committee

The Executive Committee has been delegated with power directly from the Board to handle matters which require the Board’s review during the adjournment of the Board. Its responsibilities include:-

- approving policies, implementing plans and management measures to effect the group-wide development strategies and business plans approved by the Board;
- reviewing the progress on implementation of the strategies and business plans;
- recommending strategic proposals to the Board for its consideration and approval; and
- approving the Group’s rules and regulations according to the policies imposed by the supervisory authorities and the holding company.

The members of Executive Committee during the year were Mr. Xu Gang (Chairman) and Mr. Yuen Wai Keung. Both of them were Executive Directors of the Bank.

Corporate Governance (continued)

Audit Committee

The Committee assists the Board in fulfilling its oversight role over the Group in the following areas:-

- integrity of financial statements and the financial reporting process;
- internal control system;
- performance of internal audit functions and internal auditors;
- appointment of external auditors and evaluation of external auditors' qualifications, independence and performance;
- periodic review and annual audit of the Group's financial statements;
- compliance with applicable accounting standards and legal and regulatory requirements on financial disclosures; and
- enhancement of the corporate governance framework .

The members of Audit Committee during the year were Mr. Lau Hon Chuen (Chairman), Mr. Lan Hong Tsung David and Mr. Zhuo Chengwen . All were Non-executive Directors of the Bank. Among them, Mr. Lau Hon Chuen and Mr. Lan Hong Tsung David were Independent Non-executive Directors.

Risk Management Committee

The Risk Management Committee oversees the risk management of the Bank and formulates the Bank's risk management strategies. Its responsibilities include:-

- assisting the Board to monitor the risk exposures of the Bank;
- recommending appropriate risk management strategies to the Board; and
- approving high level risk management related policies.

The members of the Risk Management Committee during the year were Mr. Li Jiuzhong¹ (Chairman), Mr. Xu Gang, Mr. Zhuo Chengwen, Mr. Chang Hsin Kang, Mr. Lau Hon Chuen, Mr. Yuen Wai Keung and Mr. Cheung Yau Shing². All were Directors of the Bank. Among them, Mr. Chang Hsin Kang and Mr. Lau Hon Chuen were Independent Non-executive Directors.

Notes:

1. Appointed as a Non-executive Director of the Bank and Chairman of the Risk Management Committee of the Bank with effect from 5 March 2010.
2. Resigned as a Non-executive Director of the Bank and ceased to be member of the Risk Management Committee with effect from 22 January 2010.

Corporate Governance (continued)

Remuneration and Incentive Mechanism

The Remuneration and Incentive Mechanism of the Group is based on the principles of “effective motivation” and “sound remuneration management”. It links remuneration, performance and risk management tightly, and encourages staff to enhance their performance and at the same time strengthen their mindset of risk management so as to achieve sound remuneration management.

- **The Determination of the Remuneration Policy**

To fulfill the above-mentioned principles and to facilitate effective risk management within the framework of the Remuneration Policy of the Group, Human Resources Division is responsible for proposing the Remuneration Policy of the Group and will seek consultation of the risk control units including Risk Management, Financial Management and Compliance if necessary, in order to balance the needs for staff motivations, sound remuneration and prudent risk management. The proposed Remuneration Policy will then be submitted to the Board of Directors for approval. The Board of Directors will seek opinions of other Board committees (e.g. Risk Management Committee, Audit Committee, etc.) where they consider necessary under the circumstances.

- **The Key Features of the Remuneration and Incentive Mechanism**

1. **Performance Management Mechanism**

To reflect the corporate culture of “Achieving Performance and Effectiveness”, the Group has put in place a performance management mechanism to formalise the performance management at the levels of the Group, units and individuals. The annual targets of the Group will be cascaded down under the framework of balanced scorecard whereby the performance of the senior management and different units (including business units, risk control units and other units) would be assessed from the perspectives of financial, customer, building block/key tasks, human capital, risk management and compliance. As to the performance management of individual staff at different levels, the annual targets of the Group will be tied to the job requirements of different posts at different levels through the model of level-based performance management. Performance of individuals will be appraised with reference to their accomplishment of work targets, contribution towards overall performance of their corresponding units and compliance of risk management and internal control policies. Under this mechanism, not only the target accomplishment has been taken into account, the risk exposure involved during the course of work of a staff member could also be evaluated and managed so as to provide safeguards to the Group against the risk and ensure normal operations. The mechanism is also coupled with the assessment on system of values, thereby facilitating the attainment of the core values of the Group.

2. **Risk Modification of Remuneration**

To implement the principle of aligning the performance and remuneration with the risk, the Group has introduced “The Risk Adjustment Method” under which the key risk modifiers of the bank have been incorporated into the performance management mechanism of the Group and the size of the Variable Remuneration Pool of the Group, which is the total amount to be paid to the staff as variable compensation, would be determined on the basis of the risk-adjusted performance results. This method enables the Group to fix the Group’s Variable Remuneration Pool after considering risk exposures and changes and to maintain effective risk management through the remuneration mechanism.

Corporate Governance (continued)

Remuneration and Incentive Mechanism (continued)

- **The Key Features of the Remuneration and Incentive Mechanism (continued)**

3. Performance-based Remuneration Management

The remuneration of staff is composed of “fixed remuneration” and “variable remuneration”, the proportion of one to the other for individual staff members depends on job grades, roles, responsibilities and functions of the staff with the prerequisite that balance has to be struck between the fixed and variable portion. Generally speaking, the higher the job grades and/or the greater the responsibilities, the higher will be the proportion of variable remuneration so as to encourage the staff to follow the philosophy of prudent risk management and sound long-term financial stability .

Every year, the Group will conduct periodic review on the fixed remuneration of the staff with reference to various factors like remuneration strategy, market pay trend and staff salary level; and to determine the remuneration based on the affordability of the Group as well as the performance of the Group, units and individuals. As mentioned above, performance assessment criteria include quantitative and qualitative factors, as well as financial and non-financial indicators.

The size of the Variable Remuneration Pool of the Group is determined on the basis of the performance of the Group with the achievement of non-financial strategic business targets under the long-term development and risk factors of the Group placed as the cornerstone in the determination process. As far as individual units and individual staff are concerned, allocation of the variable remuneration is closely linked to the performance of the units, and that of each individual staff as well as the unit he/she is attaching to, the assessment of which should include risk modifiers. Within the acceptable risk level of the Group, the better the performance of the unit and the individual staff, the higher will be the variable remuneration for the individual staff.

4. Linking the payout of the variable remuneration with the time horizon of the risk to reflect the long-term value creation of the Group

To work out the principle of aligning remuneration with the risk and to ensure that sufficient time is allowed to ascertain the associated risk and its impact before the actual payout, payout of the variable remuneration of staff is required to be deferred if such amount reaches certain prescribed threshold. The Group adopts a progressive approach towards deferral. The longer the time horizon of risk in the activities conducted by the staff, the higher the job grade or the higher amount of the variable remuneration, the higher will be the proportion of deferral. Deferral lasts for 3 years.

The vesting of the deferred variable remuneration is linked with the long term value creation of the Group. The vesting conditions are linked to the yearly performance (financial and non-financial) of the Group in the next 3 years to the effect that the variable remuneration could only be vested to such extent as set for the relevant year in that 3-year period subject to the condition that the Group's performance has met the threshold requirement in the corresponding year. In case of material revision of the original estimates of the performance of the Group or individual units, or if a staff is found to commit fraud, or found to be of malfeasance or in violation of internal control policies, the unvested portion of the deferred variable remuneration of the relevant staff will be clawed back.

Business Review

In 2010, the global economy continued to recover slowly and erratically, and eventually stepped onto a restorative growth track. The Hong Kong economy also benefited from the strong growth of the Mainland market. However, factors such as RMB appreciation, rising operating cost and higher inflation also posed challenges to business operation. Under such macroeconomic circumstances, the Group adhered to its overall strategies of “focusing on ROE improvement, adjusting assets structure, expanding assets scale and enhancing profitability, so as to achieve operating differentiation and maximize our brand value”. The Group successfully clarified its strategic position and conducted both structural adjustment and business expansion, which led to steady development of its business and continuous stable growth in its operating results.

FINANCIAL HIGHLIGHTS

In 2010, the operating profit of the Group was HK\$2,130 million, representing an increase of 23.79% as compared to the previous year; the consolidated profit after tax was HK\$1,834 million, representing an increase of 18.62% as compared to the previous year; net interest yield was 1.60%; the average annualised return on assets and average annualised return on equity were 1.05% and 8.55% respectively.

PRINCIPLE BUSINESS

In response to changes in the business environment, the Group focused on both structural adjustment and business expansion. With respect to personal banking business, the Group expanded the customer base of personal banking business by attracting potential high-quality customers, and successfully built our “NCB Wealth Management” brand. With respect to corporate banking business, the Group actively sought and seized the market opportunities to expand cross-border business, enhanced differentiated and characteristic operation, and focused on developing small and medium enterprise business and the Mainland business. With respect to the fee base business, the Group took stock brokerage business as primary focus. Whilst strengthening its original features, the Group also speeded up its transformation and enhanced the cross-selling activities between its retailing business and corporate business, thus a synergy was realized. As at the end of 2010, total loan balance of the Group was HK\$116,201 million, representing an increase of HK\$22,701 million or 24.28% as compared to the end of the previous year; and the total balance of deposits was HK\$141,337 million, representing an increase of HK\$31,298 million or 28.44% as compared to the end of the previous year.

Business Review (continued)

PRINCIPLE BUSINESS (continued)

Our personal banking business was strengthened and our customer base further expanded. As part of our strategic development, the Group emphasized the importance of development of personal banking, made great efforts in structural adjustment, and strived to expand our customer base. Leveraging on our “NCB Wealth Management” brand, the Group dynamically integrated our retail loan service with other businesses such as securities, funds, insurance and bonds through a series of bundled products, supported by electronic service channels to provide comprehensive and integrated brand service to its target customers, thus drove a steady growth in the deposit business and continuous optimization of the business structure. As at the end of 2010, personal deposits increased by 10.08%.

Our corporate banking business was improved and our business characteristics were highlighted. During the year, the Corporate Banking Division continued its endeavour to develop target Small and Medium Enterprise (“SME”) customers, formulated standardized credit and financing products, and optimized loan approval procedures. Through proactive cross-border business cooperation with NCB (China) and the mainland branches of Bank of China, the Group vigorously launched the “NCB Guangdong-Hong Kong Loan” program to facilitate the utilization of one credit facility in two places. At the same time, leveraging on the anticipation of RMB appreciation, the Group aggressively developed its China-related businesses and successfully created favourable channels for expanding its cross-border business despite the nearly saturated local market. As at the end of 2010, the overall corporate banking business sustained a steady growth. Our corporate loan balance increased by HK\$19,935 million or 25.94% as compared to the end of the previous year, of which, SME loan balance increased by HK\$1,500 million. As at the end of 2010, balance of our China-related businesses increased by 4.3 times to HK\$20,530 million at the end of 2010 from 4,720 million as at the end of 2009.

Fee base business was expanded to optimize revenue structure. Commission of stock brokerage business in Hong Kong, representing nearly 80% of our personal banking business income, is one of the main income sources of our fee base business. As at the end of 2010, our stock brokerage business enjoyed a market share of 0.25%, down 0.06% from the end of 2009. However, it was unclear if a continuous growth in our stock brokerage business could be maintained when the equity market was strongly affected by the uncertainty of the global economic outlook. Therefore, we set up a business strategy of “attracting customers”, “tapping potential clients” and “consolidation”, and launched various preferential programmes subsequently. Meanwhile, we upgraded the function of our electronic trading platform and focused on attracting new customers and retaining existing customers. With tremendous efforts on marketing various funds and long- and short-term insurance products, our fund and insurance businesses both recorded substantial growth during the year. As at the end of 2010, our revenue derived from fund business was HK\$32 million, representing an increase of 83.47% as compared to HK\$18 million in 2009, while our revenue generated from insurance business was HK\$42 million, representing an increase of nearly 200% as compared to HK\$16 million in 2009.

Business Review (continued)

RISK MANAGEMENT

The Group continued to implement an appropriate and prudent risk management policy in compliance with relevant rules and regulations. The Group conformed to the risk management rules, regularly monitored the operating condition of its corporate customers and gave prompt pre-warning, so as to keep its asset portfolio safe. To facilitate the establishment of our SME management centre, The Group set up a SME business strategy for the period from 2010 to 2013, which specified standards in many aspects, such as industry guidance, approval process, specialisation and risk control, so as to maintain the healthy development of SME business. As at the end of 2010, the gross classified or impaired customer loans of the Group amounted to HK\$159 million, representing 0.14% of our total loans to customers. In addition, thanks to our prudent and stable capital and liquidity management policies, the consolidated capital adequacy ratio and average liquidity ratio of our local operations were 15.52% and 38.35% respectively, both at a healthy level.

COMPLIANCE CULTURE DEVELOPMENT

The Group continued to pay close attention to market changes and strengthened its control of market risks. In terms of sales of investment products and customer risk assessment, the Group enhanced its compliance management, proactively cooperated with relevant regulatory authorities to meet their latest regulatory requirements and made necessary adjustments to its business process in respect of various compliance issues and conducted the improvement/optimization of systems to protect the benefits of both customers and the Group. While promoting the RMB business, the Group also perfected RMB compliance management according to the requirements of HKMA and the Settlement Agreement, formulated standard credit terms and conditions for its RMB business, closely monitored market trend and actively followed up government policies to ensure a sound and stable development of business.

BRAND BUILDING

During the year, the Group delicately masterminded its system construction, brand image enhancement, operating arrangements, promotional strategies, staff training and joint development programs, etc., and focused on the building of the "NCB Wealth Management" brand, thus bringing new momentum to its business development. Capitalizing on the strength of its "NCB Wealth Management" brand, the Group has further increased its efforts in the innovation of products and services, and has launched mobile banking service to improve its on-line banking capabilities. In addition to its aggressive business development, the Group has also committed itself to social welfare activities. The Group proactively fulfilled its corporate social responsibility, and established the "Social Responsibility Committee", so as to organize volunteers to actively participate in charity work in Hong Kong. On the occasion of celebrating the 60th anniversary of the Bank in 2009, the Group donated to finance the construction of the teaching building of "Yangping Nanyang Commercial Bank Nine-year Education School" in Yongsheng county, Yunnan province. In 2010, the Group continued its donations to the school and the underprivileged students, and launched campaigns among employees to support teaching in the school, in an effort to promote its proactive corporate culture and to further enhance its corporate image.

Business Review (continued)

OUTLOOK

In 2011, the global economy is still shrouded in lots of uncertainty, while some deep-rooted structural problems lie before the path of sustainable growth of the Mainland economy and Hong Kong economy also faces challenges. The Group will meticulously carry out its business philosophy of "Professional Business Operation, Intensive Management and Integrated Development" and continue to implement its development guideline of "adjusting assets structure, expanding assets scale, creating features, improving efficiency and transforming NCB into a first-class regional retail bank" while further clarifying its market orientation. Furthermore, the Group will aggressively develop SME business and proactively launch the "NCB Wealth Management" products, thus improving the asset structure, optimizing capital allocation so as to improve the operational efficiency and forge a differentiated brand feature.

Appendix

Subsidiaries of the Bank

The particulars of our subsidiaries are as follows:

Name	Place of incorporation/ operation	Particulars of issued and paid up ordinary share capital	Equity interest held by the Bank		Principal activities
			Directly	Indirectly	
Nanyang Commercial Bank (China), Limited	The People's Republic of China	Registered capital RMB4,100,000,000	100%	-	Banking business
Nanyang Finance Company, Limited	Hong Kong	500,000 shares of HK\$100 each	100%	-	Financial services
Nanyang Commercial Bank Trustee Limited *	Hong Kong	300,000 shares of HK\$10 each	100%	-	Trustee services
Kwong Li Nam Investment Agency Limited *	Hong Kong	30,500 shares of HK\$100 each	98%	2%	Investment agency
Nan Song Company, Limited *	Hong Kong	100 shares of HK\$10,000 each	100%	-	Property investment and investment holding
Nanyang Commercial Bank (Nominees) Limited *	Hong Kong	500 shares of HK\$100 each	100%	-	Nominee services
Patson (HK) Limited *	Hong Kong	10,000 shares of HK\$100 each	100%	-	Property investment

Remarks:

Name of subsidiaries which are not included in the consolidation group for regulatory purposes in respect of capital adequacy is marked with * in the above table. The Bank and its subsidiaries specified by the HKMA form the basis of consolidation for its regulatory purposes in accordance with the Banking (Capital) Rules. For accounting purposes, subsidiaries are consolidated in accordance with the accounting standards issued by the HKICPA pursuant to section 18A of the Professional Accountants Ordinance.

Definitions

In this Report, unless the context otherwise requires, the following terms shall have the meanings set out below:

Terms	Meanings
"ABS"	Asset-backed securities
"Board of BOCHK (Holdings)"	the Board of Directors of BOCHK (Holdings)
"BOC"	Bank of China Limited, a joint stock commercial bank with limited liability established under the laws of the PRC, the H shares and A shares of which are listed on The Hong Kong Stock Exchange and the Shanghai Stock Exchange respectively
"BOC (BVI)"	BOC Hong Kong (BVI) Limited, a company incorporated under the laws of the British Virgin Islands and a wholly owned subsidiary of BOCHKG
"BOCHK"	Bank of China (Hong Kong) Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOCHK (Holdings)
"BOCHK (Holdings)"	BOC Hong Kong (Holdings) Limited, a company incorporated under the laws of Hong Kong
"BOCHKG"	BOC Hong Kong (Group) Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOC
"BOCI-Prudential Manager"	BOCI-Prudential Asset Management Limited, a company incorporated under the laws of Hong Kong
"BOCI-Prudential Trustee"	BOCI-Prudential Trustee Limited, a company incorporated under the laws of Hong Kong
"CAR"	Capital Adequacy Ratio, computed on the consolidated basis that comprises the positions of the Bank and certain subsidiaries specified by the HKMA for its regulatory purposes and in accordance with the Banking (Capital) Rules
"CIC"	China Investment Corporation
"Central Huijin"	Central Huijin Investment Ltd. (formerly known as "Central SAFE Investments Limited")
"ECAI(s)"	External Credit Assessment Institution(s)
"HKAS(s)"	Hong Kong Accounting Standard(s)
"HKFRS(s)"	Hong Kong Financial Reporting Standard(s)
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"HK(IFRIC)-Int"	Hong Kong (IFRIC) Interpretation
"HK-Int"	Hong Kong Interpretation
"HKMA"	Hong Kong Monetary Authority

Definitions (continued)

Terms	Meanings
"Hong Kong"	Hong Kong Special Administrative Region
"Mainland" or "Mainland China"	the mainland of the PRC
"MBS"	Mortgage-backed securities
"MPF"	Mandatory Provident Fund
"MPF Schemes Ordinance"	the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong, as amended
"Moody's"	Moody's Investors Service
"NCB (China)"	Nanyang Commercial Bank (China), Limited, a company incorporated under the laws of the PRC and a wholly owned subsidiary of the Bank
"ORSO scheme"	the Occupational Retirement Scheme under Occupational Retirement Schemes Ordinance, Chapter 426 of the Laws of Hong Kong
"PRC"	the People's Republic of China
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"STC approach"	Standardised (Credit Risk) Approach
"STM approach"	Standardised (Market Risk) Approach
"STO approach"	Standardised (Operational Risk) Approach
"Share Option Scheme"	the Share Option Scheme conditionally approved and adopted by the shareholders of BOCHK (Holdings) on 10 July 2002
"Sharesave Plan"	the Sharesave Plan conditionally approved and adopted by the shareholders of BOCHK (Holdings) on 10 July 2002
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"VAR"	Value at Risk