

2009

Interim Report



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Condensed Consolidated Income Statement

	Notes	(Unaudited) Half-year ended 30 June 2009 HK\$'000	(Unaudited) Half-year ended 30 June 2008 HK\$'000
Interest income		1,384,178	2,160,925
Interest expense		(360,465)	(1,001,901)
Net interest income	4	1,023,713	1,159,024
Fees and commission income		277,912	362,914
Fees and commission expenses		(39,055)	(60,307)
Net fees and commission income	5	238,857	302,607
Net trading income/(expenses)	6	144,220	(51,975)
Net gain/(loss) on financial instruments designated at fair value through profit or loss		135,604	(73,098)
Net gain on investment in securities	7	149	-
Other operating income	8	17,700	44,738
Net operating income before impairment allowances		1,560,243	1,381,296
Net (charge)/reversal of impairment allowances	9	(2,926)	17,695
Net operating income		1,557,317	1,398,991
Operating expenses	10	(524,550)	(488,457)
Operating profit		1,032,767	910,534
Net gain from disposal of/fair value adjustments on investment properties	11	7,270	99,551
Net (loss)/gain from disposal/revaluation of properties, plant and equipment	12	(186)	1,482
Profit before taxation		1,039,851	1,011,567
Taxation	13	(168,504)	(198,321)
Profit for the period		871,347	813,246
Dividends	14	-	378,000

The notes on pages 6 to 71 are an integral part of this interim financial information.

Condensed Consolidated Statement of Comprehensive Income

	Notes	(Unaudited) Half-year ended 30 June 2009 HK\$'000	(Unaudited) Half-year ended 30 June 2008 HK\$'000
Profit for the period		871,347	813,246
Net change in fair value of available-for-sale securities		149,705	(33,065)
Revaluation of premises		112,305	269,577
Currency translation difference		(4,720)	186,897
Net deferred tax on items taken directly to equity	29	(41,027)	(13,383)
Reclassification adjustments			
Release upon disposal of available-for-sale securities		(78)	(196)
Amortisation with respect to available-for-sale securities transferred to held-to-maturity securities		(7,196)	(8,830)
Other comprehensive income for the period, net of tax		208,989	401,000
Total comprehensive income for the period		1,080,336	1,214,246

The notes on pages 6 to 71 are an integral part of this interim financial information.

Condensed Consolidated Balance Sheet

	Notes	(Unaudited) At 30 June 2009 HK\$'000	(Audited) At 31 December 2008 HK\$'000
ASSETS			
Cash and balances with banks and other financial institutions	17	13,844,205	15,579,473
Placements with banks and other financial institutions maturing between one and twelve months		13,055,066	14,040,055
Financial assets at fair value through profit or loss	18	2,777,002	2,715,822
Derivative financial instruments	19	453,193	650,838
Advances and other accounts	20	68,647,627	65,411,121
Investment in securities	21	20,080,212	20,209,171
Investment properties	22	607,490	600,286
Properties, plant and equipment	23	2,578,296	2,498,798
Current tax assets		-	6,006
Deferred tax assets	29	26,247	37,968
Other assets	24	2,569,427	715,495
Total assets		124,638,765	122,465,033
LIABILITIES			
Deposits and balances of banks and other financial institutions		7,521,820	6,447,152
Financial liabilities at fair value through profit or loss	25	1,032,864	700,536
Derivative financial instruments	19	456,280	716,326
Deposits from customers	26	95,347,203	96,419,758
Other accounts and provisions	27	2,887,150	1,979,934
Current tax liabilities		75,158	-
Deferred tax liabilities	29	377,137	340,510
Total liabilities		107,697,612	106,604,216
EQUITY			
Share capital	30	600,000	600,000
Reserves	31	16,341,153	15,260,817
Total equity		16,941,153	15,860,817
Total liabilities and equity		124,638,765	122,465,033

The notes on pages 6 to 71 are an integral part of this interim financial information.

Condensed Consolidated Statement of Changes in Equity

	Unaudited							Total HK\$'000
	Share capital	Capital reserve	Premises revaluation reserve	Reserve for fair value changes of available-for-sale securities	Regulatory reserve*	Translation reserve	Retained earnings	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2008	600,000	605	1,878,522	7,613	583,712	6,587	12,011,425	15,088,464
Comprehensive income	-	-	250,119	(24,324)	-	186,897	801,554	1,214,246
Transfer from retained earnings	-	-	-	-	47,683	-	(47,683)	-
Interim dividend	-	-	-	-	-	-	(378,000)	(378,000)
At 30 June 2008	<u>600,000</u>	<u>605</u>	<u>2,128,641</u>	<u>(16,711)</u>	<u>631,395</u>	<u>193,484</u>	<u>12,387,296</u>	<u>15,924,710</u>
At 1 July 2008	600,000	605	2,128,641	(16,711)	631,395	193,484	12,387,296	15,924,710
Comprehensive income	-	-	(184,040)	(80,146)	-	9,706	190,587	(63,893)
Transfer from retained earnings	-	-	-	-	(19,560)	-	19,560	-
Release upon disposal of premises	-	-	(1,128)	-	-	-	1,128	-
At 31 December 2008	<u>600,000</u>	<u>605</u>	<u>1,943,473</u>	<u>(96,857)</u>	<u>611,835</u>	<u>203,190</u>	<u>12,598,571</u>	<u>15,860,817</u>

	Unaudited							Total HK\$'000
	Share capital	Capital reserve	Premises revaluation reserve	Reserve for fair value changes of available-for-sale securities	Regulatory reserve*	Translation reserve	Retained earnings	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2009	600,000	605	1,943,473	(96,857)	611,835	203,190	12,598,571	15,860,817
Comprehensive income	-	-	95,662	126,901	-	(4,720)	862,493	1,080,336
Transfer from retained earnings	-	-	-	-	24,506	-	(24,506)	-
Release upon disposal of premises	-	-	(1,286)	-	-	-	1,286	-
At 30 June 2009	<u>600,000</u>	<u>605</u>	<u>2,037,849</u>	<u>30,044</u>	<u>636,341</u>	<u>198,470</u>	<u>13,437,844</u>	<u>16,941,153</u>

* In accordance with the requirements of the Hong Kong Monetary Authority ("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 Hong Kong Accounting Standards ("HKAS") 39.

The notes on pages 6 to 71 are an integral part of this interim financial information.

Condensed Consolidated Cash Flow Statement

	Notes	(Unaudited) Half-year ended 30 June 2009 HK\$'000	(Unaudited) Half-year ended 30 June 2008 HK\$'000
Cash flows from operating activities			
Operating cash outflow before taxation	32(a)	(5,233,786)	(3,022,326)
Hong Kong profits tax paid		(82,987)	(75,637)
Overseas profits tax refund/(paid)		151	(15,097)
Net cash outflow from operating activities		(5,316,622)	(3,113,060)
Cash flows from investing activities			
Purchase of properties, plant and equipment		(11,120)	(24,182)
Proceeds from disposal of properties, plant and equipment		3,197	145
Proceeds from disposal of investment properties		3,666	-
Net cash outflow from investing activities		(4,257)	(24,037)
Decrease in cash and cash equivalents		(5,320,879)	(3,137,097)
Cash and cash equivalents at 1 January		21,355,664	25,541,464
Cash and cash equivalents at 30 June	32(b)	16,034,785	22,404,367

The notes on pages 6 to 71 are an integral part of this interim financial information.

Notes to the Interim Financial Information

1. Basis of preparation and accounting policies

Basis of preparation

The unaudited interim report has been prepared in accordance with HKAS 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

Accounting policies

Except as described below, the accounting policies and methods of computation used in the preparation of the unaudited interim report are consistent with those used in the 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 2008 and should be read in conjunction with the Group’s Annual Report for 2008.

The following new standards, revised standards, amendments to standards, and interpretation are mandatory for the first time for the financial year beginning 1 January 2009.

- HKAS 1 (Revised), ‘Presentation of financial statements’. The revised standard prohibits the presentation of items of income and expenses (that is ‘non-owner changes in equity’) in the statement of changes in equity, requiring ‘non-owner changes in equity’ to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement.

The Group has elected to present the performance in two separate statements: an income statement and a statement of comprehensive income. The interim financial information has been prepared under the revised disclosure requirements. The adoption of this revised standard affects the presentation of the Group’s financial statements.

- HKFRS 7 (Amendment), ‘Financial instruments: disclosures’. The amendment increases the disclosure requirements about fair value measurement and reinforces existing principles for disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosures and requires some specific quantitative disclosures for financial instruments on the lowest level in the hierarchy. It also requires entities to provide additional disclosures about the relative reliability of fair value measurements. These disclosures will help to improve comparability between entities about the effects of fair value measurements. In addition, the amendment clarifies and enhances the existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities. The Group will make additional relevant disclosures in its financial statements ending 31 December 2009. It is not required to provide comparative disclosures in the first year of application.

Notes to the Interim Financial Information (continued)

1. Basis of preparation and accounting policies (continued)

Accounting policies (continued)

- HKFRS 8, 'Operating Segments'. HKFRS 8 replaces HKAS 14 'Segment Reporting'. It requires a 'management approach' under which segment information, that reflects the operating result of segments reviewed regularly by the management for operation decisions making and performance assessment, is presented on the same basis and in the same manner as that used for internal reporting to the management. The adoption of HKFRS 8 has no change in the number of reportable segments presented.
- HK(IFRIC)-Int 13, 'Customer Loyalty Programmes'. HK(IFRIC)-Int 13 clarifies that when an entity provides customers with incentives to buy goods or services under a customer loyalty programme (for example, customers accumulate loyalty points to redeem free or discounted products or service), the fair value of the consideration received or receivable in respect of the initial sale shall be allocated between the award credits and the other components of the sale or service. The interpretation does not have significant impact on the Group's results of operations and financial position.

2. Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that are consistent with those used in the Group's consolidated financial statements for the year ended 31 December 2008.

3. 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 and interest rate risk) and liquidity risk. This note summarises the Group's exposures to these risks.

3.1 Credit Risk

A. Gross loans and advances

(a) Impaired advances

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.

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.

Notes to the Interim Financial Information (continued)

3. Financial risk management (continued)

3.1 Credit Risk (continued)

A. Gross loans and advances (continued)

(a) Impaired advances (continued)

	At 30 June 2009	At 31 December 2008
	HK\$'000	HK\$'000
Gross impaired advances to customers	160,278	302,661
Individually assessed loan impairment allowances made in respect of such advances	142,031	249,145
Current market value of collateral held against the covered portion of advances to customers	19,603	52,926
Covered portion of advances to customers	18,373	51,875
Uncovered portion of advances to customers	141,905	250,786
Gross impaired advances to customers as a percentage of gross advances to customers	0.23%	0.47%

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

Classified or impaired advances to customers are analysed as follows:

	At 30 June 2009	At 31 December 2008
	HK\$'000	HK\$'000
Gross classified or impaired advances to customers	242,652	387,819
Gross classified or impaired advances to customers as a percentage of gross advances to customers	0.35%	0.60%

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 Interim Financial Information (continued)

3. Financial risk management (continued)

3.1 Credit Risk (continued)

A. Gross loans and advances (continued)

(b) Advances overdue for more than 3 months

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.

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

	At 30 June 2009		At 31 December 2008	
	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	26,239	0.04%	169,925	0.26%
- one year or less but over six months	105,309	0.15%	7,623	0.01%
- over one year	27,535	0.04%	20,485	0.03%
Advances overdue for over three months	159,083	0.23%	198,033	0.30%
Individually assessed loan impairment allowances made in respect of such advances	131,252		177,649	

	At 30 June 2009 HK\$'000	At 31 December 2008 HK\$'000
Current market value of collateral held against the covered portion of advances to customers	43,642	78,031
Covered portion of advances to customers	26,488	23,242
Uncovered portion of advances to customers	132,595	174,791

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 30 June 2009 and 31 December 2008, there were no advances to banks and other financial institutions that were overdue for more than three months.

Notes to the Interim Financial Information (continued)

3. Financial risk management (continued)

3.1 Credit Risk (continued)

A. Gross loans and advances (continued)

(c) Rescheduled advances

	At 30 June 2009		At 31 December 2008	
	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	44,589	0.06%	50,526	0.08%

As at 30 June 2009 and 31 December 2008, there were no rescheduled advances to banks and other financial institutions.

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 Interim Financial Information (continued)

3. Financial risk management (continued)

3.1 Credit Risk (continued)

A. Gross loans and advances (continued)

(d) 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:

	At 30 June 2009					
	Gross advances HK\$'000	% Covered by collateral or other security	Classified or impaired HK\$'000	Overdue* HK\$'000	Individually	Collectively
					assessed impairment allowances HK\$'000	assessed impairment allowances HK\$'000
Loans for use in Hong Kong						
Industrial, commercial and financial						
- Property development	1,943,420	64.67%	-	-	-	6,564
- Property investment	10,180,851	77.35%	6,016	25,995	157	88,724
- Financial concerns	1,627,718	5.52%	-	-	-	6,107
- Stockbrokers	149	100.00%	-	-	-	1
- Wholesale and retail trade	1,764,226	69.31%	9,820	17,242	3,362	20,259
- Manufacturing	3,026,028	41.36%	14,415	42,085	13,055	45,096
- Transport and transport equipment	3,660,668	2.94%	-	2,434	-	12,828
- Recreational activities	26,674	-	-	-	-	72
- Information technology	287,259	8.94%	-	-	-	1,036
- Others	4,841,955	47.53%	1,150	79,111	1,795	24,824
Individuals						
- Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,297,243	99.98%	8,421	81,326	-	734
- Loans for purchase of other residential properties	11,180,766	99.92%	12,080	145,855	-	2,539
- Others	1,137,698	97.90%	3,460	24,913	1,461	2,122
Total loans for use in Hong Kong	40,974,655	67.63%	55,362	418,961	19,830	210,906
Trade finance	1,883,975	49.59%	51,272	60,982	52,091	22,891
Loans for use outside Hong Kong	25,740,989	30.56%	136,018	139,166	70,110	165,103
Gross advances to customers	68,599,619	53.23%	242,652	619,109	142,031	398,900

Notes to the Interim Financial Information (continued)

3. Financial risk management (continued)

3.1 Credit Risk (continued)

A. Gross loans and advances (continued)

(d) Concentration of advances to customers (continued)

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

	At 31 December 2008					
	Gross advances HK\$'000	% Covered by collateral or other security	Classified or impaired HK\$'000	Overdue* HK\$'000	Individually	Collectively
					assessed impairment allowances HK\$'000	assessed impairment allowances HK\$'000
Loans for use in Hong Kong						
Industrial, commercial and financial						
- Property development	1,907,953	66.03%	-	447	-	13,000
- Property investment	8,972,761	82.42%	6,789	70,172	425	61,168
- Financial concerns	665,635	10.09%	42	-	42	4,537
- Stockbrokers	500	100.00%	-	-	-	3
- Wholesale and retail trade	1,373,579	75.56%	13,397	25,180	3,364	9,341
- Manufacturing	2,972,467	39.28%	82,726	92,432	80,655	19,714
- Transport and transport equipment	3,629,241	3.37%	-	2,532	-	24,656
- Recreational activities	9,589	-	-	-	-	65
- Information technology	227,172	5.21%	-	1,914	-	1,549
- Others	3,373,756	56.04%	2,168	47,691	2,140	22,977
Individuals						
- Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,400,005	99.83%	8,749	78,413	-	660
- Loans for purchase of other residential properties	11,161,884	99.99%	14,274	186,922	173	5,264
- Others	1,337,522	98.25%	3,646	21,766	1,548	630
Total loans for use in Hong Kong	37,032,064	72.37%	131,791	527,469	88,347	163,564
Trade finance	2,153,944	47.73%	132,692	143,719	104,948	13,791
Loans for use outside Hong Kong	25,843,147	28.06%	123,336	111,388	55,850	174,960
Gross advances to customers	65,029,155	53.95%	387,819	782,576	249,145	352,315

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

Notes to the Interim Financial Information (continued)

3. Financial risk management (continued)

3.1 Credit Risk (continued)

A. Gross loans and advances (continued)

(d) 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

	At 30 June 2009	At 31 December 2008
	HK\$'000	HK\$'000
Hong Kong	49,062,305	44,152,790
Mainland China	15,209,234	16,102,645
Others	4,328,080	4,773,720
	68,599,619	65,029,155

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

Hong Kong	260,863	239,565
Mainland China	113,929	86,912
Others	24,108	25,838
	398,900	352,315

Overdue advances

	At 30 June 2009	At 31 December 2008
	HK\$'000	HK\$'000
Hong Kong	485,032	646,446
Mainland China	91,234	114,013
Others	42,843	22,117
	619,109	782,576

Individually assessed loan impairment allowances in respect of the overdue advances

Hong Kong	65,522	165,863
Mainland China	74,030	54,136
Others	-	21,434
	139,552	241,433

Collectively assessed loan impairment allowances in respect of the overdue advances

Hong Kong	4,658	2,550
Mainland China	273	140
Others	1,647	3
	6,578	2,693

Notes to the Interim Financial Information (continued)

3. Financial risk management (continued)

3.1 Credit Risk (continued)

A. Gross loans and advances (continued)

(d) Concentration of advances to customers (continued)

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

Classified or impaired advances

	At 30 June 2009	At 31 December 2008
	HK\$'000	HK\$'000
Hong Kong	144,939	257,234
Mainland China	97,713	109,099
Others	-	21,486
	242,652	387,819

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

Hong Kong	66,330	173,494
Mainland China	75,701	54,165
Others	-	21,486
	142,031	249,145

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

Hong Kong	190	194
Mainland China	50	35
	240	229

Reposessed assets

The estimated market value of reposessed assets held by the Group as at 30 June 2009 amounted to HK\$6,940,000 (31 December 2008: HK\$933,000). They comprise properties in respect of which the Group has 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.

Notes to the Interim Financial Information (continued)

3. Financial risk management (continued)

3.1 Credit Risk (continued)

B. Debt securities

The table below represents 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.

At 30 June 2009								
				Unrated				
				Hong Kong	Other			Total
				government	governments			
				and	and			
				government	government			
				bodies	agencies			
Aaa	Aa1 to	A1 to	Lower			Other		
HK\$'000	Aa3	A3	than A3	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investment in securities								
Mortgage-backed securities/Asset-backed securities								
6,404	224,471	-	-	-	-	-	-	230,875
2,276,019	5,547,352	2,562,540	2,034,762	740,442	486,903	6,165,901		19,813,919
Subtotal								
2,282,423	5,771,823	2,562,540	2,034,762	740,442	486,903	6,165,901		20,044,794
Financial assets at fair value through profit or loss								
Mortgage-backed securities/Asset-backed securities								
24,154	-	-	-	-	-	-	-	24,154
69,846	108,694	813,731	677,319	1,082,904	-	354		2,752,848
Subtotal								
94,000	108,694	813,731	677,319	1,082,904	-	354		2,777,002
Total								
2,376,423	5,880,517	3,376,271	2,712,081	1,823,346	486,903	6,166,255		22,821,796

Notes to the Interim Financial Information (continued)

3. Financial risk management (continued)

3.1 Credit Risk (continued)

B. Debt securities (continued)

At 31 December 2008							
	Aaa	Aa1 to Aa3	A1 to A3	Lower than A3	Unrated		Total
					Hong Kong government and government bodies	Other governments and government agencies Other	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investment in securities							
Mortgage-backed securities/Asset-backed securities	243,868	15,461	-	-	-	-	259,329
Other debt securities	466,492	5,703,836	2,276,823	1,629,691	840,452	9,000,692	19,917,986
Subtotal	710,360	5,719,297	2,276,823	1,629,691	840,452	9,000,692	20,177,315
Financial assets at fair value through profit or loss							
Mortgage-backed securities/Asset-backed securities	26,679	-	-	-	-	-	26,679
Other debt securities	70,514	110,945	753,843	594,992	906,860	251,989	2,689,143
Subtotal	97,193	110,945	753,843	594,992	906,860	251,989	2,715,822
Total	807,553	5,830,242	3,030,666	2,224,683	1,747,312	9,252,681	22,893,137

The total amount of unrated issues amounted to HK\$8,476,504,000 (31 December 2008: HK\$10,999,993,000) as at 30 June 2009, of which only HK\$870,027,000 (31 December 2008: HK\$1,086,170,000) were without issuer ratings. For details, please refer to page 17.

Notes to the Interim Financial Information (continued)

3. Financial risk management (continued)

3.1 Credit Risk (continued)

B. Debt securities (continued)

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

	At 30 June 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	-	1,454,979	822,424	-	669,615	2,947,018
Held-to-maturity securities	83,288	1,133,779	322,826	155,425	200,412	1,895,730
Loans and receivables	301,838	1,637,798	610,862	-	-	2,550,498
Financial assets at fair value through profit or loss	-	1,083,258	-	-	-	1,083,258
Total	385,126	5,309,814	1,756,112	155,425	870,027	8,476,504

	At 31 December 2008					
	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	-	1,345,868	45,014	-	643,663	2,034,545
Held-to-maturity securities	-	3,375,358	156,686	-	200,744	3,732,788
Loans and receivables	1,057,258	2,575,626	396,975	-	43,952	4,073,811
Financial assets at fair value through profit or loss	604	960,434	-	-	197,811	1,158,849
Total	1,057,862	8,257,286	598,675	-	1,086,170	10,999,993

As at 30 June 2009 and 31 December 2008, there were no US subprime mortgage asset-backed securities.

As at 30 June 2009 and 31 December 2008, there were no impaired debt securities.

Notes to the Interim Financial Information (continued)

3. Financial risk management (continued)

3.2 Market Risk

A. Currency risk

The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 30 June 2009 and 31 December 2008. Included in the tables are the Group's assets and liabilities at carrying amounts in HK dollar equivalent, categorised by the original currency.

	At 30 June 2009							Total HK\$'000
	US	HK		Japanese	Pound			
	Renminbi	Dollars	Dollars	EURO	Yen	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	2,465,622	3,629,737	5,824,052	1,033,465	40,851	228,672	621,806	13,844,205
Placements with banks and other financial institutions maturing between one and twelve months	7,156	5,434,125	2,699,814	3,577,866	-	232,280	1,103,825	13,055,066
Financial assets at fair value through profit or loss	255,539	1,069,185	1,396,923	-	-	-	55,355	2,777,002
Derivative financial instruments	-	694	452,499	-	-	-	-	453,193
Advances and other accounts	6,518,740	12,734,312	47,893,739	636,875	41,860	-	822,101	68,647,627
Investment in securities								
- Available-for-sale securities	454,061	1,971,603	3,344,599	-	-	-	628,030	6,398,293
- Held-to-maturity securities	-	3,012,371	4,102,549	1,591,243	950,151	51,685	1,423,422	11,131,421
- Loans and receivables	-	-	1,023,951	870,041	-	-	656,506	2,550,498
Investment properties	-	-	607,490	-	-	-	-	607,490
Properties, plant and equipment	90,927	212	2,487,157	-	-	-	-	2,578,296
Other assets (including deferred tax assets)	60,486	285,188	2,247,071	-	-	2,063	866	2,595,674
Total assets	9,852,531	28,137,427	72,079,844	7,709,490	1,032,862	514,700	5,311,911	124,638,765
Liabilities								
Deposits and balances of banks and other financial institutions	2,240,460	3,239,421	417,374	1,138,015	351,374	12,949	122,227	7,521,820
Financial liabilities at fair value through profit or loss	-	-	1,032,864	-	-	-	-	1,032,864
Derivative financial instruments	-	194,752	261,528	-	-	-	-	456,280
Deposits from customers	6,050,683	18,586,275	58,211,726	6,429,411	165,238	759,687	5,144,183	95,347,203
Other accounts and provisions (including current and deferred tax liabilities)	71,410	520,365	2,625,504	34,226	18,944	5,720	63,276	3,339,445
Total liabilities	8,362,553	22,540,813	62,548,996	7,601,652	535,556	778,356	5,329,686	107,697,612
Net on-balance sheet position	1,489,978	5,596,614	9,530,848	107,838	497,306	(263,656)	(17,775)	16,941,153
Off-balance sheet net notional position*	488	(3,771,182)	4,341,031	(99,128)	(495,657)	211,374	4,499	191,425
Contingent liabilities and commitments	1,281,297	4,727,038	16,271,173	421,522	64,671	825	44,600	22,811,126

* 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 exposure to currency movements.

Notes to the Interim Financial Information (continued)

3. Financial risk management (continued)

3.2 Market Risk (continued)

A. Currency risk (continued)

	At 31 December 2008							Total HK\$'000
	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	
Assets								
Cash and balances with banks and other financial institutions	1,725,770	3,571,398	7,433,362	1,106,334	14,419	435,259	1,292,931	15,579,473
Placements with banks and other financial institutions maturing between one and twelve months	34,228	4,025,833	5,836,448	3,503,291	-	225,091	415,164	14,040,055
Financial assets at fair value through profit or loss	257,543	1,095,369	1,311,835	-	-	-	51,075	2,715,822
Derivative financial instruments	-	831	650,007	-	-	-	-	650,838
Advances and other accounts	6,368,169	14,537,318	43,396,553	232,550	190,725	1,766	684,040	65,411,121
Investment in securities								
- Available-for-sale securities	395,990	1,384,128	2,222,136	-	-	-	83,830	4,086,084
- Held-to-maturity securities	-	3,002,682	6,242,608	1,297,598	-	148,294	1,358,094	12,049,276
- Loans and receivables	-	154,685	2,759,286	108,600	-	109,611	941,629	4,073,811
Investment properties	-	-	600,286	-	-	-	-	600,286
Properties, plant and equipment	89,977	323	2,408,498	-	-	-	-	2,498,798
Other assets (including current and deferred tax assets)	83,150	44,886	627,783	-	2,746	32	872	759,469
Total assets	8,954,827	27,817,453	73,488,802	6,248,373	207,890	920,053	4,827,635	122,465,033
Liabilities								
Deposits and balances of banks and other financial institutions	2,971,445	3,084,453	196,521	13,684	171,677	3,520	5,852	6,447,152
Financial liabilities at fair value through profit or loss	-	-	700,536	-	-	-	-	700,536
Derivative financial instruments	-	608	715,718	-	-	-	-	716,326
Deposits from customers	4,423,596	20,470,548	59,719,423	6,302,503	121,647	700,040	4,682,001	96,419,758
Other accounts and provisions (including deferred tax liabilities)	135,586	430,535	1,601,006	40,321	47,461	7,957	57,578	2,320,444
Total liabilities	7,530,627	23,986,144	62,933,204	6,356,508	340,785	711,517	4,745,431	106,604,216
Net on-balance sheet position	1,424,200	3,831,309	10,555,598	(108,135)	(132,895)	208,536	82,204	15,860,817
Off-balance sheet net notional position*	(653)	(2,586,396)	2,866,135	112,922	150,929	(216,466)	(94,543)	231,928
Contingent liabilities and commitments	1,192,150	3,990,730	18,507,337	318,855	34,874	1,229	112,512	24,157,687

Notes to the Interim Financial Information (continued)

3. Financial risk management (continued)

3.2 Market Risk (continued)

B. Interest rate risk

The tables below summarise the Group's exposure to interest rate risk as at 30 June 2009 and 31 December 2008. Included in the tables are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	At 30 June 2009						Total HK\$'000
	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	
Assets							
Cash and balances with banks and other financial institutions	12,763,706	-	-	-	-	1,080,499	13,844,205
Placements with banks and other financial institutions maturing between one and twelve months	-	5,702,874	7,352,192	-	-	-	13,055,066
Financial assets at fair value through profit or loss	406,967	967,933	436,229	740,105	225,768	-	2,777,002
Derivative financial instruments	-	-	-	-	-	453,193	453,193
Advances and other accounts	49,073,681	14,122,985	5,328,185	37,847	84,929	-	68,647,627
Investment in securities							
- Available-for-sale securities	458,258	1,335,352	1,311,157	2,025,609	1,232,499	35,418	6,398,293
- Held-to-maturity securities	3,147,301	3,995,489	1,811,930	2,176,701	-	-	11,131,421
- Loans and receivables	481,051	1,030,953	1,038,494	-	-	-	2,550,498
Investment properties	-	-	-	-	-	607,490	607,490
Properties, plant and equipment	-	-	-	-	-	2,578,296	2,578,296
Other assets (including deferred tax assets)	-	-	-	-	-	2,595,674	2,595,674
Total assets	66,330,964	27,155,586	17,278,187	4,980,262	1,543,196	7,350,570	124,638,765
Liabilities							
Deposits and balances of banks and other financial institutions	4,045,715	2,654,817	612,901	-	-	208,387	7,521,820
Financial liabilities at fair value through profit or loss	604,498	99,992	328,374	-	-	-	1,032,864
Derivative financial instruments	-	-	-	-	-	456,280	456,280
Deposits from customers	67,414,852	12,722,047	10,215,669	155,821	-	4,838,814	95,347,203
Other accounts and provisions (including current and deferred tax liabilities)	546,337	-	-	-	-	2,793,108	3,339,445
Total liabilities	72,611,402	15,476,856	11,156,944	155,821	-	8,296,589	107,697,612
Interest sensitivity gap	(6,280,438)	11,678,730	6,121,243	4,824,441	1,543,196	(946,019)	16,941,153

Notes to the Interim Financial Information (continued)

3. Financial risk management (continued)

3.2 Market Risk (continued)

B. Interest rate risk (continued)

	At 31 December 2008						Total HK\$'000
	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	
Assets							
Cash and balances with banks and other financial institutions	14,350,831	-	-	-	-	1,228,642	15,579,473
Placements with banks and other financial institutions maturing between one and twelve months	-	9,105,156	4,934,899	-	-	-	14,040,055
Financial assets at fair value through profit or loss	451,389	719,302	550,286	586,515	408,330	-	2,715,822
Derivative financial instruments	-	-	-	-	-	650,838	650,838
Advances and other accounts	45,856,976	13,281,161	6,127,750	58,238	86,996	-	65,411,121
Investment in securities							
- Available-for-sale securities	379,378	830,135	950,154	923,948	970,613	31,856	4,086,084
- Held-to-maturity securities	2,435,830	5,156,368	1,686,894	2,770,184	-	-	12,049,276
- Loans and receivables	1,755,364	1,004,839	1,313,608	-	-	-	4,073,811
Investment properties	-	-	-	-	-	600,286	600,286
Properties, plant and equipment	-	-	-	-	-	2,498,798	2,498,798
Other assets (including current and deferred tax assets)	-	-	-	-	-	759,469	759,469
Total assets	65,229,768	30,096,961	15,563,591	4,338,885	1,465,939	5,769,889	122,465,033
Liabilities							
Deposits and balances of banks and other financial institutions	2,427,411	3,264,789	442,665	-	-	312,287	6,447,152
Financial liabilities at fair value through profit or loss	323,081	257,464	119,991	-	-	-	700,536
Derivative financial instruments	-	-	-	-	-	716,326	716,326
Deposits from customers	64,124,231	18,385,605	9,215,578	31,385	-	4,662,959	96,419,758
Other accounts and provisions (including deferred tax liabilities)	396,818	-	-	-	-	1,923,626	2,320,444
Total liabilities	67,271,541	21,907,858	9,778,234	31,385	-	7,615,198	106,604,216
Interest sensitivity gap	(2,041,773)	8,189,103	5,785,357	4,307,500	1,465,939	(1,845,309)	15,860,817

Notes to the Interim Financial Information (continued)

3. Financial risk management (continued)

3.3 Liquidity Risk

Tables below analyse assets and liabilities of the Group as at 30 June 2009 and 31 December 2008 into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	At 30 June 2009							Total HK\$'000
	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	
Assets								
Cash and balances with banks and other financial institutions	3,073,358	10,770,847	-	-	-	-	-	13,844,205
Placements with banks and other financial institutions maturing between one and twelve months	-	-	5,702,874	7,352,192	-	-	-	13,055,066
Financial assets at fair value through profit or loss								
- debt securities held for trading								
- others	-	293,999	488,982	300,641	366	353	-	1,084,341
- debt securities designated at fair value through profit or loss								
- others	-	112,969	84,943	207,351	1,037,829	249,569	-	1,692,661
Derivative financial instruments	437,891	1,075	1,406	12,821	-	-	-	453,193
Advances and other accounts								
- advances to customers	1,465,971	2,713,742	4,297,938	9,663,647	35,200,818	14,593,959	122,613	68,058,688
- trade bills	-	222,459	363,091	3,389	-	-	-	588,939
Investment in securities								
- debt securities held for available-for-sales								
- certificates of deposit held	-	103,007	100,005	1,019,467	600,211	-	-	1,822,690
- others	-	339,567	200,931	641,186	2,126,002	1,232,499	-	4,540,185
- debt securities held for held-to-maturity								
- certificates of deposit held	-	-	31,724	473,844	72,678	-	-	578,246
- others	-	1,555,566	1,321,906	3,604,463	3,901,280	169,960	-	10,553,175
- debt securities held for loans and receivables	-	481,051	1,030,953	1,038,494	-	-	-	2,550,498
- equity securities	-	-	-	-	-	-	35,418	35,418
Investment properties	-	-	-	-	-	-	607,490	607,490
Properties, plant and equipment	-	-	-	-	-	-	2,578,296	2,578,296
Other assets (including deferred tax assets)	26,715	2,505,921	-	15,920	26,454	-	20,664	2,595,674
Total assets	5,003,935	19,100,203	13,624,753	24,333,415	42,965,638	16,246,340	3,364,481	124,638,765

Notes to the Interim Financial Information (continued)

3. Financial risk management (continued)

3.3 Liquidity Risk (continued)

	At 30 June 2009							Total HK\$'000
	On demand HK\$'000	Up to 1 month HK\$'000	1-3 months HK\$'000	3-12 months HK\$'000	1-5 years HK\$'000	Over 5 years HK\$'000	Indefinite HK\$'000	
Liabilities								
Deposits and balances of banks and other financial institutions	756,475	3,488,425	2,663,745	613,175	-	-	-	7,521,820
Financial liabilities at fair value through profit or loss								
– others	-	604,498	99,992	328,374	-	-	-	1,032,864
Derivative financial instruments	224,727	20,017	6,549	34,582	130,849	39,556	-	456,280
Deposits from customers	49,293,144	22,955,000	11,718,010	11,225,439	155,610	-	-	95,347,203
Other accounts and provisions (including current and deferred tax liabilities)	747,094	2,115,543	-	93,044	383,764	-	-	3,339,445
Total liabilities	51,021,440	29,183,483	14,488,296	12,294,614	670,223	39,556	-	107,697,612
Net liquidity gap	(46,017,505)	(10,083,280)	(863,543)	12,038,801	42,295,415	16,206,784	3,364,481	16,941,153

Notes to the Interim Financial Information (continued)

3. Financial risk management (continued)

3.3 Liquidity Risk (continued)

	At 31 December 2008							Total HK\$'000
	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	
Assets								
Cash and balances with banks and other financial institutions	3,253,549	12,325,924	-	-	-	-	-	15,579,473
Placements with banks and other financial institutions maturing between one and twelve months	-	-	9,105,156	4,934,899	-	-	-	14,040,055
Financial assets at fair value through profit or loss								
- debt securities held for trading								
- others	-	200,003	357,681	350,489	923	238	-	909,334
- debt securities designated at fair value through profit or loss								
- certificates of deposit held	-	25,223	-	-	-	-	-	25,223
- others	-	226,163	-	199,797	920,535	434,770	-	1,781,265
Derivative financial instruments	641,010	608	2,799	4,743	1,678	-	-	650,838
Advances and other accounts								
- advances to customers	1,632,300	1,849,516	3,712,419	9,215,007	32,838,727	15,105,289	74,437	64,427,695
- trade bills	-	311,679	613,987	57,760	-	-	-	983,426
Investment in securities								
- debt securities held for available-for-sales								
- certificates of deposit held	-	-	23,003	808,488	-	-	-	831,491
- others	-	300,005	301,485	469,625	1,181,009	970,613	-	3,222,737
- debt securities held for held-to-maturity								
- certificates of deposit held	-	602,760	1,470,609	27,085	250,070	-	-	2,350,524
- others	-	432,931	852,687	2,538,283	5,615,522	259,329	-	9,698,752
- debt securities held for loans and receivables	-	1,755,364	1,004,839	1,313,608	-	-	-	4,073,811
- equity securities	-	-	-	-	-	-	31,856	31,856
Investment properties	-	-	-	-	-	-	600,286	600,286
Properties, plant and equipment	-	-	-	-	-	-	2,498,798	2,498,798
Other assets (including current and deferred tax assets)	24,162	671,383	-	12,234	38,158	-	13,532	759,469
Total assets	5,551,021	18,701,559	17,444,665	19,932,018	40,846,622	16,770,239	3,218,909	122,465,033

Notes to the Interim Financial Information (continued)

3. Financial risk management (continued)

3.3 Liquidity Risk (continued)

	At 31 December 2008							Total HK\$'000
	On demand HK\$'000	Up to 1 month HK\$'000	1-3 months HK\$'000	3-12 months HK\$'000	1-5 years HK\$'000	Over 5 years HK\$'000	Indefinite HK\$'000	
Liabilities								
Deposits and balances of banks and other financial institutions	437,945	2,303,589	3,263,527	442,091	-	-	-	6,447,152
Financial liabilities at fair value through profit or loss								
– others	-	323,081	257,464	119,991	-	-	-	700,536
Derivative financial instruments	394,859	19,624	6,161	13,128	169,459	113,095	-	716,326
Deposits from customers	39,884,663	28,945,741	17,169,808	9,371,268	1,048,278	-	-	96,419,758
Other accounts and provisions (including deferred tax liabilities)	633,961	1,234,824	-	71,460	375,459	-	4,740	2,320,444
Total liabilities	41,351,428	32,826,859	20,696,960	10,017,938	1,593,196	113,095	4,740	106,604,216
Net liquidity gap	(35,800,407)	(14,125,300)	(3,252,295)	9,914,080	39,253,426	16,657,144	3,214,169	15,860,817

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 impairment allowances, 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 Interim Financial Information (continued)

3. Financial risk management (continued)

3.4 Capital Management

(a) Capital adequacy ratio

	<u>At 30 June 2009</u>	<u>At 31 December 2008</u>
Capital adequacy ratio	<u>17.83%</u>	<u>17.12%</u>
Core capital ratio	<u>16.58%</u>	<u>15.92%</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 77.

(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 30 June 2009 and 31 December 2008 and reported to the HKMA is analysed as follows:

	<u>At 30 June 2009</u>	<u>At 31 December 2008</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Core capital:		
Paid up ordinary share capital	600,000	600,000
Reserves	12,207,630	11,497,979
Profit and loss account	865,778	602,709
	<u>13,673,408</u>	<u>12,700,688</u>
Deductions from core capital	<u>(27,084)</u>	<u>(25,080)</u>
Core capital	<u>13,646,324</u>	<u>12,675,608</u>
Supplementary capital:		
Fair value gains arising from holdings of available-for-sale securities	14,051	9,210
Collective loan impairment allowances	398,900	352,315
Regulatory reserve	636,341	611,835
	<u>1,049,292</u>	<u>973,360</u>
Deductions from supplementary capital	<u>(27,084)</u>	<u>(25,080)</u>
Supplementary capital	<u>1,022,208</u>	<u>948,280</u>
Total capital base after deductions	<u>14,668,532</u>	<u>13,623,888</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 77. Investment costs in such subsidiaries are deducted from the capital base.

Notes to the Interim Financial Information (continued)

4. Net interest income

	Half-year ended 30 June 2009 HK\$'000	Half-year ended 30 June 2008 HK\$'000
Interest income		
Cash and due from banks and other financial institutions	239,482	392,969
Advances to customers	845,514	1,230,113
Listed investments	141,934	62,438
Unlisted investments	148,934	460,120
Others	8,314	15,285
	<u>1,384,178</u>	<u>2,160,925</u>
Interest expense		
Due to banks, customers and other financial institutions	(353,792)	(962,877)
Certificates of deposit in issue	-	(2,112)
Others	(6,673)	(36,912)
	<u>(360,465)</u>	<u>(1,001,901)</u>
Net interest income	<u><u>1,023,713</u></u>	<u><u>1,159,024</u></u>

Included within interest income is HK\$340,000 (first half of 2008: HK\$3,728,000) of interest with respect to income recognised on advances classified as impaired for the first half of 2009.

Included within interest income and interest expense are HK\$1,387,998,000 (first half of 2008: HK\$2,108,210,000) and HK\$355,169,000 (first half of 2008: HK\$972,401,000) for financial assets and financial liabilities that are not recognised at fair value through profit or loss respectively.

Notes to the Interim Financial Information (continued)

5. Net fees and commission income

	Half-year ended 30 June 2009 HK\$'000	Half-year ended 30 June 2008 HK\$'000
Fees and commission income		
Securities brokerage		
- stockbroking	125,745	107,799
- bonds	1,050	52,366
Credit cards	249	416
Fund distribution	5,482	32,166
Bills commissions	44,449	57,873
Payment services	28,970	32,636
Loan commissions	23,815	26,892
Insurance	12,677	16,517
Trust services	550	91
Guarantees	1,970	3,461
Others		
- safe deposit box	9,366	6,982
- correspondent banking	6,178	6,010
- information search	3,186	3,096
- agency services	2,152	533
- BOC cards	1,365	1,410
- dormant accounts	1,335	1,260
- low deposit balance accounts	1,299	1,719
- currency exchange	482	543
- sundries	7,592	11,144
	277,912	362,914
Fees and commission expenses		
Securities brokerage	(20,644)	(19,761)
Payment services	(3,222)	(3,340)
RMB business	(155)	(1,802)
Others	(15,034)	(35,404)
	(39,055)	(60,307)
Net fees and commission income	238,857	302,607
Of which arise from		
- financial assets or financial liabilities not at fair value through profit or loss		
- Fees and commission income	30,797	29,871
- Fees and commission expenses	(107)	(2,384)
	30,690	27,487
- trust and other fiduciary activities		
- Fees and commission income	7,439	4,214
- Fees and commission expenses	(637)	(821)
	6,802	3,393

Notes to the Interim Financial Information (continued)

6. Net trading income/(expenses)

	Half-year ended 30 June 2009	Half-year ended 30 June 2008
	HK\$'000	HK\$'000
Net gain/(loss) from:		
- foreign exchange and foreign exchange products	37,983	(90,826)
- interest rate instruments	106,237	38,851
	144,220	(51,975)

7. Net gain on investment in securities

	Half-year ended 30 June 2009	Half-year ended 30 June 2008
	HK\$'000	HK\$'000
Net gain from disposal of available-for-sale securities	149	-

8. Other operating income

	Half-year ended 30 June 2009	Half-year ended 30 June 2008
	HK\$'000	HK\$'000
Dividend income from investment in securities		
- unlisted investments	2,854	2,593
Gross rental income from investment properties	15,487	14,179
Less: Outgoings in respect of investment properties	(1,802)	(2,004)
Others	1,161	29,970
	17,700	44,738

Included in the "Outgoings in respect of investment properties" is HK\$743,000 for the first half of 2009 (first half of 2008: HK\$664,000) of direct operating expenses related to investment properties that were not let during the period.

Notes to the Interim Financial Information (continued)

9. Net (charge)/reversal of impairment allowances

	Half-year ended 30 June 2009 HK\$'000	Half-year ended 30 June 2008 HK\$'000
Advances to customers		
Individually assessed		
- new allowances	(31,688)	(23,891)
- releases	18,288	10,641
- recoveries	57,217	39,821
Net reversal of individually assessed loan impairment allowances	43,817	26,571
Collectively assessed		
- new allowances	(55,974)	(10,738)
- releases	9,231	1,862
Net charge of collectively assessed loan impairment allowances	(46,743)	(8,876)
Net (charge)/reversal of impairment allowances	(2,926)	17,695

10. Operating expenses

	Half-year ended 30 June 2009 HK\$'000	Half-year ended 30 June 2008 HK\$'000
Staff costs (including directors' emoluments)		
- salaries and other costs	276,279	291,026
- termination benefit	-	115
- pension cost	30,172	24,324
	306,451	315,465
Premises and equipment expenses (excluding depreciation)		
- rental of premises	41,869	19,519
- information technology	47,222	55,396
- others	13,289	12,588
	102,380	87,503
Depreciation	36,810	27,898
Auditors' remuneration		
- audit services	650	800
- non-audit services	1,678	649
Other operating expenses	76,581	56,142
	524,550	488,457

Notes to the Interim Financial Information (continued)

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

	Half-year ended 30 June 2009	Half-year ended 30 June 2008
	HK\$'000	HK\$'000
Net loss on disposal of investment properties	(64)	-
Net gain on fair value adjustments on investment properties	7,334	99,551
	<u>7,270</u>	<u>99,551</u>

12. Net (loss)/gain from disposal/revaluation of properties, plant and equipment

	Half-year ended 30 June 2009	Half-year ended 30 June 2008
	HK\$'000	HK\$'000
Net loss on disposal of premises	(112)	-
Net gain on disposal of other fixed assets	64	5
Net (loss)/gain on revaluation of premises	(138)	1,477
	<u>(186)</u>	<u>1,482</u>

Notes to the Interim Financial Information (continued)

13. Taxation

Taxation in the condensed consolidated income statement represents:

	Half-year ended 30 June 2009	Half-year ended 30 June 2008
	HK\$'000	HK\$'000
Hong Kong profits tax		
- current period taxation	161,392	160,615
Deferred tax charge	7,234	25,188
	168,626	185,803
Overseas taxation	-	12,518
Others	(122)	-
	168,504	198,321

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits arising in Hong Kong for the first half of 2009. Taxation on overseas profits has been calculated on the estimated assessable profits for the first half of 2009 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:

	Half-year ended 30 June 2009	Half-year ended 30 June 2008
	HK\$'000	HK\$'000
Profit before taxation	1,039,851	1,011,567
Calculated at a taxation rate of 16.5% (2008: 16.5%)	171,575	166,909
Effect of different taxation rates in other countries	3,289	30,562
Income not subject to taxation	(15,263)	(8,229)
Expenses not deductible for taxation purposes	9,023	9,047
Tax losses not recognised	2	32
Others	(122)	-
Taxation charge	168,504	198,321
Effective tax rate	16.20%	19.61%

Notes to the Interim Financial Information (continued)

14. Dividends

	Half-year ended 30 June 2009		Half-year ended 30 June 2008	
	Per share HK\$	Total HK\$'000	Per share HK\$	Total HK\$'000
Interim dividend	-	-	63	378,000

No dividend was declared for the first half of 2009.

15. Retirement benefit costs

The principal defined contribution schemes for the Group's employees are Occupational Retirement Schemes Ordinance ("ORSO") schemes exempted under the Mandatory Provident Fund ("MPF") Schemes Ordinance and the BOC-Prudential Easy Choice MPF Scheme. Under the ORSO schemes, employees make monthly contributions to the ORSO schemes 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 schemes for the first half of 2009 amounted to approximately HK\$18,396,000 (first half of 2008: approximately HK\$17,328,000), after a deduction of forfeited contributions of approximately HK\$257,000 (first half of 2008: approximately HK\$867,000). For the MPF Scheme, the Group contributed approximately HK\$1,714,000 (first half of 2008: approximately HK\$1,702,000) for the first half of 2009.

Notes to the Interim Financial Information (continued)

16. 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 the Bank's intermediate holding company, BOC Hong Kong (Holdings) Limited ("BOCHKHL"), dated 10 July 2002.

The purpose of the Share Option Scheme is to provide the participants with the opportunity to acquire proprietary interests in the BOCHKHL. The Board of BOCHKHL (the "BOCHKHL Board") may, in its absolute discretion, offer to grant options under the Share Option Scheme to any person as the BOCHKHL Board may select. The subscription price for the shares shall be determined on the date of grant by the BOCHKHL Board 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 BOCHKHL Board and from time to time as specified in the offer and on or before the termination date prescribed by the BOCHKHL Board.

The purpose of the Sharesave Plan is to encourage broad-based employee ownership of the shares of the BOCHKHL. 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 BOCHKHL Board. 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 first half of 2009 (first half of 2008: Nil).

Notes to the Interim Financial Information (continued)

16. Share option schemes (continued)

(b) Pre-Listing Share Option Scheme

On 5 July 2002, several directors together with senior management personnel of the Group were granted options by BOC Hong Kong (BVI) Limited ("BOC (BVI)"), the immediate holding company of BOCHKHL, pursuant to a Pre-Listing Share Option Scheme to purchase from BOC (BVI) an aggregate of 5,615,200 existing issued shares of BOCHKHL. 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 30 June 2009 and 31 December 2008 are disclosed as follows:

	Total number of share options to directors and senior management	Others*	Total	Average exercise price (HK\$ per share)
Exercisable at 30 June 2009	723,000	-	723,000	8.5
	Total number of share options to directors and senior management	Others*	Total	Average exercise price (HK\$ per share)
At 1 January 2008	723,000	79,000	802,000	8.5
Less: Share options exercised during the year	-	(79,000)	(79,000)	8.5
At 31 December 2008	723,000	-	723,000	8.5
Exercisable at 31 December 2008	723,000	-	723,000	8.5

* Represented share options held by ex-directors of the Group.

No share options was exercised throughout the period. The weighted average share price during the year 2008 was HK\$20.05.

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 of Hong Kong ("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 Interim Financial Information (continued)

17. Cash and balances with banks and other financial institutions

	At 30 June 2009	At 31 December 2008
	HK\$'000	HK\$'000
Cash	341,883	340,619
Balances with central banks	1,429,993	1,492,097
Balances with banks and other financial institutions	1,301,482	1,420,833
Placements with banks and other financial institutions maturing within one month	10,770,847	12,325,924
	13,844,205	15,579,473

18. Financial assets at fair value through profit or loss

	Trading securities		Financial assets designated at fair value through profit or loss		Total	
	At 30 June 2009	At 31 December 2008	At 30 June 2009	At 31 December 2008	At 30 June 2009	At 31 December 2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At fair value						
Debt securities						
- Listed in Hong Kong	52	659	291,158	259,659	291,210	260,318
- Listed outside Hong Kong	-	-	847,873	773,956	847,873	773,956
	52	659	1,139,031	1,033,615	1,139,083	1,034,274
- Unlisted	1,084,289	908,675	553,630	772,873	1,637,919	1,681,548
Total	1,084,341	909,334	1,692,661	1,806,488	2,777,002	2,715,822

Notes to the Interim Financial Information (continued)

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

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

	At 30 June 2009	At 31 December 2008
	HK\$'000	HK\$'000
Sovereigns	1,082,904	906,860
Public sector entities	109,048	111,549
Banks and other financial institutions	568,122	381,631
Corporate entities	1,016,928	1,315,782
	<u>2,777,002</u>	<u>2,715,822</u>

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

	At 30 June 2009	At 31 December 2008
	HK\$'000	HK\$'000
Treasury bills	1,082,904	906,860
Certificates of deposit held	-	25,223
Other financial assets at fair value through profit or loss	1,694,098	1,783,739
	<u>2,777,002</u>	<u>2,715,822</u>

Notes to the Interim Financial Information (continued)

19. Derivative financial instruments

The Group enters into the following equity, foreign exchange, interest rate and precious metal related derivative financial instruments 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 (i.e. cross-currency interest rate swaps). Except for certain currency swap contracts, no exchange of principal takes place.

Foreign currency, interest rate, equity and precious metal 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 or traded through the stock exchange (for example, exchange-traded stock option).

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 condensed 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 market interest rates, foreign exchange rates or equity and precious 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 Interim Financial Information (continued)

19. Derivative financial instruments (continued)

The following tables summarise the contract/notional amounts of each significant type of derivative financial instrument as at 30 June 2009 and 31 December 2008:

	At 30 June 2009		Total HK\$'000
	Trading HK\$'000	Not qualified for hedge accounting* HK\$'000	
Exchange rate contracts			
Spot and forwards	7,856,181	-	7,856,181
Swaps	6,873,702	68,000	6,941,702
Foreign currency option contracts			
- Options purchased	69,597	-	69,597
- Options written	69,597	-	69,597
	<u>14,869,077</u>	<u>68,000</u>	<u>14,937,077</u>
Interest rate contracts			
Swaps	1,742,336	968,420	2,710,756
Bullion contracts	140,534	-	140,534
Equity contracts	-	-	-
Other contracts	10,877	-	10,877
Total	<u>16,762,824</u>	<u>1,036,420</u>	<u>17,799,244</u>

* 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 Interim Financial Information (continued)

19. Derivative financial instruments (continued)

	At 31 December 2008		
	Trading	Not qualified for hedge accounting*	Total
	HK\$'000	HK\$'000	HK\$'000
Exchange rate contracts			
Spot and forwards	8,089,455	-	8,089,455
Swaps	3,065,294	68,000	3,133,294
Foreign currency option contracts			
- Options purchased	31,731	-	31,731
- Options written	31,731	-	31,731
	<u>11,218,211</u>	<u>68,000</u>	<u>11,286,211</u>
Interest rate contracts			
Swaps	<u>2,062,838</u>	<u>1,149,665</u>	<u>3,212,503</u>
Bullion contracts	<u>126,097</u>	<u>-</u>	<u>126,097</u>
Equity contracts	<u>24,663</u>	<u>-</u>	<u>24,663</u>
Other contracts	<u>13,848</u>	<u>-</u>	<u>13,848</u>
Total	<u>13,445,657</u>	<u>1,217,665</u>	<u>14,663,322</u>

Notes to the Interim Financial Information (continued)

19. Derivative financial instruments (continued)

The following tables summarise the fair values of each class of derivative financial instrument as at 30 June 2009 and 31 December 2008:

	At 30 June 2009					
	Fair value assets			Fair value liabilities		
	Trading	Not qualified for hedge accounting*	Total	Trading	Not qualified for hedge accounting*	Total
Exchange rate contracts						
Spot and forwards	450,657	-	450,657	236,547	-	236,547
Swaps	1,301	241	1,542	22,443	2,237	24,680
Foreign currency option contracts						
- Options purchased	300	-	300	-	-	-
- Options written	-	-	-	300	-	300
	452,258	241	452,499	259,290	2,237	261,527
Interest rate contracts						
Swaps	-	-	-	112,834	81,210	194,044
Bullion contracts	694	-	694	707	-	707
Equity contracts	-	-	-	-	-	-
Other contracts	-	-	-	2	-	2
Total	452,952	241	453,193	372,833	83,447	456,280

	At 31 December 2008					
	Fair value assets			Fair value liabilities		
	Trading	Not qualified for hedge accounting*	Total	Trading	Not qualified for hedge accounting*	Total
Exchange rate contracts						
Spot and forwards	646,503	-	646,503	399,714	-	399,714
Swaps	1,756	752	2,508	16,488	2,660	19,148
Foreign currency option contracts						
- Options purchased	540	-	540	-	-	-
- Options written	-	-	-	540	-	540
	648,799	752	649,551	416,742	2,660	419,402
Interest rate contracts						
Swaps	-	-	-	150,880	144,972	295,852
Bullion contracts	831	-	831	608	-	608
Equity contracts	455	-	455	455	-	455
Other contracts	1	-	1	9	-	9
Total	650,086	752	650,838	568,694	147,632	716,326

Notes to the Interim Financial Information (continued)

19. Derivative financial instruments (continued)

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

	At 30 June 2009	At 31 December 2008
	HK\$'000	HK\$'000
Exchange rate contracts		
Forwards	18,284	15,148
Swaps	18,673	11,546
Interest rate contracts		
Swaps	6,560	7,659
	43,517	34,353

The credit risk weighted amounts are calculated in accordance with the Banking (Capital) Rules. The amounts 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.

Approximately 56.00% (31 December 2008: 52.47%) of the Group's transactions in derivative contracts are conducted with other financial institutions.

Notes to the Interim Financial Information (continued)

20. Advances and other accounts

	At 30 June 2009	At 31 December 2008
	HK\$'000	HK\$'000
Personal loans and advances	14,990,828	15,091,510
Corporate loans and advances	53,608,791	49,937,645
Advances to customers	68,599,619	65,029,155
Loan impairment allowances		
- individually assessed	(142,031)	(249,145)
- collectively assessed	(398,900)	(352,315)
	(540,931)	(601,460)
Trade bills	588,939	983,426
Total	68,647,627	65,411,121

As at 30 June 2009, advances to customers included accrued interest on gross advances of HK\$108,135,000 (31 December 2008: HK\$199,726,000).

As at 30 June 2009 and 31 December 2008, no impairment allowance was made in respect of trade bills and advances to banks and other financial institutions.

Notes to the Interim Financial Information (continued)

21. Investment in securities

	At 30 June 2009 HK\$'000	At 31 December 2008 HK\$'000
(a) Available-for-sale securities		
Debt securities, at fair value		
- Listed in Hong Kong	1,060,500	724,154
- Listed outside Hong Kong	1,259,629	563,455
	2,320,129	1,287,609
- Unlisted	4,042,746	2,766,619
	6,362,875	4,054,228
Equity securities, at fair value		
- Unlisted	35,418	31,856
	6,398,293	4,086,084
(b) Held-to-maturity securities		
Listed, at amortised cost		
- in Hong Kong	561,020	622,382
- outside Hong Kong	2,732,886	2,498,721
	3,293,906	3,121,103
Unlisted, at amortised cost	7,837,515	8,928,173
	11,131,421	12,049,276
(c) Loans and receivables		
Unlisted, at amortised cost	2,550,498	4,073,811
Total	20,080,212	20,209,171
Market value of listed held-to-maturity securities	3,268,178	2,950,938

Notes to the Interim Financial Information (continued)

21. Investment in securities (continued)

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

	At 30 June 2009			
	Available- for-sale securities	Held-to- maturity securities	Loans and receivables	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sovereigns	740,442	950,151	-	1,690,593
Public sector entities	-	593,343	-	593,343
Banks and other financial institutions	3,555,689	7,922,723	2,550,498	14,028,910
Corporate entities	2,102,162	1,665,204	-	3,767,366
	6,398,293	11,131,421	2,550,498	20,080,212

	At 31 December 2008			
	Available- for-sale securities	Held-to- maturity securities	Loans and receivables	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sovereigns	840,452	-	-	840,452
Public sector entities	-	938,491	-	938,491
Banks and other financial institutions	1,441,156	9,066,460	4,073,811	14,581,427
Corporate entities	1,804,476	2,044,325	-	3,848,801
	4,086,084	12,049,276	4,073,811	20,209,171

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

	Available-for-sale securities		Held-to-maturity securities	
	At 30 June 2009	At 31 December 2008	At 30 June 2009	At 31 December 2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Treasury bills	740,442	840,452	811,498	-
Certificates of deposit held	1,822,690	831,491	578,246	2,350,524
Others	3,835,161	2,414,141	9,741,677	9,698,752
	6,398,293	4,086,084	11,131,421	12,049,276

Notes to the Interim Financial Information (continued)

22. Investment properties

	At 30 June 2009 HK\$'000	At 31 December 2008 HK\$'000
At 1 January	600,286	566,559
Disposals	(3,730)	-
Fair value gains (Note 11)	7,334	33,727
Reclassification from premises in properties, plant and equipment (Note 23)	3,600	-
At period/year end	607,490	600,286

Notes to the Interim Financial Information (continued)

23. Properties, plant and equipment

	Premises HK\$'000	Equipment, fixtures and fittings HK\$'000	Total HK\$'000
Net book value at 1 January 2009	2,304,974	193,824	2,498,798
Additions	-	11,120	11,120
Disposals	(3,222)	(23)	(3,245)
Revaluation	112,167	-	112,167
Depreciation for the period (Note 10)	(15,639)	(21,171)	(36,810)
Reclassification to investment properties (Note 22)	(3,600)	-	(3,600)
Exchange difference	-	(134)	(134)
Net book value at 30 June 2009	<u>2,394,680</u>	<u>183,616</u>	<u>2,578,296</u>
At 30 June 2009			
Cost or valuation	2,394,754	376,954	2,771,708
Accumulated depreciation and impairment	(74)	(193,338)	(193,412)
Net book value at 30 June 2009	<u>2,394,680</u>	<u>183,616</u>	<u>2,578,296</u>
Net book value at 1 January 2008	2,247,528	105,343	2,352,871
Additions	25,257	116,011	141,268
Disposals	(3,984)	(174)	(4,158)
Revaluation	68,015	-	68,015
Depreciation for the year	(31,834)	(28,601)	(60,435)
Exchange difference	(8)	1,245	1,237
Net book value at 31 December 2008	<u>2,304,974</u>	<u>193,824</u>	<u>2,498,798</u>
At 31 December 2008			
Cost or valuation	2,305,048	369,756	2,674,804
Accumulated depreciation and impairment	(74)	(175,932)	(176,006)
Net book value at 31 December 2008	<u>2,304,974</u>	<u>193,824</u>	<u>2,498,798</u>
The analysis of cost or valuation of the above assets is as follows:			
At 30 June 2009			
At cost	-	376,954	376,954
At valuation	2,394,754	-	2,394,754
	<u>2,394,754</u>	<u>376,954</u>	<u>2,771,708</u>
At 31 December 2008			
At cost	-	369,756	369,756
At valuation	2,305,048	-	2,305,048
	<u>2,305,048</u>	<u>369,756</u>	<u>2,674,804</u>

Notes to the Interim Financial Information (continued)

24. Other assets

	At 30 June 2009	At 31 December 2008
	HK\$'000	HK\$'000
Reposessed assets	4,752	621
Accounts receivable and prepayments	2,564,675	714,874
	2,569,427	715,495

25. Financial liabilities at fair value through profit or loss

	At 30 June 2009	At 31 December 2008
	HK\$'000	HK\$'000
Trading liabilities		
- Short positions in Exchange Fund Bills	1,032,864	646,961
Financial liabilities designated at fair value through profit or loss		
- Structured deposits (Note 26)	-	53,575
	1,032,864	700,536

As at 30 June 2009, there were no financial liabilities designated at fair value through profit or loss (31 December 2008: HK\$53,575,000). The carrying amount of financial liabilities designated at fair value through profit or loss as at 31 December 2008 is more than the amount that the Group would be contractually required to pay at maturity to the holders by HK\$5,000.

Notes to the Interim Financial Information (continued)

26. Deposits from customers

	At 30 June 2009	At 31 December 2008
	HK\$'000	HK\$'000
Current, savings and other deposit accounts (per condensed consolidated balance sheet)	95,347,203	96,419,758
Structured deposits reported as financial liabilities at fair value through profit or loss (Note 25)	-	53,575
	95,347,203	96,473,333
Analysed by :		
Demand deposits and current accounts		
- corporate customers	5,756,701	4,893,592
- individual customers	1,287,815	1,033,752
	7,044,516	5,927,344
Savings deposits		
- corporate customers	12,336,309	10,264,917
- individual customers	29,052,238	22,869,001
	41,388,547	33,133,918
Time, call and notice deposits		
- corporate customers	18,678,690	24,239,369
- individual customers	28,235,450	33,172,702
	46,914,140	57,412,071
	95,347,203	96,473,333

27. Other accounts and provisions

	At 30 June 2009	At 31 December 2008
	HK\$'000	HK\$'000
Other accounts payable	2,836,156	1,907,199
Provisions	50,994	72,735
	2,887,150	1,979,934

Notes to the Interim Financial Information (continued)

28. Assets pledged as security

As at 30 June 2009, liabilities of the Group amounting to HK\$922,869,000 (31 December 2008: HK\$646,961,000) were secured by assets deposited with central depositories to facilitate settlement operations. The amount of assets pledged by the Group to secure these liabilities was HK\$924,933,000 (31 December 2008: HK\$648,488,000) included in "Trading securities" and "Available-for-sale securities".

29. Deferred taxation

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

The major components of deferred tax assets and liabilities recorded in the condensed consolidated balance sheet, and the movements during the first half of 2009 and the year ended 31 December 2008 are as follows:

	Half-year ended 30 June 2009					Total HK\$'000
	Accelerated tax depreciation	Property revaluation	Losses	Impairment allowances	Other temporary differences	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2009	(7,347)	(425,230)	16,719	66,408	46,908	(302,542)
(Charged)/credited to income statement (Note 13)	(68)	(839)	(1,752)	10,942	(15,517)	(7,234)
Charged to equity	-	(16,643)	-	-	(24,384)	(41,027)
Exchange difference	(4)	-	(25)	(40)	(18)	(87)
At 30 June 2009	<u>(7,419)</u>	<u>(442,712)</u>	<u>14,942</u>	<u>77,310</u>	<u>6,989</u>	<u>(350,890)</u>
	Year ended 31 December 2008					Total HK\$'000
	Accelerated tax depreciation	Property revaluation	Losses	Impairment allowances	Other temporary differences	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2008	(6,005)	(418,970)	-	43,381	(1,303)	(382,897)
(Charged)/credited to income statement	(1,373)	(2,645)	16,610	23,090	23,742	59,424
(Charged)/credited to equity	-	(3,615)	-	-	24,506	20,891
Exchange difference	31	-	109	(63)	(37)	40
At 31 December 2008	<u>(7,347)</u>	<u>(425,230)</u>	<u>16,719</u>	<u>66,408</u>	<u>46,908</u>	<u>(302,542)</u>

Notes to the Interim Financial Information (continued)

29. 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 condensed consolidated balance sheet:

	At 30 June 2009	At 31 December 2008
	HK\$'000	HK\$'000
Deferred tax assets	26,247	37,968
Deferred tax liabilities	(377,137)	(340,510)
	(350,890)	(302,542)
	At 30 June 2009	At 31 December 2008
	HK\$'000	HK\$'000
Deferred tax assets to be recovered after more than twelve months	3,406	37,938
Deferred tax liabilities to be settled after more than twelve months	(404,190)	(375,459)
	(400,784)	(337,521)

The deferred taxation charged/(credited) for each component of other comprehensive income during the period is as follows:

	Half-year ended 30 June 2009	Half-year ended 30 June 2008
	HK\$'000	HK\$'000
Fair value changes of available-for-sale securities	24,384	(6,075)
Revaluation of premises	16,643	19,458
	41,027	13,383

30. Share capital

	At 30 June 2009	At 31 December 2008
	HK\$'000	HK\$'000
Authorised:		
6,000,000 ordinary shares of HK\$100 each	600,000	600,000
Issued and fully paid:		
6,000,000 ordinary shares of HK\$100 each	600,000	600,000

Notes to the Interim Financial Information (continued)

31. Reserves

The Group's reserves and the movements therein for the current and prior periods are presented in the condensed consolidated statement of changes in equity on pages 4.

32. Notes to condensed consolidated cash flow statement

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

	Half-year ended 30 June 2009	Half-year ended 30 June 2008
	HK\$'000	HK\$'000
Operating profit	1,032,767	910,534
Depreciation	36,810	27,898
Net charge/(reversal) of impairment allowances	2,926	(17,695)
Unwind of discount on impairment	(340)	(3,728)
Advances written off net of recoveries	(62,956)	33,080
Change in cash and balances with banks and other financial institutions with original maturity over three months	607,414	670,461
Change in placements with banks and other financial institutions with original maturity over three months	(3,173,163)	5,700,567
Change in treasury bills with original maturity over three months	112,962	168,783
Change in certificates of deposit held with original maturity over three months	(229,065)	(641,541)
Change in financial assets at fair value through profit or loss	89,641	94,487
Change in derivative financial instruments	(62,401)	18,486
Change in advances and other accounts	(3,175,977)	(6,286,659)
Change in investment in securities	201,800	(2,840,750)
Change in other assets	(1,853,932)	1,071,362
Change in deposits and balances of banks and other financial institutions	1,074,668	(3,863,633)
Change in financial liabilities at fair value through profit or loss	332,328	88,951
Change in deposits from customers	(1,072,555)	3,147,077
Change in other accounts and provisions	909,946	(1,489,555)
Exchange difference	(4,659)	189,549
Operating cash outflow before taxation	(5,233,786)	(3,022,326)
Cash flows from operating activities included:		
- Interest received	1,514,665	2,352,256
- Interest paid	(489,474)	(1,067,586)
- Dividend received	2,854	2,593

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

	At 30 June 2009	At 30 June 2008
	HK\$'000	HK\$'000
Cash and balances with banks and other financial institutions with original maturity within three months	11,931,929	15,687,077
Placements with banks and other financial institutions with original maturity within three months	2,249,377	3,460,766
Treasury bills with original maturity within three months	1,853,479	1,440,459
Certificates of deposit held with original maturity within three months	-	1,816,065
	16,034,785	22,404,367

Notes to the Interim Financial Information (continued)

33. 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:

	At 30 June 2009 HK\$'000	At 31 December 2008 HK\$'000
Direct credit substitutes	423,149	396,907
Transaction-related contingencies	403,125	365,699
Trade-related contingencies	3,401,031	2,283,886
Commitments that are unconditionally cancellable without prior notice	6,648,581	2,269,486
Other commitments with an original maturity of		
- up to one year	4,967,422	10,221,532
- over one year	6,967,818	8,620,177
	22,811,126	24,157,687
Credit risk weighted amount	4,885,974	6,444,517

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.

34. Capital commitments

The Group has the following outstanding capital commitments not provided for in this interim financial information:

	At 30 June 2009 HK\$'000	At 31 December 2008 HK\$'000
Authorised and contracted for but not provided for	6,930	3,855

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

Notes to the Interim Financial Information (continued)

35. Operating lease commitments

(a) The Group as lessee

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

	At 30 June 2009	At 31 December 2008
	HK\$'000	HK\$'000
Land and buildings		
- not later than one year	52,813	85,438
- later than one year but not later than five years	170,855	161,853
- later than five years	267	11,778
	223,935	259,069
Other commitments		
- not later than one year	109	-
	224,044	259,069

(b) The Group as lessor

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

	At 30 June 2009	At 31 December 2008
	HK\$'000	HK\$'000
Land and buildings		
- not later than one year	29,405	29,324
- later than one year but not later than five years	7,271	13,359
	36,676	42,683

The Group leases its investment properties (Note 22) 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 Interim Financial Information (continued)

36. Segmental reporting

a) By class of business

The Group has adopted new HKFRS 8 “Operating Segments” effective this year. After assessing the internal financial reporting process, it was concluded that the original segments classification has already complied with the new standard.

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 mainly serves individual customers. Corporate Banking serves companies and enterprises.

Treasury business includes money market, foreign exchange dealings and capital market activities. Treasury manages funding and capital of the Group. 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 predefined 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 Interim Financial Information (continued)

36. Segmental reporting (continued)

a) By class of business (continued)

	Half-year ended 30 June 2009							
	Personal HK\$'000	Corporate HK\$'000	Treasury HK\$'000	Investment HK\$'000	Others HK\$'000	Subtotal HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Net interest income								
- external	(35,882)	651,243	408,316	36	-	1,023,713	-	1,023,713
- inter-segment	249,554	(131,255)	(118,299)	-	-	-	-	-
	213,672	519,988	290,017	36	-	1,023,713	-	1,023,713
Net fees and commission income/(expenses)	153,391	87,232	(2,314)	548	-	238,857	-	238,857
Net trading income/(expenses)	25,966	107,051	11,952	(749)	-	144,220	-	144,220
Net gain/(loss) on financial instruments designated at fair value through profit or loss	-	137,674	(2,070)	-	-	135,604	-	135,604
Net gain on investment in securities	-	-	149	-	-	149	-	149
Other operating income	318	4	-	64,464	149	64,935	(47,235)	17,700
Net operating income before impairment allowances	393,347	851,949	297,734	64,299	149	1,607,478	(47,235)	1,560,243
Net reversal/(charge) of impairment allowances	4,027	(6,953)	-	-	-	(2,926)	-	(2,926)
Net operating income	397,374	844,996	297,734	64,299	149	1,604,552	(47,235)	1,557,317
Operating expenses	(269,494)	(235,151)	(8,881)	(36,837)	(21,422)	(571,785)	47,235	(524,550)
Operating profit	127,880	609,845	288,853	27,462	(21,273)	1,032,767	-	1,032,767
Net gain from disposal of/fair value adjustments on investment properties	-	-	-	7,270	-	7,270	-	7,270
Net loss from disposal/revaluation of properties, plant and equipment	-	-	-	(186)	-	(186)	-	(186)
Profit before taxation	127,880	609,845	288,853	34,546	(21,273)	1,039,851	-	1,039,851
At 30 June 2009								
Segment assets	17,159,111	60,167,806	44,028,249	3,223,662	59,937	124,638,765	-	124,638,765
Segment liabilities	60,070,088	37,256,154	9,771,788	5,382	594,200	107,697,612	-	107,697,612
Half-year ended 30 June 2009								
Other information								
Additions of properties, plant and equipment	-	-	-	11,120	-	11,120	-	11,120
Depreciation	-	-	-	36,810	-	36,810	-	36,810
Amortisation of securities	-	-	6,314	-	-	6,314	-	6,314

Notes to the Interim Financial Information (continued)

36. Segmental reporting (continued)

a) By class of business (continued)

	Half-year ended 30 June 2008							
	Personal HK\$'000	Corporate HK\$'000	Treasury HK\$'000	Investment HK\$'000	Others HK\$'000	Subtotal HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Net interest income								
- external	(277,553)	855,948	579,397	1,232	-	1,159,024	-	1,159,024
- inter-segment	590,314	(352,812)	(237,502)	-	-	-	-	-
	312,761	503,136	341,895	1,232	-	1,159,024	-	1,159,024
Net fees and commission income/(expenses)	230,384	76,560	(4,464)	58	69	302,607	-	302,607
Net trading income/(expenses)	36,011	51,328	1,080	(140,394)	-	(51,975)	-	(51,975)
Net (loss)/gain on financial instruments designated at fair value through profit or loss	-	(74,476)	1,378	-	-	(73,098)	-	(73,098)
Other operating income	232	29,122	-	54,484	-	83,838	(39,100)	44,738
Net operating income before impairment allowances	579,388	585,670	339,889	(84,620)	69	1,420,396	(39,100)	1,381,296
Net reversal of impairment allowances	7,173	10,522	-	-	-	17,695	-	17,695
Net operating income	586,561	596,192	339,889	(84,620)	69	1,438,091	(39,100)	1,398,991
Operating expenses	(245,413)	(220,968)	(9,206)	(28,194)	(23,776)	(527,557)	39,100	(488,457)
Operating profit	341,148	375,224	330,683	(112,814)	(23,707)	910,534	-	910,534
Net gain from fair value adjustments on investment properties	-	-	-	99,551	-	99,551	-	99,551
Net gain from disposal/revaluation of properties, plant and equipment	-	-	-	1,482	-	1,482	-	1,482
Profit before taxation	341,148	375,224	330,683	(11,781)	(23,707)	1,011,567	-	1,011,567
At 31 December 2008								
Segment assets	16,636,335	56,433,421	46,181,069	3,133,455	80,753	122,465,033	-	122,465,033
Segment liabilities	58,383,366	39,651,853	7,946,660	5,170	617,167	106,604,216	-	106,604,216
Half-year ended 30 June 2008								
Other information								
Additions of properties, plant and equipment	-	-	-	24,182	-	24,182	-	24,182
Depreciation	-	-	-	27,898	-	27,898	-	27,898
Amortisation of securities	-	-	178,735	-	-	178,735	-	178,735

Notes to the Interim Financial Information (continued)

36. 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:

	Half-year ended 30 June 2009		Half-year ended 30 June 2008	
	Net operating income before loan impairment allowance HK\$'000	Profit before taxation HK\$'000	Net operating income before loan impairment allowance HK\$'000	Profit/(Loss) before taxation HK\$'000
Hong Kong	1,334,478	944,937	1,334,480	1,058,302
Mainland China	215,963	91,629	37,895	(48,876)
Others	9,802	3,285	8,921	2,141
Total	1,560,243	1,039,851	1,381,296	1,011,567

	At 30 June 2009			
	Total assets HK\$'000	Total liabilities HK\$'000	Non-current assets HK\$'000	Contingent liabilities and commitments HK\$'000
Hong Kong	107,485,406	96,498,209	2,986,733	19,057,835
Mainland China	16,319,115	10,439,043	203,801	3,572,469
Others	834,244	760,360	212	180,822
Total	124,638,765	107,697,612	3,190,746	22,811,126

	At 31 December 2008			
	Total assets HK\$'000	Total liabilities HK\$'000	Non-current assets HK\$'000	Contingent liabilities and commitments HK\$'000
Hong Kong	105,238,353	96,184,214	2,892,557	20,964,948
Mainland China	16,004,468	9,255,681	207,045	2,981,092
Others	1,222,212	1,164,321	323	211,647
Total	122,465,033	106,604,216	3,099,925	24,157,687

Notes to the Interim Financial Information (continued)

37. Significant related party transactions

Related parties are those parties that have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or other entities. The Group is subject to the control of the State Council of The People's Republic of China ("PRC") Government through China Investment Corporation ("CIC"), its wholly-owned subsidiary Central Huijin Investment Ltd. ("Central Huijin"), and Bank of China Limited ("BOC") in which Central Huijin has controlling equity interests.

The Group provides loans and credit facilities to related parties in the normal course of business. Such transactions are conducted with terms that are no more favourable than those contracted with third party customers of the Group.

Transactions with related parties, which the Group entered into during the period are summarised as follows:

(a) Advances to third parties guaranteed by BOC group companies

As at 30 June 2009, BOC, the intermediate holding company and its subsidiaries, provided guarantees for loans in favour of the Group amounting to HK\$362,489,000 (31 December 2008: HK\$519,877,000) to certain third parties. BOC held equity interests of not more than 20% in these third parties.

Notes to the Interim Financial Information (continued)

37. Significant related party transactions (continued)

(b) Summary of transactions entered into during the ordinary course of business with BOC group companies

The aggregate income and expenses arising from related party transactions with the immediate holding company, the intermediate holding companies of the Bank as well as subsidiaries and associates of BOC are summarised as follows:

	Notes	Half-year ended 30 June 2009	
		Immediate and	Other related
		holding companies	parties
		HK\$'000	HK\$'000
Income statement items:			
Interest income	(i)	28,223	2,365
Interest expense	(ii)	(29,379)	(9,105)
Insurance premium paid/Insurance commission received (net)	(iii)	-	968
Administrative services fees paid/payable	(iv)	(40,011)	(5,019)
Rental fees received/receivable	(iv)	-	8,056
Securities brokerage commission paid/payable (net)	(v)	-	(12,545)
Rental fees paid/payable	(v)	-	(197)
Funds selling commission received	(vi)	-	3,297
Other expense		-	(2,732)
Other commission income		363	3,808
Other fees and commission expense		(5,065)	(1,768)
Dividend income		-	2,131
Net trading gains		585	791

	Notes	Half-year ended 30 June 2008	
		Immediate and	Other related
		holding companies	parties
		HK\$'000	HK\$'000
Income statement items:			
Interest income	(i)	67,094	17,120
Interest expense	(ii)	(69,411)	(33,534)
Insurance premium paid/Insurance commission received (net)	(iii)	-	8,884
Administrative services fees paid/payable	(iv)	(43,022)	(1,797)
Rental fees received/receivable	(iv)	-	6,423
Securities brokerage commission paid/payable (net)	(v)	-	(15,137)
Rental fees paid/payable	(v)	-	(197)
Funds selling commission received	(vi)	-	9,172
Other expense		-	(1,235)
Other commission income		1,498	9,327
Other fees and commission expense		(11,435)	(1,067)
Dividend income		-	1,920
Net trading (loss)/gains		(640)	1,714

Notes to the Interim Financial Information (continued)

37. Significant related party transactions (continued)

(b) Summary of transactions entered into during the ordinary course of business with BOC group companies
(continued)

	Notes	At 30 June 2009	
		Immediate and intermediate holding companies	Other related parties
		HK\$'000	HK\$'000
Balance sheet items:			
Cash and balances with banks and other financial institutions	(i)	4,512,922	732,336
Placements with banks and other financial institutions maturing between one and twelve months	(i)	1,501,259	-
Financial assets at fair value through profit or loss		142,570	-
Derivative financial instruments assets	(vii)	12,874	271
Advances and other accounts	(i)	-	1,037,266
Investment in securities		67,093	34,119
Other assets	(viii)	1,703	247,321
Deposits and balances of banks and other financial institutions	(ii)	(6,880,750)	(2,272)
Deposits from customers	(ii)	-	(2,609,680)
Derivative financial instruments liabilities	(vii)	(1,253)	-
Other accounts and provisions	(viii)	-	(189,622)
Off-balance sheet items:			
Contingent liabilities and commitments	(ix)	1,410	410,500

	Notes	At 31 December 2008	
		Immediate and intermediate holding companies	Other related parties
		HK\$'000	HK\$'000
Balance sheet items:			
Cash and balances with banks and other financial institutions	(i)	3,606,475	96,101
Placements with banks and other financial institutions maturing between one and twelve months	(i)	216,825	34,228
Financial assets at fair value through profit or loss		143,372	-
Derivative financial instruments assets	(vii)	4,732	111
Advances and other accounts	(i)	-	99,654
Investment in securities		66,955	30,112
Other assets	(viii)	1,595	150,000
Deposits and balances of banks and other financial institutions	(ii)	(4,925,483)	(555,706)
Deposits from customers	(ii)	-	(4,674,258)
Derivative financial instruments liabilities	(vii)	(1,829)	-
Other accounts and provisions	(viii)	-	(160,129)
Off-balance sheet items:			
Contingent liabilities and commitments	(ix)	-	1,350,642

Notes to the Interim Financial Information (continued)

37. Significant related party transactions (continued)

(b) Summary of transactions entered into during the ordinary course of business with BOC group companies (continued)

Notes:

(i) Interest income

In the ordinary course of business, the Group enters into various transactions with immediate holding company, the intermediate holding companies, the fellow subsidiaries and associates of BOC including deposit of cash and balances with banks and other financial institutions, placement of interbank deposits, investment in securities and provision of loans and credit facilities. The transactions were conducted at prices and terms that are no more favourable than those charged to and contracted with other third party customers of the Group.

(ii) Interest expense

In the ordinary course of business, the Group accepts interbank deposits and current, fixed, savings and other deposits from immediate holding company, the intermediate holding companies, the fellow subsidiaries and associates of BOC at the relevant market rates at the time of the transactions.

(iii) Insurance premium paid/Insurance commission received (net)

In the ordinary course of business, the Group provides insurance agency services to and purchases insurance policies from the fellow subsidiaries of BOC at the relevant market rates at the time of the transactions.

(iv) Administrative services fees paid/payable and rental fees received/receivable

In the ordinary course of business, the Group pays administrative services fees for the provision of various administrative services including technology and training by the immediate holding company and fellow subsidiaries of BOC and receives office premises rental fees from the fellow subsidiaries of BOC at the relevant market rates at the time of the transactions.

(v) Commission fees and rental fees paid/payable

In the ordinary course of business, the Group pays commission fees for securities brokerage services and rental fees to fellow subsidiaries of BOC. These transactions have been entered into in the ordinary course of business and were priced at the relevant market rates at the time of the transactions.

Notes to the Interim Financial Information (continued)

37. Significant related party transactions (continued)

(b) Summary of transactions entered into during the ordinary course of business with BOC group companies (continued)

Notes: (continued)

(vi) Funds selling commission received

In the ordinary course of business, the Group receives commission for engaging in promotion and sale of fund products of fellow subsidiaries of BOC to customers of the Group at the relevant market rates at the time of the transactions.

(vii) Derivative financial instruments assets/liabilities

In the ordinary course of business, the Group enters into foreign exchange contracts, interest rate contracts, bullion contracts and equity contracts with immediate holding company, the intermediate holding company and a fellow subsidiary of BOC. As at 30 June 2009, the aggregate notional amount of such derivative transactions amounted to approximately HK\$2,427,855,000 (31 December 2008: HK\$1,542,240,000) whilst the corresponding derivative financial instruments assets and liabilities amounted to approximately HK\$13,145,000 (31 December 2008: HK\$4,843,000) and HK\$1,253,000 (31 December 2008: HK\$1,829,000) respectively. These transactions are executed at the relevant market rates at the time of the transactions.

(viii) Other assets and other accounts and provisions

Included within "Other assets" and "Other accounts and provisions" are receivables from and payables to the immediate holding company and fellow subsidiaries of BOC. The amounts mainly represent dividend payable to and other receivables from immediate holding company and the accounts receivables from and payables to fellow subsidiaries of BOC in relation to dealing in securities trading transactions on behalf of the Group's customers. The receivables and payables arose from transactions carried out in the normal course of business.

(ix) Contingent liabilities and commitments

In the ordinary course of business, the Group provides loan facilities and trade finance services to, and guarantees for the obligations of BOC and its subsidiaries and associates on normal commercial terms.

Notes to the Interim Financial Information (continued)

37. Significant related party transactions (continued)

(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 periods, 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 half-year ended 30 June 2009 and 2008 is detailed as follows:

	Half-year ended 30 June 2009	Half-year ended 30 June 2008
	HK\$'000	HK\$'000
Salaries and other short-term employee benefits	8,041	14,426
Post-employment benefits	681	725
	8,722	15,151

Notes to the Interim Financial Information (continued)

37. Significant related party transactions (continued)

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

Central Huijin is the controlling entity of BOC. It is a wholly-owned subsidiary of CIC which is wholly state-owned company engaging in foreign currency investment and management. Central Huijin is approved by the State Council of the PRC to assume the rights and obligations of the equity owner on behalf of the State.

The Group did not have any balances or enter into any transactions with CIC or Central Huijin for the half-year ended 30 June 2009 and 2008 (31 December 2008: Nil).

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. The outstanding balances at the period/year end, and the related income and expenses for the period are as follows:

	2009		2008	
	Interest income/ (expense) for the half-year ended 30 June HK\$'000	Outstanding balance at 30 June HK\$'000	Interest income/ (expense) for the half-year ended 30 June HK\$'000	Outstanding balance at 31 December HK\$'000
Investment in securities	2,624	956,546	4,077	180,368
Due from banks and other financial institutions	23,078	980,831	5,465	1,234,002
Due to banks and other financial institutions	(114)	(120,820)	(4,751)	(122,784)
			At 30 June 2009 HK\$'000	At 31 December 2008 HK\$'000
Contingent liabilities and commitments (including guarantees)			-	10,768

Notes to the Interim Financial Information (continued)

37. Significant related party transactions (continued)

(e) Transactions with the Ministry of Finance and the People's Bank of China and other state-controlled entities

The Group enters into banking transactions with the Ministry of Finance and the People's Bank of China in the normal course of business. These include purchases and redemption of treasury bonds and money market transactions.

The state-controlled entities are those, other than BOC (the intermediate holding company and its subsidiaries), CIC, Central Huijin and its controlled companies over which the PRC government directly or indirectly holds over 50% of the outstanding shares or voting rights, and has the ability to control or the power to govern their financial or operational policies through its government authorities, agencies and affiliates. The Group has extensive transactions with other state controlled entities. These transactions, conducted in the ordinary course of business, may include, but are not limited to, the following:

- lending, provision of credits and guarantees and deposit taking;
- inter-bank balance taking and placing;
- sale, 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 postal services.

Notes to the Interim Financial Information (continued)

38. Liquidity ratio

	Half-year ended 30 June 2009	Half-year ended 30 June 2008
Average liquidity ratio	41.44%	37.99%

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

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

39. Currency concentrations

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

	At 30 June 2009					Total
	Equivalent in thousand of HK\$					
	US Dollars	Renminbi	Euro	Japanese Yen	Others	
Spot assets	28,293,589	9,185,895	7,802,631	1,034,020	5,897,064	52,213,199
Spot liabilities	(22,882,989)	(7,954,761)	(7,711,968)	(540,917)	(6,236,360)	(45,326,995)
Forward purchases	2,836,651	208,560	36,625	452,734	947,286	4,481,856
Forward sales	(6,596,971)	(208,072)	(135,753)	(948,391)	(731,413)	(8,620,600)
Net long/(short) position	1,650,280	1,231,622	(8,465)	(2,554)	(123,423)	2,747,460
Net structural position	83,835	1,256,883	-	-	-	1,340,718

	At 31 December 2008					Total
	Equivalent in thousand of HK\$					
	US Dollars	Renminbi	Euro	Japanese Yen	Others	
Spot assets	31,125,561	8,304,935	6,343,124	210,425	6,098,972	52,083,017
Spot liabilities	(27,008,915)	(8,328,267)	(6,460,842)	(343,523)	(5,826,361)	(47,967,908)
Forward purchases	4,192,395	205,300	474,103	1,300,405	1,590,750	7,762,953
Forward sales	(7,113,295)	(205,953)	(361,181)	(1,149,476)	(1,893,346)	(10,723,251)
Net long/(short) position	1,195,746	(23,985)	(4,796)	17,831	(29,985)	1,154,811
Net structural position	75,828	1,308,947	-	-	-	1,384,775

Notes to the Interim Financial Information (continued)

40. 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:

	Banks	Public sector entities	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 30 June 2009				
Asia, other than Hong Kong				
- Mainland China	8,582,064	1,102,727	16,149,053	25,833,844
- Others	6,763,546	950,105	2,831,113	10,544,764
	<u>15,345,610</u>	<u>2,052,832</u>	<u>18,980,166</u>	<u>36,378,608</u>
North America				
- United States	1,762,278	23,882	713,624	2,499,784
- Others	772,375	-	20,291	792,666
	<u>2,534,653</u>	<u>23,882</u>	<u>733,915</u>	<u>3,292,450</u>
Western Europe				
- Germany	3,866,352	-	4,448	3,870,800
- Others	14,644,133	-	310,693	14,954,826
	<u>18,510,485</u>	<u>-</u>	<u>315,141</u>	<u>18,825,626</u>
	Banks	Public sector entities	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2008				
Asia, other than Hong Kong				
- Mainland China	6,148,468	893,693	15,707,707	22,749,868
- Others	8,364,474	-	2,681,805	11,046,279
	<u>14,512,942</u>	<u>893,693</u>	<u>18,389,512</u>	<u>33,796,147</u>
North America				
- United States	161,288	249,885	855,459	1,266,632
- Others	2,623,212	-	12,825	2,636,037
	<u>2,784,500</u>	<u>249,885</u>	<u>868,284</u>	<u>3,902,669</u>
Western Europe				
- Germany	5,338,914	-	2,970	5,341,884
- Others	19,041,952	3,152	200,559	19,245,663
	<u>24,380,866</u>	<u>3,152</u>	<u>203,529</u>	<u>24,587,547</u>

Notes to the Interim Financial Information (continued)

41. 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 are summarised as follows:

	At 30 June 2009			
	On-balance sheet exposure	Off-balance sheet exposure	Total exposure	Individually assessed impairment allowances
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mainland China entities	20,447,969	4,300,585	24,748,554	30,592
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	4,274,880	1,926,701	6,201,581	27,183
Other non-bank Mainland China exposures	3,490,224	1,039,795	4,530,019	38,278
	28,213,073	7,267,081	35,480,154	96,053

	At 31 December 2008			
	On-balance sheet exposure	Off-balance sheet exposure	Total exposure	Individually assessed impairment allowances
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mainland China entities	18,821,427	23,384,878	42,206,305	17,004
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	5,250,243	2,148,751	7,398,994	55,956
Other non-bank Mainland China exposures	3,337,547	1,804,763	5,142,310	37,652
	27,409,217	27,338,392	54,747,609	110,612

Notes to the Interim Financial Information (continued)

42. Events after the balance sheet date

(a) Lehman Brothers Minibonds

On 22 July 2009, the Bank agreed with the Securities and Futures Commission, the Hong Kong Monetary Authority and fifteen other distributing banks to make an offer to eligible customers to repurchase their holdings in all outstanding Lehman Brothers Minibonds subscribed through the Bank ("the Repurchase Scheme"). Details of the Repurchase Scheme, including the definition of eligible customers and outstanding Lehman Brothers Minibonds, have been set out in BOC Hong Kong (Holdings) Limited's announcement dated 22 July 2009 (the "Announcement").

As set out in the Announcement, under the Repurchase Scheme, the Bank has, without admission of liability, made an offer to repurchase at a price equivalent to 60% of the nominal value of the principal invested for eligible customers below the age of 65 as at 1 July 2009 or at 70% of the nominal value of the principal invested for eligible customers aged 65 or above as at 1 July 2009. If any recovery is made from the enforcement of the collateral held in respect of a series, the Bank will make further payments to eligible customers who have accepted the Repurchase Scheme. The Bank will also make a voluntary offer to pay an ex gratia amount to customers who would have qualified as eligible customers but for their previous settlements with the Bank, to bring them in line with the Repurchase Scheme offer. The Bank will further make available an amount equivalent to the total commission income received as a Lehman Brothers Minibonds distributor of approximately HK\$26 million to the trustee of the Lehman Brothers Minibonds to fund the trustee's expenses in realising the value of the underlying collateral in respect of the outstanding Lehman Brothers Minibonds. The aforesaid amount to the trustee is expected to be provided for in the second half of the year.

The Bank will need to make provisions in the second half of the year for the above Repurchase Scheme and voluntary offer in accordance with its accounting policies taking into account the estimated aggregate amount paid and payable of HK\$571 million, the provision already made of HK\$95 million as at 30 June 2009 and the net amount which is recoverable from the Lehman Brothers Minibonds. At present, the additional provision cannot be estimated reliably as the net amount which is recoverable from the Lehman Brothers Minibonds is uncertain.

Notes to the Interim Financial Information (continued)

42. Events after the balance sheet date (continued)

(b) The Restructuring of BOCHK's Mainland Branches and Sub-Branches

Upon the approval of the China Banking Regulatory Commission, the restructuring of BOCHK's Mainland branches and sub-branches was effective on 1 August 2009. From 1 August onwards, BOCHK Qingdao Branch, Shantou Branch, Shenzhen Branch, Shenzhen Futian Sub-Branch and Shenzhen Baoan Sub-Branch have been restructured into NCB (China) Qingdao Branch, Shantou Branch, Shenzhen Luohu Sub-Branch, Shenzhen Futian Sub-Branch and Shenzhen Baoan Sub-Branch respectively. BOCHK Shanghai Branch has been restructured and renamed as Nanyang Commercial Bank, Limited Shanghai Branch which became the Mainland's book-keeping branch of the Bank conducting foreign currency wholesale banking business. The unaudited net asset value transferred to our Group was approximately HK\$2.57 billion. The Bank has issued 1 million ordinary shares to BOCHK in exchange for the branches transferred.

43. Compliance with HKAS 34

The interim report for the first half of 2009 complies with HKAS 34 "Interim Financial Reporting" issued by the HKICPA.

44. Statutory accounts

The information in this interim report is unaudited and does not constitute statutory accounts. The statutory accounts for the year ended 31 December 2008 have been delivered to the Registrar of Companies and the HKMA. The auditors expressed an unqualified opinion on those statutory accounts in their report dated 13 March 2009.

Additional Information

1. Board of Directors

As at 14 August 2009, the Board of Directors of the Bank comprises Mr. HE Guangbei[#] (Chairman), Mr. XU Gang (Vice Chairman and Chief Executive), Mr. GAO Yingxin[#], Mr. CHEUNG Yau Shing[#], Mr. ZHUO Chengwen[#] (appointed on 3 July 2009), Ms. ZHU Yanlai[#], Mr. YUEN Wai Keung, Mr. CHANG Hsin Kang*, Mr. LAN Hong Tsung, David* and Mr. LAU Hon Chuen*.

[#] Non-executive Director

* Independent Non-executive Director

2. Compliance with the Banking (Disclosure) Rules

The unaudited interim report complies with the requirements set out in the Banking (Disclosure) Rules.

Business Reviews

The financial turmoil was still exerting its influence in the first half of 2009 while Hong Kong's economy continued to record negative growth in the first quarter of this year. The various stimulus packages and relaxed monetary policies introduced by different countries were well received by the market. Business activities rebounded slightly but credit risk was still relatively high which limited the growth of loan business. The job market remained grim and investors were prudent, which led to great challenges for the personal banking business of the Bank.

To grasp the growth momentum of the Mainland economy, Nanyang Commercial Bank (China), Limited (hereafter referred to "NCB China"), our subsidiary bank that was established a year ago, expanded its presence gradually and launched various market-oriented products and services.

In response to the current operating situation, the Bank adjusted its development strategies, enhanced its business structure and strictly abided by the law to maintain its steady growth.

Financial highlights

In the first half of 2009, the Bank's operating profit rose by 13.42% to HK\$1,033 million comparing with the same period of last year. Consolidated profit after tax was HK\$871 million, representing an increase of 7.14% compared with the same period last year. Net interest margin was 1.77%. Return on average assets per annum and return on average equity per annum were 1.41% and 10.63% respectively.

Principal activities

In the first half of 2009, the Bank continued to adopt a stable operating approach and actively adjusted its development strategies in response to the market condition and the relief measures implemented by the government, thus maintaining the steady growth of many of its business. As at the end of June 2009, total loans to customers amounted to HK\$68,600 million, representing an increase of HK\$3,570 million or 5.49% as compared with the end of the previous year; and the total deposits from customers was HK\$95,347 million, representing a decrease of HK\$1,073 million or 1.11% as compared with the end of the previous year.

Consolidating and enhancing corporate banking business

In view of the various revitalisation measures introduced in the Mainland, the Bank continued to cooperate with NCB China to expand the PRC offshore corporate business. Moreover, the Bank took an active role in the Special Loan Guarantee Scheme launched by the Hong Kong government to explore opportunities from small and medium-sized enterprises. At the end of June 2009, corporate loan balances rose by HK\$3,671 million or 7.35% compared with the end of last year.

Adjusting the focus of personal banking business

Our banking business was significantly hampered by the financial tsunami. In view of this, the Bank proactively adjusted the focus of personal banking business by continuing to attract potential quality customers to set up payroll accounts and security accounts, so as to expand the customer base of the personal banking business and seek for low cost funding. Besides, the Group strengthened the mortgage business in the light of the property market rally and low interest rate environment. In the second quarter of this year, new mortgage loans in the local market rose obviously by comparing with the same period of last year.

Business Reviews (continued)

Principal activities (continued)

Developing Mainland business at full throttle

In the first half of 2009, NCB China further broadened the Mainland retail market and launched various deposit and loan products to suit the different needs of customers and boost the income from intermediary business. It also actively fostered cooperation with Bank of China Limited and entered into strategic partnerships with several insurance companies. Moreover, NCB China continued to expand its branch network and established a sub-branch in Jianguomen, Beijing, a sub-branch in Xuhui, Shanghai and a branch in Chengdu. Upon the approval of the China Banking Regulatory Commission, the restructuring of BOCHK's Mainland branches and sub-branches was effective on 1 August 2009. From 1 August onwards, BOCHK Qingdao Branch, Shantou Branch, Shenzhen Branch, Shenzhen Futian Sub-Branch and Shenzhen Baoan Sub-Branch have been restructured into NCB (China) Qingdao Branch, Shantou Branch, Shenzhen Luohu Sub-Branch, Shenzhen Futian Sub-Branch and Shenzhen Baoan Sub-Branch respectively. BOCHK Shanghai Branch has been restructured and renamed as Nanyang Commercial Bank, Limited Shanghai Branch which became the Mainland's book-keeping branch of the Bank conducting foreign currency wholesale banking business. The unaudited net asset value transferred to our Group was approximately HK\$2.57 billion. The Bank has issued 1 million ordinary shares to BOCHK in exchange for the branches transferred.

Risk management

To comply with the latest requirements in relation to the sales of investment products by banks and prior risk assessment of customers imposed by the regulatory bodies, the Bank has adopted a series of measures to safeguard the interest of both the customers and the Bank. To minimise the impact of market fluctuation on corporate credit quality, the Bank regularly monitors the operating condition of its corporate customers and implements stringent risk management controls to ensure the quality and stability of credit assets. At the end of June 2009, the Group's gross classified or impaired advances continued to drop to HK\$243 million, representing 0.35% of gross advances to customers. With its prudent and sound capital management and liquidity risk management policies, the Bank's consolidated capital adequacy ratio and average liquidity ratio of local offices were 17.83% and 41.44% respectively, both at very prudent levels.

Brand building

A proactive corporate culture is the growth momentum of the Bank. Through various exchange and communication channels, the Bank enhanced the understanding of its staff on the industry and nurtured a sense of belonging of staff to serve customers with devotion. The Bank also implemented all kinds of compliance measures including optimisation of procedures, provision of trainings and internal surveillance to maintain the ongoing compliance with laws and regulations.

The Bank strives to provide quality service environment to its customers by enhancing its presence and sales network as well as actively renovating a number of branches to improve customer service and our counter-image.

Business Reviews (continued)

Outlook

Looking into the second half of 2009, we expect the global economy to continue its correction while Hong Kong's economy is expected to improve due to its strong fundamentals and the drive from the Mainland market.

The Bank will follow the operating direction set by its Board to actively expand customer base, enlarge its business scale and exert strict controls on all risks and expenses. By continuing enhancing its sales network, the Group endeavours to provide quality products and services to its customers and establish a professional image to maximise returns for our shareholders.

Report on Review of Interim Financial Information

TO THE BOARD OF DIRECTORS OF NANYANG COMMERCIAL BANK, LIMITED

(incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 1 to 71, which comprises the condensed consolidated balance sheet of Nanyang Commercial Bank, Limited (the “Bank”) and its subsidiaries (together, the “Group”) as at 30 June 2009 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors of the Bank are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 14 August 2009

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 RMB2,500,000,000	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.