SHANGHAI COMMERCIAL BANK LIMITED



Annual Report 2007

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Five-Year Financial Summary

	2007	2006	2005	2004	2003
For The Year (In HK$ Million)					
Net interest income	**2,036**	1,849	1,682	1,500	1,400
Other operating income	**1,569**	1,008	908	825	694
Operating expenses	**973**	842	810	785	736
Operating profit	**2,534**	1,981	1,785	1,525	1,192
Profit attributable to shareholders	**2,199**	1,662	1,472	1,329	1,013
Dividend	**1,100**	506	460	460	400
At Year End (In HK$ Million)					
Shareholders' funds	**14,886**	13,026	11,673	10,631	10,678
Total assets	**108,025**	93,760	80,702	75,058	74,804
Total deposits	**82,113**	75,343	64,037	60,373	59,948
Total loans and advances	**46,128**	38,472	35,600	30,205	28,149
Financial Ratios					
Capital adequacy ratio*	**20%**	22%	23%	24%	23%
Liquidity ratio	**52%**	53%	57%	64%	74%
Loan to deposit ratio**	**59.09%**	55.79%	61.10%	59.42%	53.25%
Dividend payout ratio	**50.02%**	30.45%	31.25%	34.60%	39.49%
Return on average assets	**2.18%**	1.90%	1.89%	1.77%	1.37%

* The calculation of the 2007 Capital adequacy ratio is based on the Banking (Capital) Rules effective from 1st January 2007. The calculation of the Capital adequacy ratio of prior years was based on Third Schedule to the Banking Ordinance.

** Loan to deposit ratio is stated based on total loans and advances, trade bills and holdings of debt securities issued by corporations to total deposits.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Fifty-seventh Annual General Meeting of the Members of the Bank will be held at its Registered Office, 12 Queen's Road Central, Hong Kong on Tuesday, 22nd April 2008 at 11:00 a.m. to transact the following business:

(1) To receive and consider the audited financial statements and the Reports of the Directors and of the Auditors for the year ended 31st December 2007;

(2) To declare Dividend in respect of the year 2007;

(3) To elect Directors;

(4) To approve the payment of Directors' fees for the year ended 31st December 2007;

(5) To re-appoint Auditors and to authorise the Directors to fix their remuneration.

A Member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not also be a Member.

The Register of Members of the Bank will be closed from Tuesday, 15th April 2008 to Tuesday, 22nd April 2008, both days inclusive.

By Order of the Board
May Yuen-ling Kwok
Corporate Secretary

Hong Kong, 27th February 2008

Board of Directors

Lincoln Chu Kuen Yung, JP Chairman & Non-executive Director	(elected Chairman on 19th December 2007)
David Sek-chi Kwok Chief Executive & Managing Director	(appointed Chief Executive & Managing Director on 29th October 2007)
* Jung-sen Lee, OBE, LLD	(passed away on 24th February 2007)
(Chien Lee, Alternate)	(ceased on 24th February 2007)
Hung-ching Yung, JP	
John Kam-pak Yan	(retired on 17th December 2007)
Shen Ruolei	
* Dr. Philip Kin Hang Wong, GBS, JP, LLD, DH	
David Joseph Zuercher	
(Michael Gallagher, Alternate)	(resigned on 25th January 2007)
(Clifford Sterling Lawrence, Alternate)	(appointed on 25th January 2007)
* Dr. Richard Lee	
* Johnson Mou Daid Cha (Dr. Lam Chat Yu, Alternate)	
Fu Jianhua (Zhang Qi, Alternate)	
Stephen Ching Yen Lee	
Edward Kawah Chu	
David Allen Hoyt (Ignatius Wooi-kean Choong, Alternate)	
Chen Yih Pin (Yi-Jen Chiou, Alternate)	(appointed on 15th February 2007)

* Independent Non-executive Directors

Management

Executives

Chief Executive & Managing Director	David Sek-chi Kwok	
Director & Assistant General Manager	Edward Kawah Chu	
Assistant General Managers	Chun-yiu Chan	
	Francis Wai-choi Cheung	
Assistant General Manager & Chief Financial Controller	Henry Koon-man To	
Senior Managers	Chun-sum Chan	Paul Kun-kow Wong
	Burton Chi-shan Cheng	Henry Siu-chuen Lau
	John Yu-kam Chow	Raymond Pui-kam Tse
	Hon-ming Mak	Alvin Kwok-kit Lau
Chief Auditor	Pui-man Yeung	
Managers	Albert Tak-wo Leung	Thomas Chee-kin Lo
	Elizabeth Po-san Ng	Zachary Wing-kwong Kwan
	Vincent Chi-wing Man	Stephen Wing-hing Lai
	Sing-yui Fung	Wai-chau Tang
	Tony Kwok-keung Wat	

Overseas Branches

London Branch	
Manager	Frederick Yan Chu
San Francisco Branch	
Vice President & Manager	Philip She-hoi Lee
New York Branch	
Senior Vice President & Manager	Timothy Kam-tim Chan
Los Angeles Branch	
Executive Vice President & Manager	Ching-hsing Kao

Mainland Branch

Shenzhen Branch	
Manager	Vincent Chi-wing Man

Mainland Representative Office

Shanghai Representative Office	
Chief Representative	Alvin Kwok-kit Lau

Biographical Details of Directors and Senior Management

Directors

Mr. Lincoln Chu Kuen Yung, JP

Aged 62. Chairman and Non-executive Director. Mr. Yung was appointed a Director of the Bank since September 1998 and was elected Chairman in December 2007. He has been a Director of The Shanghai Commercial & Savings Bank, Ltd. since March 1991, where he served as Managing Director from 1994 to 2004. He is currently the Deputy Managing Director of Nanyang Holdings Limited and is also an Independent Non-executive Director of Tai Ping Carpets International Limited. Mr. Yung has extensive experience in the textile industry, banking and investment. He was a member of the Basic Law Consultative Committee (from 1985 to 1990) and has been involved in various government committees.

Mr. David Sek-chi Kwok

Aged 54. Chief Executive and Managing Director of the Bank. Joined the Bank in October 1971. Appointed a Director in October 2001. General Manager since July 2004, and Chief Executive and Managing Director since October 2007.

Mr. Jung-sen Lee, OBE, LLD

Appointed a Director of the Bank in May 1952. Passed away on 24th February 2007.

Mr. Hung-ching Yung, JP

Aged 85. Appointed a Director of the Bank in March 1973. Managing Director and General Manager of Nanyang Holdings Limited. Chairman of The Shanghai Commercial & Savings Bank, Ltd. A Director of Paofoong Insurance Company (Hong Kong) Limited and The Wing On Enterprises, Limited.

Mr. John Kam-pak Yan

Aged 66. Appointed a Director of the Bank in February 1988. Former Chairman and Managing Director of the Bank. Retired on 17th December 2007.

Mr. Shen Ruolei

Aged 62. Appointed a Director of the Bank in March 1999. Chairman of Shanghai United International Investment Ltd. and United MetLife Insurance Company Limited. Vice Chairman of Shanghai International Trust Corporation. A Director of Bank of Shanghai.

Dr. Philip Kin Hang Wong, GBS, JP, LLD, DH

Aged 75. Appointed a Director of the Bank in March 2001. A consultant of a Hong Kong firm of solicitors and also a Notary Public, Hong Kong SAR and a China Appointed Attesting Officer.

Mr. David Joseph Zuercher

Aged 61. Appointed an Alternate Director to Professor Chang-Lin Tien in January 1999 and resigned in March 2001 when he was appointed a Director of the Bank. Executive Vice President of Wells Fargo Bank, N.A.

Dr. Richard Lee

Aged 70. Appointed a Director of the Bank in April 2001. Chairman of TAL Apparel Limited and a Director of Jardine Matheson Holdings Limited, Hongkong Land Holdings Limited and Mandarin Oriental International Limited.

Mr. Johnson Mou Daid Cha

Aged 56. Appointed a Director of the Bank in September 2001. Managing Director of Mingly Corporation, and also a Director of HKR International Limited, Asia Television Limited, Hanison Construction Holdings Limited and China International Capital Corporation Limited, and member of Finance Committee of The Chinese University of Hong Kong.

Mr. Fu Jianhua

Aged 56. Appointed a Director of the Bank in January 2004. President of Shanghai Pudong Development Bank. A Director of Shanghai United International Investment Ltd.

Mr. Stephen Ching Yen Lee

Aged 61. Appointed as a Director of the Bank in June 2004. Managing Director of The Shanghai Commercial & Savings Bank, Ltd., Great Malaysia Textile Investments Private Limited, Director of Shanghai Baosteel Group and Chairman of Singapore Airlines Limited.

Mr. Edward Kawah Chu

Aged 52. An Assistant General Manager of the Bank. Joined the Bank in December 1979. Appointed a Director in February 2005. Alternate Chief Executive since October 2007.

Mr. David Allen Hoyt

Aged 52. Appointed a Director of the Bank in April 2006. Senior Executive Vice President, Wholesale Banking, Wells Fargo & Company. A Director of Wells Fargo Bank, N.A.

Mr. Chen Yih Pin

Aged 68. Appointed an Alternate Director to Mr. Stephen Ching Yen Lee in June 2004 and resigned in April 2006 when he was elected a Director of the Bank. Resident Managing Director of The Shanghai Commercial & Savings Bank, Ltd.

Mr. Ignatius Wooi-kean Choong

Aged 46. Served as an Alternate Director to Mr. Paul Mandeville Hazen from January 1997 to March 2001, an Alternate Director to Professor Chang-Lin Tien from March 2001 to March 2002 and also an Alternate Director to Mr. Robert Law Joss from April 2002 to April 2006. Appointed an Alternate Director to Mr. David Allen Hoyt in April 2006. Managing Director, Asia Investment Management, Wells Fargo Bank, N.A.

Dr. Lam Chat Yu

Aged 56. Appointed an Alternate Director to Mr. Johnson Mou Daid Cha in May 2002. He has more than 20 years of investment experience, including 17 years in Silicon Valley, California and 13 years in Asia. He is an Executive Director of Mingly Corporation.

Mr. Michael Gallagher

Aged 46. Appointed an Alternate Director to Mr. David Joseph Zuercher in January 2003. Resigned on 25th January 2007.

Mr. Zhang Qi

Aged 34. Appointed an Alternate Director to Mr. Fu Jianhua in January 2004. Senior Supervisor of the General Administration Department of Bank of Shanghai. Secretary of the Board of Directors of Shanghai United International Investment Ltd.

Mr. Chien Lee

Aged 55. Appointed an Alternate Director to Mr. Jung-sen Lee in August 2006. Ceased as an Alternate Director to the late Mr. Jung-sen Lee on 24th February 2007.

Mr. Clifford Sterling Lawrence

Aged 59. Appointed an Alternate Director to Mr. David Joseph Zuercher in January 2007. Senior Vice President and Asia General Manager, Wells Fargo Bank, N.A.

Mr. Yi-Jen Chiou

Aged 50. Appointed an Alternate Director to Mr. Chen Yih Pin in February 2007. Director and President of The Shanghai Commercial & Savings Bank, Ltd.

Senior Management

Mr. David Sek-chi Kwok

(Biographical details are set out on page 6)

Mr. Edward Kawah Chu

(Biographical details are set out on page 7)

Mr. Chun-yiu Chan

Aged 59. An Assistant General Manager of the Bank. Joined the Bank in January 1968.

Mr. Francis Wai-choi Cheung

Aged 57. An Assistant General Manager of the Bank. Joined the Bank in July 1969.

Mr. Henry Koon-man To

Aged 55. Assistant General Manager and Chief Financial Controller of the Bank. Joined the Bank in December 1988.



The Bank hosted the 8th annual Tripartite Conference with The Shanghai Commercial & Savings Bank and the Bank of Shanghai in Hong Kong.

本銀行於香港主辦第八屆滬港台“上海銀行”業務研討會。

The alliance of the Bank with The Shanghai Commercial & Savings Bank and the Bank of Shanghai has enabled customers to grasp business opportunities in Hong Kong, Taiwan and the Mainland by collective cooperation and concerted efforts.

滬、港、台“上海銀行”的合作與交流是連接兩岸三地之間的重要紐帶，目的是實現互利共贏，促進各自的發展與進步。





Message to Shareholders

For the Hong Kong economy, 2007 was a year of very impressive accomplishments. The Gross Domestic Product posted a growth of 6.3 percent during the past year and the Hang Seng Index experienced record high closings. Meanwhile, the unemployment rate fell to 3.4 percent at the end of 2007, the lowest in nearly a decade.

Shanghai Commercial Bank Limited (the "Bank") took full advantage of this robust Hong Kong economy. In 2007, the Bank registered a record-high consolidated profit attributable to shareholders of HK$2,199 million; this is an increase of 32.4 percent from 2006's figure, which was a previous record. This sizeable growth reflected the many superb performances put in by our staff on behalf of the Bank. As a result of their hard work and wise decision not to get involved in any U.S. sub-prime exposures, the Bank experienced across-the-board increases in profits. The net interest income increased by 10.1 percent from 2006. In the meantime, the net commission income rose by 51.4 percent, and the net trading income climbed by 117.2 percent, while the cost-to-income ratio was lowered from 29.47 percent in 2006 to 27.01 percent. The returns on average total assets of 2.18 percent and on average equity of 15.76 percent both compared favourably to our 2006 figures of 1.9 percent and 13.45 percent respectively. 2007 was an outstanding year for the Bank.

Considering the tenuous U.S. economy and the macroeconomic tightening policies in China, we expect the momentum of Hong Kong economic growth to moderate in 2008. In order to maintain growth during these likely difficult times, the Bank is currently exploring more fee income generating services and has plans to solidify and expand its personal and corporate customer bases through enhanced and expedited customer services. In addition, we are poised to take advantage of the expected warming of the cross-strait relations. The Shanghai Commercial Banking Group has a network of subsidiaries, branches, and affiliates set up in Hong Kong, Taiwan and China and is well positioned to benefit from the new initiatives to promote financial activities.

On another note, we wish to inform you of a recent management change in which we were appointed to lead the Bank. The separation of the roles of chairman (non-executive) and chief executive is in line with good corporate governance practice. We wish to express our utmost appreciation to our shareholders and fellow Directors for their guidance and steadfast support during this transition.

On behalf of the Board, we would also like to express our everlasting gratitude to our customers for their trust and confidence in the Bank. We would also like to thank our staff for their professionalism and dedication to the Bank and its customers. We view them as the heart and soul of the institution and will strive to care for every employee at every level. Every stellar performer will be duly awarded and be given opportunities to shine.

Lincoln Chu Kuen Yung
Chairman

David Sek-chi Kwok
Chief Executive & Managing Director

Hong Kong, 27th February 2008

Report of the Directors

The Directors have pleasure in submitting their report together with the audited financial statements for the year ended 31st December 2007.

Principal activities

The Bank and its subsidiary companies are engaged in the provision of banking and related financial services.

Profit and appropriations

		HK$'000
The Group's profit for the year after taxation less minority interests amounted to		2,199,150
Deduct:	Profit retained by jointly controlled entities	(49,644)
	Profit retained by subsidiary companies	(8,662)
Add:	Distribution of retained profit from a liquidated subsidiary company	40,016
Profit for the year dealt with in the financial statements of the Bank		2,180,860
Add:	Retained earnings of the Bank brought forward	2,978,018
	Currency translation differences	2,823
		5,161,701
which the Directors proposed a dividend of HK$55 per share		(1,100,000)
Retained earnings of the Bank carried forward		4,061,701

Other reserves

Movements in the other reserves of the Group and the Bank during the year are set out in Note 34 to the financial statements.

Donations

During the year donations made by the Bank and its subsidiary companies for charitable and other purposes amounted to HK$1,296,000.

Property and equipment

Details of the movements in property and equipment of the Group and the Bank are shown in Note 24 to the financial statements.

Directors

The Directors of the Bank during the year and at the date of this report are:

Jung-sen Lee	(passed away on 24th February 2007)
(Chien Lee, Alternate)	(ceased on 24th February 2007)
Hung-ching Yung	
John Kam-pak Yan	(retired on 17th December 2007)
Lincoln Chu Kuen Yung	
Shen Ruolei	
Dr. Philip Kin Hang Wong	
David Joseph Zuercher	
(Michael Gallagher, Alternate)	(resigned on 25th January 2007)
(Clifford Sterling Lawrence, Alternate)	(appointed on 25th January 2007)
Dr. Richard Lee	
Johnson Mou Daid Cha	
(Dr. Lam Chat Yu, Alternate)	
David Sek-chi Kwok	
Fu Jianhua	
(Zhang Qi, Alternate)	
Stephen Ching Yen Lee	
Edward Kawah Chu	
David Allen Hoyt	
(Ignatius Wooi-kean Choong, Alternate)	
Chen Yih Pin	
(Yi-Jen Chiou, Alternate)	(appointed on 15th February 2007)

In accordance with Article 104(A) of the Bank's Articles of Association, Mr. Hung-ching Yung, Mr. Johnson Mou Daid Cha, Mr. Stephen Ching Yen Lee and Mr. Edward Kawah Chu shall retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Directors' interests

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

At no time during the year was the Bank, its subsidiary companies, its fellow subsidiaries or its holding companies a party to any arrangements to enable the Directors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

Management contracts

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

Financial disclosures

The Bank has followed the disclosure requirements set out in the "Guideline on the Application of the Banking (Disclosure) Rules" under the Supervisory Policy Manual issued by the Hong Kong Monetary Authority ("HKMA") in May 2007. The Bank has complied with the capital requirements related to capital base and capital adequacy ratio stipulated by the HKMA.

Compliance with the Code of Best Practice

According to Article 123 of the Bank's Articles of Association, the Bank adopts the guidelines set out in the Code of Best Practice contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Code of Best Practice"). The Code of Best Practice was replaced by the Code on Corporate Governance Practices which became effective for accounting periods commencing on or after 1st January 2005. After taking into consideration the individual circumstances of the Bank, which is a private company, the Board of Directors of the Bank has decided to adopt only those provisions in the Code on Corporate Governance Practices that are relevant and of value to the Bank. The following nine code provisions are those that the Bank has chosen to deviate from or are considered not applicable to the Bank: A.4.1, A.4.2, A.5.4, C.1.2, C.2.1, C.3.5, E.2.1, E.2.2 and E.2.3.

Auditors

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

On behalf of the Board
Lincoln Chu Kuen Yung
Chairman

Hong Kong, 27th February 2008

Independent Auditor's Report to the Shareholders of Shanghai Commercial Bank Limited

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Shanghai Commercial Bank Limited (the "Bank") and its subsidiaries (together, the "Group") set out on pages 18 to 99, which comprise the consolidated and company balance sheets as at 31st December 2007, the consolidated and company profit and loss accounts, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Bank are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Bank and of the Group as at 31st December 2007 and of the profits of the Bank and the Group and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27th February 2008

Consolidated Profit and Loss Account

for the year ended 31st December 2007

	Note	2007 HK$'000	2006 HK$'000
Interest income		**5,317,136**	4,565,937
Interest expense		**(3,281,429)**	(2,717,093)
Net interest income	5	**2,035,707**	1,848,844
Fee and commission income		**1,106,942**	732,505
Fee and commission expense		**(42,768)**	(29,606)
Net fee and commission income	6	**1,064,174**	702,899
Dividend income	7	**17,397**	19,399
Net trading income	8	**359,681**	165,581
Net income from financial instruments designated at fair value through profit or loss		**16,014**	20,957
Net loss from disposal of property and equipment		**(538)**	(532)
Net gain from disposal/redemption of available-for-sale investments		**37,782**	21,038
Other operating income	9	**74,186**	78,832
Operating expenses	10	**(973,380)**	(841,895)
Impairment losses on loans and advances to customers	12	**(96,706)**	(34,574)
Operating profit		**2,534,317**	1,980,549
Share of net profits of jointly controlled entities		**73,724**	29,666
Profit before taxation		**2,608,041**	2,010,215
Income tax expense	13	**(407,637)**	(347,610)
Profit after taxation		**2,200,404**	1,662,605
Attributable to:			
Shareholders of the Bank		**2,199,150**	1,661,582
Minority interests		**1,254**	1,023
		2,200,404	1,662,605
Dividend			
Final dividend proposed after the balance sheet date	14	**1,100,000**	506,000

Profit and Loss Account

for the year ended 31st December 2007

	Note	2007 HK$'000	2006 HK$'000
Interest income		**5,220,751**	4,468,736
Interest expense		**(3,287,573)**	(2,724,240)
Net interest income	5	**1,933,178**	1,744,496
Fee and commission income		**1,041,931**	701,793
Fee and commission expense		**(32,117)**	(25,078)
Net fee and commission income	6	**1,009,814**	676,715
Dividend income	7	**182,613**	121,783
Net trading income	8	**359,669**	165,569
Net income from financial instruments designated at fair value through profit or loss		**16,014**	20,957
Net loss from disposal of property and equipment		**(432)**	(399)
Net gain from disposal/redemption of available-for-sale investments		**37,782**	21,038
Other operating income	9	**111,320**	94,363
Operating expenses	10	**(966,727)**	(832,430)
Reversal of impairment losses on investments in jointly controlled entities		**–**	17,238
Impairment losses on loans and advances to customers	12	**(96,706)**	(34,779)
Profit before taxation		**2,586,525**	1,994,551
Income tax expense	13	**(405,665)**	(346,416)
Profit after taxation		**2,180,860**	1,648,135
Dividend			
Final dividend proposed after the balance sheet date	14	**1,100,000**	506,000

Consolidated Balance Sheet

as at 31st December 2007

	Note	2007	2006
		HK$'000	HK$'000
Assets			
Cash and balances with banks	15	**29,576,311**	23,533,792
Placements with and loans and advances to banks	16	**12,056,719**	10,583,476
Trading assets	17	**284,772**	248,084
Derivative financial instruments	18	**428,434**	23,962
Financial assets designated at fair value	19	**407,171**	403,296
Loans and advances to customers	20(a)	**45,931,287**	38,311,148
Investment securities:			
– Available-for-sale	21	**13,537,925**	14,708,304
– Held-to-maturity	22	**3,112,359**	3,382,442
Investments in jointly controlled entities	23(a)	**188,685**	164,774
Property and equipment	24	**406,925**	427,831
Leasehold land and land use rights	26	**273,841**	278,661
Deferred income tax assets	32	**70,177**	71,915
Other assets	27	**1,750,802**	1,622,791
Total assets		**108,025,408**	93,760,476
Liabilities			
Deposits and balances from banks		**4,078,007**	3,765,378
Derivative financial instruments	18	**434,880**	19,853
Deposits from customers	28	**80,861,142**	72,237,097
Certificates of deposit issued	29	**1,251,596**	3,105,934
Other liabilities	30	**6,338,371**	1,486,720
Provisions	31	**128,060**	92,729
Current income tax liabilities		**39,231**	19,483
Deferred income tax liabilities	32	**92**	67
Total liabilities		**93,131,379**	80,727,261
Equity			
Capital and reserves attributable to the equity holders of the bank			
Share capital	33	**2,000,000**	2,000,000
Retained earnings		**5,293,541**	3,592,717
Other reserves	34	**7,592,840**	7,433,623
		14,886,381	13,026,340
Minority interests in equity		**7,648**	6,875
Total equity		**14,894,029**	13,033,215
Total equity and liabilities		**108,025,408**	93,760,476

Approved and authorised for issue by the Board of Directors on 27th February 2008.

Lincoln Chu Kuen Yung
Chairman

Hung-ching Yung
Director

Johnson Mou Daid Cha
Director

David Sek-chi Kwok
Managing Director and General Manager

Balance Sheet

as at 31st December 2007

	Note	2007	2006
		HK$'000	HK$'000
Assets			
Cash and balances with banks	15	**29,576,304**	23,533,786
Placements with and loans and advances to banks	16	**12,056,719**	10,583,476
Trading assets	17	**284,772**	248,084
Derivative financial instruments	18	**428,434**	23,962
Financial assets designated at fair value	19	**407,171**	403,296
Loans and advances to customers	20(a)	**45,931,287**	38,311,148
Investment securities:			
– Available-for-sale	21	**13,070,867**	14,197,983
– Held-to-maturity	22	**1,377,025**	1,430,955
Investments in jointly controlled entities	23(a)	**87,567**	113,300
Investments in and loans to subsidiary companies	23(b)	**2,188,609**	2,428,630
Property and equipment	24	**374,896**	393,528
Investment property	25	**7,523**	7,721
Leasehold land and land use rights	26	**273,841**	278,661
Deferred income tax assets	32	**70,177**	71,915
Other assets	27	**822,553**	954,022
Total assets		**106,957,745**	92,980,467
Liabilities			
Deposits and balances from banks		**4,078,007**	3,765,378
Derivative financial instruments	18	**434,880**	19,853
Deposits from customers	28	**80,861,142**	72,237,097
Certificates of deposit issued	29	**1,251,596**	3,105,934
Other liabilities	30	**5,416,544**	828,039
Provisions	31	**127,358**	91,727
Current income tax liabilities		**38,042**	18,860
Total liabilities		**92,207,569**	80,066,888
Equity			
Capital and reserves attributable to the equity holders of the bank			
Share capital	33	**2,000,000**	2,000,000
Retained earnings		**5,161,701**	3,484,018
Other reserves	34	**7,588,475**	7,429,561
		14,750,176	12,913,579
Total equity and liabilities		**106,957,745**	92,980,467

Approved and authorised for issue by the Board of Directors on 27th February 2008.

Lincoln Chu Kuen Yung
Chairman

Hung-ching Yung
Director

Johnson Mou Daid Cha
Director

David Sek-chi Kwok
Managing Director and General Manager

Consolidated Statement of Changes in Equity

	Note	Attributable to the equity holders of the Bank			Minority interests	Total equity
		Share capital	Other reserves	Retained earnings		
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1st January 2006		2,000,000	7,282,380	2,390,379	6,332	11,679,091
Fair value gains, net of tax:						
– available-for-sale investments	34	–	152,037	–	–	152,037
Currency translation differences	34	–	9,214	756	–	9,970
Net income recognised directly in equity		–	161,251	756	–	162,007
Realised on disposal of available-for-sale investments	34	–	(10,008)	–	–	(10,008)
Profit for the year		–	–	1,661,582	1,023	1,662,605
Total recognised income and expenses for 2006		–	151,243	1,662,338	1,023	1,814,604
Dividend relating to 2005		–	–	(460,000)	(480)	(460,480)
Balance at 31st December 2006		2,000,000	7,433,623	3,592,717	6,875	13,033,215

	Note	Attributable to the equity holders of the Bank			Minority interests	Total equity
		Share capital	Other reserves	Retained earnings		
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1st January 2007		2,000,000	7,433,623	3,592,717	6,875	13,033,215
Fair value gains, net of tax:						
– available-for-sale investments	34	–	177,679	–	–	177,679
Currency translation differences	34	–	17,182	2,674	–	19,856
Net income recognised directly in equity		–	194,861	2,674	–	197,535
Realised on disposal of available-for-sale investments	34	–	(30,644)	–	–	(30,644)
Profit for the year		–	–	2,199,150	1,254	2,200,404
Transfer to retained earnings	34	–	(5,000)	5,000	–	–
Total recognised income and expenses for 2007		–	159,217	2,206,824	1,254	2,367,295
Dividend relating to 2006		–	–	(506,000)	(481)	(506,481)
Balance at 31st December 2007		2,000,000	7,592,840	5,293,541	7,648	14,894,029

	Year ended 31st December	
	2007	2006
	HK$'000	HK$'000
Proposed dividend in retained earnings	1,100,000	506,000

Consolidated Cash Flow Statement

for the year ended 31st December 2007

	2007 HK$'000	2006 HK$'000
Profit before taxation	**2,608,041**	2,010,215
Share of net profits of jointly controlled entities	**(73,724)**	(29,666)
Impairment losses on loans and advances to customers	**96,706**	34,574
Depreciation expenses on property and equipment	**50,471**	58,435
Amortisation of interests in leasehold land	**4,820**	4,823
Net loss from disposal of property and equipment	**538**	532
Net gain from disposal/redemption of available-for-sale investments	**(37,782)**	(21,038)
Amortisation of held-to-maturity and available-for-sale investments	**26,968**	52,527
Interest income on held-to-maturity and available-for-sale investments	**(802,726)**	(801,900)
Dividend income on available-for-sale investments	**(17,397)**	(19,399)
Operating cash inflow before changes in operating assets and liabilities	**1,855,915**	1,289,103
(Increase)/decrease in operating assets:		
Other assets	**(386,177)**	(1,021,935)
Loans and advances to customers, amounts written off and recoveries	**(7,717,167)**	(2,940,506)
Trading assets	**(36,688)**	(16,994)
Financial assets designated at fair value	**(3,875)**	(169,856)
Cash and balances with banks with original maturity beyond three months	**214,000**	(149,517)
Placements with and loans and advances to banks with original maturity beyond three months	**3,465,251**	(5,729,269)
Increase/(decrease) in operating liabilities:		
Other liabilities and provisions	**4,907,934**	625,263
Certificates of deposit issued	**(1,854,338)**	(344)
Deposits from customers	**8,624,045**	11,306,370
Deposits and balances from banks	**312,629**	(236,769)
Net cash inflow from operating activities before taxation	**9,381,529**	2,955,546
Hong Kong profits tax paid	**(67,101)**	(160,532)
Overseas tax paid	**(70,308)**	(57,695)
Net cash inflow from operating activities	**9,244,120**	2,737,319

	Note	2007 HK$'000	2006 HK$'000
Cash flows from investing activities			
Interest received on held-to-maturity and available-for-sale investments		**835,297**	800,769
Dividends received on available-for-sale investments		**16,195**	18,492
Dividends received from jointly controlled entities		**24,080**	1,830
Purchase of available-for-sale investments		**(2,276,971)**	(3,025,378)
Purchase of held-to-maturity investments		**(1,399,309)**	(1,192,029)
Sale/redemption of available-for-sale investments		**3,743,287**	3,512,917
Redemption of held-to-maturity investments		**1,695,620**	897,953
Repayment of advances from a jointly controlled entity		**25,733**	–
Purchase of leasehold land		**–**	(28,076)
Disposal of leasehold land		**–**	597
Purchase of property and equipment		**(29,050)**	(41,206)
Disposal of property and equipment		**46**	845
Net cash inflow from investing activities		**2,634,928**	946,714
Net cash inflow before financing activities		**11,879,048**	3,684,033
Cash flows from financing activities			
Dividend paid on ordinary shares to the equity holders of the Bank		**(506,000)**	(460,000)
Dividend paid to a minority shareholder of a subsidiary company		**(481)**	(480)
Net cash outflow from financing activities		**(506,481)**	(460,480)
Effect of exchange rate changes		**(177,554)**	(86,485)
Net increase in cash and cash equivalents		**11,195,013**	3,137,068
Cash and cash equivalents at 1st January		**26,850,841**	23,713,773
Cash and cash equivalents at 31st December	35	**38,045,854**	26,850,841

Notes to the Financial Statements

1 General information

The Bank and its subsidiary companies ("the Group") are engaged in the provision of banking and related financial services in Hong Kong, United States, United Kingdom and the People's Republic of China. The Group employs over 1,500 people.

The Bank is a financial institution incorporated in Hong Kong. The address of its registered office is 12 Queen's Road Central, Hong Kong.

The ultimate holding company is Shanghai Commercial & Savings Bank, Ltd., which was incorporated in Shanghai, China in 1915 and is authorised to operate in Taipei, Taiwan since 1965.

These consolidated financial statements are presented in thousands of units of HK dollars (HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 27th February 2008.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group and the financial statements of the Bank have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs is a collective term which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. The consolidated financial statements of the Group and the financial statements of the Bank have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale investments, financial assets designated at fair value, trading assets and derivative financial instruments. The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 2.24.

(a) Standards and interpretations effective in 2007

HKFRS 7, Financial Instruments: Disclosures and the Amendment to HKAS 1, Presentation of Financial Statements - Capital Disclosures, are effective for annual accounting periods beginning on or after 1st January 2007. HKFRS 7 introduces certain new disclosures relating to financial instruments while incorporating many of the requirements in HKAS 32. HKFRS 7 supersedes HKAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and the disclosure requirements of HKAS 32 Financial Instruments: Disclosure and Presentation. The Group has adopted HKFRS 7 and the amendment to HKAS 1 and the key impact are more qualitative and quantitative disclosures primarily related to fair value measurement and risk management. Accordingly the adoption of this standard has no effect on the Group's results of operations or financial position;

HK(IFRIC) - INT 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1st May 2006). HK(IFRIC) - INT 8 requires consideration of transactions involving the issuance of equity instruments - where the identifiable consideration received is less than the fair value of the equity instruments issued - in order to establish whether or not they fall within the scope of HKFRS 2. The Group has adopted HK(IFRIC) - INT 8 from 1st January 2007, and it does not have any impact on the Group's financial statements;

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(a) Standards and interpretations effective in 2007 (Continued)

HK(IFRIC) - INT 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1st June 2006). HK(IFRIC) - INT 9 requires an entity to assess whether an embedded derivatives is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Group has applied HK(IFRIC) - INT 9 from 1st January 2007, and it has no impact on the Group's financial statements; and

HK(IFRIC) - INT 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1st November 2006). HK(IFRIC) - INT 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group has applied HK(IFRIC) - INT 10 from 1st January 2007, and it has no impact on the Group's financial statements.

(b) Interpretations effective in 2007 but not relevant to the Group's operations

The following interpretations are mandatory for accounting periods beginning on or after 1st January 2007 but either did not result in substantial changes to the Group's accounting policies or are not relevant to the Group's operations:

HK(IFRIC) - INT 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1st March 2006). HK(IFRIC) - INT 7 provides guidance on how to apply the requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflation in the prior period. As none of the Group entities have a currency of a hyperinflationary economy as its functional currency, HK(IFRIC) - INT 7 is not relevant to the Group's operations.

(c) Standards, amendments and interpretations that are not yet effective and have either not been early adopted by the Group or not relevant to the Group's operations

The Group has chosen not to early adopt the following standards, amendments and interpretations to existing standards that were issued but not yet effective for accounting periods beginning on 1st January 2007:

HKFRS 8 Operating Segment (effective for annual periods beginning on or after 1st January 2009). HKFRS 8 will supersede HKAS 14 Segment Reporting, under which segments were identified and reported on risk and return analysis. Items were reported on the accounting policies used for external reporting. Under HKFRS 8, segments are components of an entity regularly reviewed by an entity's chief operating decision-maker. Items are reported based on internal reporting. The Group has assessed the impact of HKFRS 8 and concluded that the key impact will be on the identification of segments, measurement of segment information to be in line with the management information for decisions making; and more qualitative and quantitative disclosures related to segments. Accordingly the adoption of this standard will have no effect on the Group's results of operations or financial position.

HK(IFRIC) - INT 11, HKFRS 2 Group and Treasury Share Transactions (effective for annual periods beginning on or after 1st March 2007). HK(IFRIC) - INT 11 clarifies that certain types of transaction are accounted for as equity-settled or cash-settled transactions under HKFRS 2. It also addresses the accounting for share-based payment transactions involving two or more entities within one group. The Group will apply HK(IFRIC) - INT 11 for annual periods beginning on or after 1st January 2008, but it is not expected to have any impact on the Group's financial statements.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(c) Standards, amendments and interpretations that are not yet effective and have either not been early adopted by the Group or not relevant to the Group's operations (Continued)
HKAS 23 (Revised) Borrowing Costs (effective for annual periods beginning on or after 1st January 2009). This revised standard removes the option of recognising as an expense borrowing costs relating to assets that take a substantial period of time to get ready for its intended use or sale (i.e. qualifying assets). This revised standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1st January 2009 (unless an earlier date is designated instead by the entity). The adoption of this revised standard is not expected to have significant impact on the Group's financial statements.

HK(IFRIC) - INT 12, Service Concession Arrangements (effective for annual periods beginning on or after 1st January 2008). HK(IFRIC) - INT 12 applies to companies that participate in service concession arrangements and provides guidance on the accounting by operators in public-to-private service concession arrangements. As the Group has not involved in service concession arrangements, HK(IFRIC) - INT 12 is not relevant to the Group's operations.

2.2 Basis of consolidation

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

(a) Subsidiaries
Subsidiaries are those entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss account.

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

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

(b) Jointly controlled entities
A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an investment.

The consolidated profit and loss account included the Group's share of the results of jointly controlled entities, and the consolidated balance sheet included the Group's share of the net assets of the jointly controlled entities.

In the Bank's balance sheet, the investments in jointly controlled entities are stated at cost less provision, if necessary, for impairment losses. The results of jointly controlled entities are accounted for by the Bank on the basis of dividends received.

2 Summary of significant accounting policies (Continued)

2.3 Translation of foreign currencies

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

(b) Transactions and balances
Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing at the transaction dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

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

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

(c) Group companies and overseas branches
The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated into Hong Kong Dollars at the rates of exchange ruling at the date of that balance sheet;
(ii) income and expenses for each profit and loss account are translated into Hong Kong Dollars at average exchange rates for the year; and
(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.4 Income recognition

(a) Interest income and expense
Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within "interest income" and "interest expense" in the profit and loss account using the effective interest method.

2 Summary of significant accounting policies (Continued)

2.4 Income recognition (Continued)

(a) Interest income and expense (Continued)
The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

The Group also applies the effective interest method in determining the interest expense in the profit and loss account.

(b) Fee and commission income and expense
Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group retained no part of the loan package for itself or retained a part at the same effective interest rate as the other participants. Commissions and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party - such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Performance linked fees or fee components are recognised when the performance criteria are fulfilled.

(c) Dividend income
Dividend income is recognised in the profit and loss account when the right to receive payment is established.

(d) Net income from financial instruments designated at fair value
Net income from financial instruments designated at fair value includes fair value change and interest from the financial instrument designated at fair value.

2.5 Leases

(a) Land
Interest in freehold land is stated at cost and included as property and equipment on the balance sheet.

Interest in leasehold land is amortised on a straight-line basis over the unexpired period of the lease term.

(b) Operating leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit and loss account on a straight-line basis over the period of the lease. The Group's interests in leasehold land and land use right are also accounted for as operating leases.

2 Summary of significant accounting policies (Continued)

2.6 Property and equipment

(a) Bank premises
Buildings comprise mainly branches and offices. Buildings are stated at historical cost, which includes expenditure that is directly attributable to the acquisition of the items, less accumulated depreciation and impairment losses. Depreciation of buildings is provided annually by charging a sum sufficient to write down the cost of the buildings systematically, based on management's appraisal of the conditions of the buildings, which includes estimations of the remaining useful lives of the buildings, which are not expected to exceed 40 years.

(b) Furniture, fittings and equipment
Furniture, fittings and equipment are stated at historical cost less accumulated depreciation and impairment losses. Depreciation of furniture, fittings and equipment other than computer equipment is calculated to write off the cost of the assets over their estimated useful lives on a reducing balance basis at a rate of 25% in the year of addition and at 20% per annum thereafter. Computer equipment is depreciated on a straight line basis over four years.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the profit and loss account during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gain or loss on disposal are determined by comparing proceeds and the carrying amount of the relevant asset and is recognised in the profit and loss account.

2.7 Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss
This category has two sub-categories: trading securities, and financial assets designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the short term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of recent actual pattern of short-term profit-making. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

A financial asset is typically classified as fair value through profit or loss at inception if it meets the following criteria:

(i) The designation eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring the financial assets or recognising the gains and losses on them on different bases; or
(ii) Certain investments, such as equity investments, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis, are designated at fair value through profit or loss; or
(iii) Financial assets, such as debt securities held, containing one or more embedded derviatives significantly modify the cash flows, are designated at fair value through profit or loss.

2 Summary of significant accounting policies (Continued)

2.7 Financial assets (Continued)

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (i) those that the entity intends to sell immediately or in the short term which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (ii) those that the entity upon initial recognition designates as available-for-sale; or (iii) those for which the holder may not recover substantially all of its initial investment, other than becasue of credit deterioration.

(c) Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

(d) Available-for-sale investments
Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Regular-way purchases and sales of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale investments are recognised on trade-date - the date on which the Group commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the profit and loss account. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

Available-for-sale investments and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the profit and loss account in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired. At this time the cumulative gain or loss previously recognised in the equity is recognised in the profit and loss account. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the profit and loss account. Dividend income from financial assets at fair value through profit or loss is recognised in the profit and loss account when the Group's right to receive payments is established.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, and other valuation techniques commonly used by market participants.

2 Summary of significant accounting policies (Continued)

2.8 Impairment of assets

(a) Impairment of financial assets

(i) Assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between 3 months and 12 months; in exceptional cases, longer periods are warranted.

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

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

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

2 Summary of significant accounting policies (Continued)

2.8 Impairment of assets (Continued)

(a) Impairment of financial assets (Continued)

(i) Assets carried at amortised cost (Continued)

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowances for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit and loss account.

(ii) Assets classified as available-for-sale

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit and loss account - is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account, the impairment loss is reversed through the profit and loss account.

2 Summary of significant accounting policies (Continued)

2.8 Impairment of assets (Continued)

(a) Impairment of financial assets (Continued)

(iii) Renegotiated loans
Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

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

2.9 Financial liabilities

Financial liabilities are classified into two categories: financial liabilities at fair value through profit or loss and other financial liabilities. All financial liabilities are classified at inception and recognised initially at fair value.

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

A financial liability is classified as held for trading if it is incurred principally for the purpose of repurchasing in the short term. It is carried at fair value and any gains and losses from changes in fair value are recognised in the profit and loss account.

A financial liability is typically classified as fair value through profit or loss at inception if it meets the following criteria:

(i) The designation eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring the financial liabilities or recognising the gains and losses on them on different bases; or
(ii) Part of a group of financial liabilities that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit or loss; and
(iii) Financial instruments, such as debt securities issued, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit or loss.

Financial liabilities designated as at fair value through profit or loss are designated as such at inception. Financial liabilities designated at fair value through profit or loss are carried at fair value and any gains and losses from changes in fair value are recognised in the profit and loss account.

(b) Other financial liabilities
Other financial liabilities are recognised initially at fair value net of transaction costs incurred. Other financial liabilities are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the profit and loss account over the period of the other financial liabilities using the effective interest method.

2 Summary of significant accounting policies (Continued)

2.9 Financial liabilities (Continued)

(b) Other financial liabilities (Continued)

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

If the Group purchases its own debt, it is removed from the balance sheet, and the difference between the carrying amount of a liability and the consideration paid is included in net trading income.

2.10 Derivative financial instruments

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

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, where it is not settled by exchanging a fixed amount of cash or another financial asset for a fixed number of own equity instrument, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the profit and loss account unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the profit and loss account under net trading income. However, the gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in 'net income from financial instruments designated at fair value'.

2.11 Deferred income tax

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

The principal temporary differences arise from depreciation of property and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions for pensions and other post-retirement benefits and tax losses carried forward; and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. The rates enacted or substantively enacted at the balance sheet date are used to determine deferred income tax. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not be reversed in the foreseeable future.

2 Summary of significant accounting policies (Continued)

2.11 Deferred income tax (Continued)

The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred taxation related to fair value re-measurement of available-for-sale investments and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the profit and loss account together with the deferred gain or loss.

2.12 Employee benefits

(a) Retirement benefit costs
The Group operates four retirement benefit schemes comprising of two defined contribution schemes, a Mandatory Provident Fund Scheme and a defined benefit scheme that are available to the Group's employees. However, the principal schemes that the Group contributes to are the two defined contribution schemes and the Mandatory Provident Fund Scheme. The assets of the Group's Mandatory Provident Fund Scheme, the defined contribution schemes and the defined benefit scheme are held separately from those of the Group in independently administered funds.

The Group's contributions to the defined contribution schemes and the Mandatory Provident Fund Scheme are charged to the profit and loss account.

The defined benefit scheme is funded by payments from the Group by taking recommendations of independent qualified actuaries. The defined benefit costs are assessed using the Attained Age Method and the cost of providing the benefit is charged to the profit and loss account so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries, who value the scheme once every three years.

(b) Employee leave entitlements
Employee entitlements to annual leave are recognised when they accrue to employees. Employee entitlements to sick leave and maternity leave are recognised when the absences occur.

2.13 Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence.

2.14 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both is classified as investment property. Investment property is located in Hong Kong and comprises land held under operating leases and the building situated on top of it. Investment property is measured at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment properties using the straight-line method over the shorter of the leases or 40 years.

2.15 Intangible assets

(a) Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary company and jointly controlled entity at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units is represented by each primary reporting segment.

2 Summary of significant accounting policies (Continued)

2.15 Intangible assets (Continued)

(b) Computer software
Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the employee costs incurred as a result of developing software.

Computer software development costs recognised as intangible assets are amortised over their estimated useful lives.

2.16 Repossessed assets

Repossessed collateral assets are reported as "Assets held for sale" and reported in "Other assets" and the relevant loans are derecognised. The repossessed collateral assets are measured at lower of carrying amount and fair value less cost to sell.

2.17 Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash, balances with banks, placements with banks, treasury bills, other eligible bills and certificates of deposit.

2.18 Fiduciary activities

The Group commonly acts as trustees and in other fiduciary capacities, for a fee and commission income, that result in the holding or placing of assets on behalf of individuals, trusts and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

2.19 Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses to the Group that are recorded in the profit and loss account. Purchases from the minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

2.20 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.21 Impairment of non-financial assets

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

2 Summary of significant accounting policies (Continued)

2.22 Provisions

Provisions for restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

2.23 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the profit and loss account the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management.

Any increase in the liability relating to guarantees is taken to the profit and loss account under other operating expenses.

2.24 Critical accounting estimates and judgements in applying accounting policies

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Impairment allowances on loans and advances

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

2 Summary of significant accounting policies (Continued)

2.24 Critical accounting estimates and judgements in applying accounting policies (Continued)

(a) Critical accounting estimates and assumptions (Continued)

(ii) Impairment of available-for-sale investments

The Group follows the guidance of HKAS 39 to determine when available-for-sale investments are impaired. This determination requires judgement. In making this judgement, the Group evaluates among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

(iii) Held-to-maturity investments

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

(iv) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant estimates are required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(b) Critical judgements in applying the Group's accounting policies

Distinction between investment properties and owner-occupied properties

The Group determines whether a property qualifies as investment property. In making its judgement, the Group considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or service or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgement.

3 Financial risk management

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Group has in place policies and procedures for the identification, measurement, control and monitoring of credit, liquidity, market, interest rate, foreign exchange and operational risks. Market risk includes currency risk, interest rate and other price risk. One of the major functions of the Board is to ensure that the Group establishes policies, procedures and controls to manage the various types of risk it faces. The Board has delegated its powers to the Executive Committee, the Audit Committee, the Asset and Liability Committee, the Credit Committee and the Operational Risk Management Committee for the supervision of major functional areas, and in particular, the Executive Committee has been delegated with the authority to oversee and guide the management of different risks. Senior management is always watchful for changes in economic, political and market conditions in which the Group operates and the inherent risks the Group faces. The Audit Department performs regular audits to ensure compliance with the policies and procedures. The Risk Management Department is responsible for monitoring the overall risk management of the Group's operations, except for credit risk, which is managed by the Credit Committee. Reconciliation procedures are also in place to ensure that the systems capture all necessary data. Prior to implementation of any new product or service, various analyses, testing, development and planning will be performed and its proposal will be endorsed by the Product Development Supervisory Committee before submission to the management for approval. All of the above arrangements ensure that the risk management processes are operating effectively.

3.1 Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Group by failing to discharge an obligation. Significant changes in the economy, or in the health of a particular industry segment, could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are approved annually by the Board of Directors.

The exposure to any one counterparty including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. The Group has in place effective monitoring and control systems to identify, monitor and address problem credits in an accurate and timely manner. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees. The Group further mitigates credit risk by entering into netting arrangements with counterparties such as banks with which it undertakes credit activities.

The Group has issued credit related commitments including guarantees and letters of credit. The primary purpose of these instruments is to ensure that funds are available to customers as required. These instruments represent irrevocable assurances that the Group will make payments in the events that a customer cannot meet its obligations to third parties. These instruments carry similar credit risk as loans.

3 Financial risk management (Continued)

3.1 Credit risk (Continued)

3.1.1 Risk limit control and mitigation policies

(a) Derivatives

The Group maintains strict control limits on net open derivatives positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets where their fair values are positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

(b) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit - which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties - carry the same credit risk as loans. Documentary and commercial letters of credit - which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions - are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

3.1.2 Impairment and provisioning policies

The Group has in place effective credit review, monitoring and control systems including an effective loan classification system that identify, monitor, and determine loan loss provisions in a timely manner. Policies and procedures are established to ensure the aggregate amount of individually and collectively assessed loan loss provisions are adequate to absorb estimated credit losses in the loan portfolio.

The Group and the Bank

	2007		2006	
	Loans and advances (%)	**Impairment provision (%)**	Loans and advances (%)	Impairment provision (%)
1 – satisfactory	**93.78**	**0.30**	95.19	0.31
2 – special monitoring	**4.71**	**0.22**	3.62	0.29
3 – sub-standard	**1.24**	**9.21**	0.81	9.68
4 – doubtful	**0.11**	**14.39**	0.15	13.67
5 – loss	**0.16**	**5.80**	0.23	4.49
	100.00		100.00	

3 Financial risk management (Continued)

3.1 Credit risk (Continued)

3.1.3 Maximum exposure to credit risk before collateral held or other credit enhancements

The Group

	Maximum exposure	
	2007	2006
	HK$'000	HK$'000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Placements with and loans and advances to banks	**12,056,719**	10,583,476
Loans and advances to customers:		
Loans to individuals:		
– Overdrafts	**477,758**	352,043
– Credit cards	**325,655**	382,126
– Term loans and others	**2,877,357**	3,053,106
– Mortgages	**5,593,506**	5,143,811
Loans to corporate entities:		
– Large corporate customers and others	**31,400,267**	24,206,107
– Small and medium size enterprises (SMEs)	**5,256,744**	5,173,955
Trading assets:		
– Debt securities	**153,060**	136,767
Financial assets designated at fair value:		
– Debt securities	**407,171**	403,296
Derivative financial instruments	**428,434**	23,962
Investment securities:		
– Debt securities	**16,077,115**	17,554,525
Other assets	**1,750,802**	1,622,791
Credit risk exposures relating to off-balance sheet items are as follows:		
– Financial guarantees	**1,586,927**	1,793,107
– Loan commitments and other credit related liabilities	**41,466,388**	30,491,759
At 31st December	**119,857,903**	100,920,831

3 Financial risk management (Continued)

3.1 Credit risk (Continued)

3.1.3 Maximum exposure to credit risk before collateral held or other credit enhancements (Continued)

The Bank

	Maximum exposure	
	2007	2006
	HK$'000	HK$'000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Placements with and loans and advances to banks	**12,056,719**	10,583,476
Loans and advances to customers:		
Loans to individuals:		
– Overdrafts	**477,758**	352,043
– Credit cards	**325,655**	382,126
– Term loans and others	**2,877,357**	3,053,106
– Mortgages	**5,593,506**	5,143,811
Loans to corporate entities:		
– Large corporate customers and others	**31,400,267**	24,206,106
– Small and medium size enterprises (SMEs)	**5,256,744**	5,173,956
Trading assets:		
– Debt securities	**153,060**	136,767
Financial assets designated at fair value:		
– Debt securities	**407,171**	403,296
Derivative financial instruments	**428,434**	23,962
Investment securities:		
– Debt securities	**13,874,723**	15,092,717
Other assets	**822,553**	954,022
Credit risk exposures relating to off-balance sheet items are as follows:		
– Financial guarantees	**1,586,927**	1,793,107
– Loan commitments and other credit related liabilities	**41,466,388**	30,491,759
At 31st December	**116,727,262**	97,790,254

The above table represents a worse case scenario of credit risk exposure to the Group and the Bank at 31st December 2007 and 2006, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

3.1.4 Loans and advances

Loans and advances are summarised as follows:

The Group and the Bank

	31st December 2007		31st December 2006	
	Loans and advances to customers HK$'000	**Loans and advances to a bank HK$'000**	Loans and advances to customers HK$'000	Loans and advances to a bank HK$'000
Neither past due nor impaired	**43,496,078**	**84,230**	36,963,744	83,951
Past due but not impaired	**1,937,516**	**–**	1,051,639	–
Impaired	**694,556**	**–**	456,673	–
Gross	**46,128,150**	**84,230**	38,472,056	83,951
Less: allowance for impairment	**(196,863)**	**–**	(160,908)	–
Net	**45,931,287**	**84,230**	38,311,148	83,951

The total impairment provision for loans and advances is HK$196,863,000 (2006: HK$160,908,000) of which HK$63,989,000 (2006: HK$41,889,000) represents the individually impaired loans and the remaining amount of HK$132,874,000 (2006:HK$119,019,000) represents the collective assessment provision. Further information of the impairment allowance for loans and advances to a bank and to customers is provided in Note 20.

3 Financial risk management (Continued)

3.1 Credit risk (Continued)

3.1.4 Loans and advances (Continued)

(a) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Group.

The Group and the Bank
31st December 2007

	Individual (retail customers)				Corporate entities			
	Overdrafts HK$'000	Credit cards HK$'000	Term loans and others HK$'000	Mortgages HK$'000	Large corporate customers and others HK$'000	SMEs HK$'000	Total loans and advances to customers HK$'000	Loans and advances to a bank HK$'000
Grades:								
1 – satisfactory	273,385	309,161	2,520,902	5,379,063	28,372,926	4,915,466	41,770,903	84,230
2 – special monitoring	124,333	5,639	173,908	17,246	1,281,525	122,524	1,725,175	–
Total	397,718	314,800	2,694,810	5,396,309	29,654,451	5,037,990	43,496,078	84,230

The Group and the Bank
31st December 2006

	Individual (retail customers)				Corporate entities			
	Overdrafts HK$'000	Credit cards HK$'000	Term loans and others HK$'000	Mortgages HK$'000	Large corporate customers and others HK$'000	SMEs HK$'000	Total loans and advances to customers HK$'000	Loans and advances to a bank HK$'000
Grades:								
1 – satisfactory	265,366	361,888	2,782,264	4,852,193	22,909,627	4,699,108	35,870,446	83,951
2 – special monitoring	41,015	6,492	102,127	90,110	600,021	253,533	1,093,298	–
Total	306,381	368,380	2,884,391	4,942,303	23,509,648	4,952,641	36,963,744	83,951

(b) Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

The Group and the Bank
31st December 2007

	Individual (retail customers)				
	Overdrafts HK$'000	Credit cards HK$'000	Term loans and others HK$'000	Mortgages HK$'000	Total HK$'000
Past due less than 30 days	–	6,572	80,075	171,959	258,606
Past due 30 - 90 days	75,758	1,985	3,491	39,002	120,236
Total	75,758	8,557	83,566	210,961	378,842
Fair value of collateral	9,250	–	263,284	365,638	638,172

	Corporate entities		
	Large corporate customers and others HK$'000	SMEs HK$'000	Total HK$'000
Past due less than 30 days	1,326,786	118,577	1,445,363
Past due 30 – 90 days	91,773	21,538	113,311
Total	1,418,559	140,115	1,558,674
Fair value of collateral	1,920,718	137,521	2,058,239

3 Financial risk management (Continued)

3.1 Credit risk (Continued)

3.1.4 Loans and advances (Continued)

(b) Loans and advances past due but not impaired (Continued)

The Group and the Bank
31st December 2006

	Individual (retail customers)				
	Overdrafts HK$'000	Credit cards HK$'000	Term loans and others HK$'000	Mortgages HK$'000	Total HK$'000
Past due less than 30 days	–	7,660	53,875	148,441	209,976
Past due 30 - 90 days	42,357	2,832	11,873	65,783	122,845
Total	42,357	10,492	65,748	214,224	332,821
Fair value of collateral	–	–	197,517	361,825	559,342

	Corporate entities		
	Large corporate customers and others HK$'000	SMEs HK$'000	Total HK$'000
Past due less than 30 days	487,688	126,614	614,302
Past due 30 – 90 days	62,154	42,362	104,516
Total	549,842	168,976	718,818
Fair value of collateral	630,119	88,915	719,034

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

(c) Loans and advances overdue for more than 3 months

(i) Gross amount of overdue loans

	The Group and the Bank			
	2007		2006	
	Gross amount of overdue loans HK$'000	**% of total**	Gross amount of overdue loans HK$'000	% of total
Gross advances to customers which have been overdue for:				
– six months or less but over three months	**92,672**	**0.20**	49,236	0.13
– one year or less but over six months	**60,165**	**0.13**	31,136	0.08
– over one year	**68,901**	**0.15**	63,931	0.17
	221,738	**0.48**	144,303	0.38

(ii) Value of collateral held and impairment allowances against overdue loans and advances

	The Group and the Bank				
	Outstanding amount of loans and advances HK$'000	**Current market value of collateral HK$'000**	**Covered portion by collateral HK$'000**	**Uncovered portion by collateral HK$'000**	**Impairment allowances-individual assessment HK$'000**
31st December 2007					
Overdue loans and advances on:					
– Customers	**221,738**	**364,598**	**142,978**	**78,760**	**13,122**
31st December 2006					
Overdue loans and advances on:					
– Customers	144,303	254,007	44,731	99,572	9,294

Collateral held against such loans mainly include mortgages over properties.

3 Financial risk management (Continued)

3.1 Credit risk (Continued)

3.1.4 Loans and advances (Continued)

(d) Loans and advances individually impaired

(i) Loans and advances to customers
The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is HK$694,556,000 (2006: HK$ 456,673,000).

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Group as security, are as follows:

The Group and the Bank

	Individual				Corporate entities		Total		
	Overdrafts HK$'000	Credit cards HK$'000	Term loans and others HK$'000	Mortgages HK$'000	Large corporate customers and others HK$'000	SMEs HK$'000	HK$'000	%of total loans and advances to customers	Impairment allowances HK$'000
31st December 2007									
Individually impaired loans	**5,923**	**6,502**	**113,114**	**2,835**	**461,856**	**104,326**	**694,556**	**1.51**	**63,989**
Fair value of collateral	**10,424**	**–**	**183,932**	**9,953**	**1,268,748**	**130,734**	**1,603,791**		
31st December 2006									
Individually impaired loans	5,179	8,190	121,874	3,628	233,473	84,329	456,673	1.19	41,889
Fair value of collateral	6,744	–	179,548	4,690	128,430	80,554	399,966		

(ii) Loans and advances to a bank
There were no gross impaired loans and advances to a bank at 31st December 2007 (2006: Nil).

(e) Loans and advances renegotiated
Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans that would otherwise be past due or impaired totalled HK$ 11,778,000 at 31st December 2007 (2006: HK$ 31,921,000).

	The Group and the Bank	
	2007 HK$'000	2006 HK$'000
Loans and advances to customers - individuals:		
– Credit cards	**1,466**	3,846
– Term loans and others	**1,898**	7,386
– Mortgages	**542**	1,549
Loans and advances to customers - corporate entities:		
– SMEs	**5,769**	11,877
– Large corporate customers and others	**2,103**	7,263
Total	**11,778**	31,921

3 Financial risk management (Continued)

3.1 Credit risk (Continued)

3.1.4 Loans and advances (Continued)

(f) Rescheduled advances net of amounts included in advances for more than 3 months

	The Group and the Bank			
	2007	**% of total loans and advances to customers**	2006	% of total loans and advances to customers
	HK$'000		HK$'000	
Loans and advances to customers	**59,286**	**0.13**	64,013	0.17

3.1.5 Debt securities

The table below presents an analysis of debt securities by rating agency designation at 31st December, based on Standard & Poor's ratings or their equivalent:

The Group
2007

	Trading assets HK$'000	**Available-for-sale investments HK$'000**	**Held-to-maturity investments HK$'000**	**Designated at fair value HK$'000**	**Total HK$'000**
AAA	**105,993**	**2,302,718**	**447,928**	**–**	**2,856,639**
AA- to AA+	**7,232**	**6,953,329**	**1,615,315**	**–**	**8,575,876**
A- to A+	**18,604**	**2,064,543**	**82,271**	**–**	**2,165,418**
Lower than A-	**21,231**	**979,068**	**–**	**407,171**	**1,407,470**
Unrated	**–**	**665,098**	**966,845**	**–**	**1,631,943**
Total	**153,060**	**12,964,756**	**3,112,359**	**407,171**	**16,637,346**

The Bank
2007

	Trading assets HK$'000	**Available-for-sale investments HK$'000**	**Held-to-maturity investments HK$'000**	**Designated at fair value HK$'000**	**Total HK$'000**
AAA	**105,993**	**1,835,660**	**447,928**	**–**	**2,389,581**
AA- to AA+	**7,232**	**6,953,329**	**591,059**	**–**	**7,551,620**
A- to A+	**18,604**	**2,064,543**	**78,185**	**–**	**2,161,332**
Lower than A-	**21,231**	**979,068**	**–**	**407,171**	**1,407,470**
Unrated	**–**	**665,098**	**259,853**	**–**	**924,951**
Total	**153,060**	**12,497,698**	**1,377,025**	**407,171**	**14,434,954**

The Group
2006

	Trading assets HK$'000	Available-for-sale investments HK$'000	Held-to-maturity investments HK$'000	Designated at fair value HK$'000	Total HK$'000
AAA	89,971	3,525,200	716,454	–	4,331,625
AA- to AA+	4,713	6,794,850	1,544,983	–	8,344,546
A- to A+	18,182	2,002,229	4,051	–	2,024,462
Lower than A-	23,901	751,954	–	403,296	1,179,151
Unrated	–	1,097,850	1,116,954	–	2,214,804
Total	136,767	14,172,083	3,382,442	403,296	18,094,588

The Bank
2006

	Trading assets HK$'000	Available-for-sale investments HK$'000	Held-to-maturity investments HK$'000	Designated at fair value HK$'000	Total HK$'000
AAA	89,971	3,014,879	716,454	–	3,821,304
AA- to AA+	4,713	6,794,850	510,195	–	7,309,758
A- to A+	18,182	2,002,229	–	–	2,020,411
Lower than A-	23,901	751,954	–	403,296	1,179,151
Unrated	–	1,097,850	204,306	–	1,302,156
Total	136,767	13,661,762	1,430,955	403,296	15,632,780

There were no overdue debt securities in the year of 2007 (2006: Nil).

3 Financial risk management (Continued)

3.1 Credit risk (Continued)

3.1.6 Repossessed collateral

During the year, the Group obtained assets by taking possession of collateral held as security, as follows:

The Group and the Bank

	Carrying amount	
	2007 HK$'000	2006 HK$'000
Nature of assets		
Residential properties	**12,435**	18,487

At 31st December 2007, the repossessed assets of the Group and the Bank amounted to HK$20,290,000 (2006: HK$20,598,000).

Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. Repossessed properties are classified in the balance sheet within other assets.

3.1.7 Concentration of risks of financial assets with credit risk exposure

(a) Geographical sectors

The following table breaks down the Group's main credit exposure at their carrying amounts, as categorised by geographical region as of 31st December 2007. For this table, the Group has allocated exposures to regions based on the country of domicile of its counterparties. Credit risk exposure by geographical sectors is classified according to the location of counterparties after taking into account the transfer of risk.

The Group
As at 31st December 2007

	Hong Kong HK$'000	**Asia Pacific excluding Hong Kong HK$'000**	**North and South America HK$'000**	**Middle East and Africa HK$'000**	**Europe HK$'000**	**Other countries HK$'000**	**Total HK$'000**
Placements with and loans and advances to banks	**7,676,154**	**861,758**	**–**	**706,346**	**2,809,093**	**3,368**	**12,056,719**
Loans and advances to customers:							
Loans to individuals:							
– Overdrafts	**477,611**	**–**	**–**	**–**	**147**	**–**	**477,758**
– Credit cards	**325,655**	**–**	**–**	**–**	**–**	**–**	**325,655**
– Term loans and others	**2,376,532**	**47,330**	**440,197**	**–**	**13,298**	**–**	**2,877,357**
– Mortgages	**5,313,011**	**40,118**	**139,341**	**–**	**101,036**	**–**	**5,593,506**
Loans to corporate entities:							
– Large corporate customers and others	**23,705,589**	**885,783**	**6,808,895**	**–**	**–**	**–**	**31,400,267**
– SMEs	**4,957,144**	**15,751**	**59,564**	**–**	**224,285**	**–**	**5,256,744**
Trading assets – debt securities	**–**	**3,985**	**149,075**	**–**	**–**	**–**	**153,060**
Financial assets designated at fair value:							
– Debt securities	**407,171**	**–**	**–**	**–**	**–**	**–**	**407,171**
Derivative financial instruments	**424,781**	**–**	**–**	**–**	**3,653**	**–**	**428,434**
Investment securities - debt securities	**4,227,416**	**2,635,290**	**6,125,102**	**–**	**2,031,067**	**1,058,240**	**16,077,115**
Other assets	**1,747,624**	**177**	**1,839**	**–**	**1,162**	**–**	**1,750,802**
	51,638,688	**4,490,192**	**13,724,013**	**706,346**	**5,183,741**	**1,061,608**	**76,804,588**

The Group
As at 31st December 2006

	Hong Kong HK$'000	Asia Pacific excluding Hong Kong HK$'000	North and South America HK$'000	Middle East and Africa HK$'000	Europe HK$'000	Other countries HK$'000	Total HK$'000
Placements with and loans and advances to banks	4,774,921	2,508,351	–	–	3,300,204	–	10,583,476
Loans and advances to customers:							
Loans to individuals:							
– Overdrafts	352,018	–	–	–	25	–	352,043
– Credit cards	382,126	–	–	–	–	–	382,126
– Term loans and others	2,685,107	24,651	330,169	–	13,179	–	3,053,106
– Mortgages	4,865,470	50,899	126,040	–	101,402	–	5,143,811
Loans to corporate entities:							
– Large corporate customers and others	18,635,772	311,801	5,258,534	–	–	–	24,206,107
– SMEs	4,915,074	30,775	66,393	–	161,713	–	5,173,955
Trading assets – debt securities	–	–	136,767	–	–	–	136,767
Financial assets designated at fair value:							
– Debt securities	403,296	–	–	–	–	–	403,296
Derivative financial instruments	12,791	–	25	–	11,146	–	23,962
Investment securities - debt securities	4,548,597	3,083,889	6,545,936	–	2,327,696	1,048,407	17,554,525
Other assets	1,619,059	155	2,601	–	976	–	1,622,791
	43,194,231	6,010,521	12,466,465	–	5,916,341	1,048,407	68,635,965

3 Financial risk management (Continued)

3.1 Credit risk (Continued)

3.1.7 Concentration of risks of financial assets with credit risk exposure (Continued)

(a) Geographical sectors (Continued)

The Bank
As at 31st December 2007

	Hong Kong HK$'000	Asia Pacific excluding Hong Kong HK$'000	North and South America HK$'000	Middle East and Africa HK$'000	Europe HK$'000	Other countries HK$'000	Total HK$'000
Placements with and loans and advances to banks	7,676,154	861,758	–	706,346	2,809,093	3,368	12,056,719
Loans and advances to customers:							
Loans to individuals:							
– Overdrafts	477,611	–	–	–	147	–	477,758
– Credit cards	325,655	–	–	–	–	–	325,655
– Term loans and others	2,376,532	47,330	440,197	–	13,298	–	2,877,357
– Mortgages	5,313,011	40,118	139,341	–	101,036	–	5,593,506
Loans to corporate entities:							
– Large corporate customers and others	23,705,589	885,783	6,808,895	–	–	–	31,400,267
– SMEs	4,957,144	15,751	59,564	–	224,285	–	5,256,744
Trading assets - debt securities	–	3,985	149,075	–	–	–	153,060
Financial assets designated at fair value:							
– Debt securities	407,171	–	–	–	–	–	407,171
Derivative financial instruments	424,781	–	–	–	3,653	–	428,434
Investment securities - debt securities	2,492,082	2,635,290	5,927,587	–	1,761,523	1,058,241	13,874,723
Other assets	819,375	177	1,839	–	1,162	–	822,553
	48,975,105	4,490,192	13,526,498	706,346	4,914,197	1,061,609	73,673,947

The Bank
As at 31st December 2006

	Hong Kong HK$'000	Asia Pacific excluding Hong Kong HK$'000	North and South America HK$'000	Middle East and Africa HK$'000	Europe HK$'000	Other countries HK$'000	Total HK$'000
Placements with and loans and advances to banks	4,774,921	2,508,351	–	–	3,300,204	–	10,583,476
Loans and advances to customers:							
Loans to individuals:							
– Overdrafts	352,018	–	–	–	25	–	352,043
– Credit cards	382,126	–	–	–	–	–	382,126
– Term loans and others	2,685,107	24,651	330,169	–	13,179	–	3,053,106
– Mortgages	4,865,470	50,899	126,040	–	101,402	–	5,143,811
Loans to corporate entities:							
– Large corporate customers and others	18,635,772	311,801	5,258,534	–	–	–	24,206,107
– SMEs	4,915,074	30,775	66,393	–	161,713	–	5,173,955
Trading assets - debt securities	–	–	136,767	–	–	–	136,767
Financial assets designated at fair value:							
– Debt securities	403,296	–	–	–	–	–	403,296
Derivative financial instruments	12,791	–	25	–	11,146	–	23,962
Investment securities - debt securities	2,597,110	3,083,889	6,202,699	–	2,160,612	1,048,407	15,092,717
Other assets	950,290	155	2,601	–	976	–	954,022
	40,573,975	6,010,521	12,123,228	–	5,749,257	1,048,407	65,505,388

3 Financial risk management (Continued)

3.1 Credit risk (Continued)

3.1.7 Concentration of risks of financial assets with credit risk exposure (Continued)

(b) Industry sectors

The following table breaks down the Group's main credit exposure at their carrying amounts, as categorised by the industry sectors of its counterparties. For placements with and loans and advances to bank as well as loans and advances to customers, please refer to tables in this note.

For the industry analysis of financial assets designated at fair value, refer to Note 19.

For the industry analysis of investment securities - debt securities, refer to Note 21 and 22.

The Group and the Bank
As at 31st December 2007

	Financial Institutions HK$'000	Manufacturing HK$'000	Real estate HK$'000	Wholesale and retail trade HK$'000	Public sector HK$'000	Other industries HK$'000	Individuals HK$'000	Total HK$'000
Placements with and loans and advances to banks	**12,056,719**	**–**	**–**	**–**	**–**	**–**	**–**	**12,056,719**
Loans and advances to customers:								
Loans to individuals:								
– Overdrafts	**–**	**–**	**–**	**–**	**–**	**–**	**477,758**	**477,758**
– Credit cards	**–**	**–**	**–**	**–**	**–**	**–**	**325,655**	**325,655**
– Term loans and others	**–**	**–**	**–**	**–**	**–**	**–**	**2,877,357**	**2,877,357**
– Mortgages	**–**	**–**	**–**	**–**	**–**	**–**	**5,593,506**	**5,593,506**
Loans to corporate entities:								
– Large corporate customers and others	**25,302**	**1,680,792**	**15,270,654**	**945,662**	**–**	**13,477,857**	**–**	**31,400,267**
– SMEs	**27,327**	**540,436**	**2,244,898**	**288,396**	**–**	**2,155,687**	**–**	**5,256,744**
	12,109,348	**2,221,228**	**17,515,552**	**1,234,058**	**–**	**15,633,544**	**9,274,276**	**57,988,006**

The Group and the Bank
As at 31st December 2006

	Financial Institutions HK$'000	Manufacturing HK$'000	Real estate HK$'000	Wholesale and retail trade HK$'000	Public sector HK$'000	Other industries HK$'000	Individuals HK$'000	Total HK$'000
Placements with and loans and advances to banks	10,583,476	–	–	–	–	–	–	10,583,476
Loans and advances to customers:								
Loans to individuals:								
– Overdrafts	–	–	–	–	–	–	352,043	352,043
– Credit cards	–	–	–	–	–	–	382,126	382,126
– Term loans and others	–	–	–	–	–	–	3,053,106	3,053,106
– Mortgages	–	–	–	–	–	–	5,143,811	5,143,811
Loans to corporate entities:								
– Large corporate customers and others	72,825	1,412,216	11,825,808	610,731	–	10,284,527	–	24,206,107
– SMEs	7,090	498,557	1,909,279	168,598	–	2,590,431	–	5,173,955
	10,663,391	1,910,773	13,735,087	779,329	–	12,874,958	8,931,086	48,894,624

3 Financial risk management (Continued)

3.2 Market risk

Market risk is the risk that interest rates, foreign exchange rates or equity prices will move relative to positions taken, resulting in profits or losses. In the ordinary course of business, the Group enters into various types of financial instruments, mainly forward exchange contracts, that are mainly customer-driven and are entered into on behalf of customers. The Group market risk is managed by the Treasury Department and monitored by management under the limits and guidelines laid down in the foreign exchange risk management policy and policy on allocating transactions of financial instruments to the trading, non-trading or investment book approved by the Directors.

3.2.1 Market risk measurement techniques

The measuring procedures and limit system used for market risk management have been approved by the Directors. Limits on notional, stop loss and sensitivity are set for trading positions which are marked-to-market daily. The transactions included in the trading book as at 31st December 2007 for the Group and the Bank are not significant.

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress testing is tailored to the business and typically uses scenario analysis. The results of the stress tests are reviewed by the Top Management and the Board of Directors.

3.2.2 Market risk sensitivity summary for 2007 and 2006

The Group uses different types of derivatives to manage foreign exchange and interest rate sensitivity primarily by hedging its underlying positions. The types of derivatives used by the Group include forward exchange rate and interest rate swap contracts which are typically made over-the-counter and are managed within limits approved by the Directors or with prior approval obtained from the Executive Committee. The policy on the use of derivatives is reviewed by the Executive Committee and recommended changes and amendments are submitted to the Board for consideration.

Interest rate risk
At 31st December 2007, if market interest rates had been 100 basis points (2006: 100 basis points) higher with other variables held constant, profit before taxation for the year would have been HK$63,194,000 (2006: HK$23,894,000) higher, mainly as a result of higher net interest income earned on floating rate financial instruments, which is partly offset by a decrease in net income from financial assets designated at fair value and trading assets as a result of revaluation of fixed rate financial instruments. Available-for-sale investment revaluation reserve would have been HK$110,208,000 (2006: HK$105,930,000) lower.

Foreign exchange risk
At 31st December 2007, over 90% (2006: over 90%) of the net on-balance sheet position of the Group were denominated in HKD and USD, and these two currencies were closely pegged, there is immaterial foreign exchange risk arising from the translation of foreign-currency denominated financial assets and financial liabilities into HKD.

3.2.3 Foreign exchange risk

Foreign exchange risk is the risk that the holding of foreign currencies will affect the Group's position as a result of a change in foreign currency exchange rates. The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group's foreign exchange risk arises primarily from currency exposures originated by the Group's commercial banking businesses. The foreign exchange risk is managed by the Treasury Department and monitored by management and the Asset and Liability Committee within position limits set in the foreign exchange risk management policy approved by the Directors. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk at 31st December. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.

3 Financial risk management (Continued)

3.2 Market risk (Continued)

3.2.3 Foreign exchange risk (Continued)

Concentrations of currency risk – on- and off-balance sheet financial instruments

The Group

At 31st December 2007

	HK$ HK$'000	US$ HK$'000	EUR HK$'000	Other HK$'000	Total HK$'000
Assets					
Cash and balances with banks	14,955,171	10,241,110	980,238	3,399,792	29,576,311
Placements with and loans and advances to banks	4,078,912	4,971,516	289,874	2,716,417	12,056,719
Trading assets	–	280,788	–	3,984	284,772
Derivative financial instruments	390,660	9,123	22,510	6,141	428,434
Financial assets designated at fair value	–	407,171	–	–	407,171
Loans and advances to customers	33,199,242	11,420,414	118,077	1,193,554	45,931,287
Investment securities:					
– Available-for-sale	2,642,499	9,427,969	331,021	1,136,436	13,537,925
– Held-to-maturity	819,066	1,123,391	–	1,169,902	3,112,359
Investments in jointly controlled entities	188,685	–	–	–	188,685
Property and equipment	297,563	68,706	–	40,656	406,925
Leasehold land and land use rights	273,841	–	–	–	273,841
Deferred income tax assets	52,670	17,162	–	345	70,177
Other assets	1,687,506	12,673	38,363	12,260	1,750,802
Total assets	58,585,815	37,980,023	1,780,083	9,679,487	108,025,408
Liabilities					
Deposits and balances from banks	2,909,356	728,020	–	440,631	4,078,007
Derivative financial instruments	390,660	16,941	21,380	5,899	434,880
Deposits from customers	37,746,234	33,078,989	1,749,970	8,285,949	80,861,142
Certificates of deposit issued	1,251,596	–	–	–	1,251,596
Other liabilities	4,206,627	1,611,301	28,120	492,323	6,338,371
Provisions	120,966	5,301	–	1,793	128,060
Current income tax liabilities	18,777	18,248	–	2,206	39,231
Deferred income tax liabilities	92	–	–	–	92
Total liabilities	46,644,308	35,458,800	1,799,470	9,228,801	93,131,379
Net on-balance sheet position	11,941,507	2,521,223	(19,387)	450,686	14,894,029
Credit commitments	28,550,769	14,111,228	145,917	245,401	43,053,315

3 Financial risk management (Continued)

3.2 Market risk (Continued)

3.2.3 Foreign exchange risk (Continued)

Concentrations of currency risk – on- and off-balance sheet financial instruments (Continued)

The Group

At 31st December 2006

	HK$ HK$'000	US$ HK$'000	EUR HK$'000	Other HK$'000	Total HK$'000
Assets					
Cash and balances with banks	8,531,157	9,582,787	1,056,754	4,363,094	23,533,792
Placements with and loans and advances to banks	5,390,609	3,655,144	52,086	1,485,637	10,583,476
Trading assets	–	248,084	–	–	248,084
Derivative financial instruments	8,224	5,982	4,122	5,634	23,962
Financial assets designated at fair value	–	403,296	–	–	403,296
Loans and advances to customers	27,953,286	9,853,877	119,665	384,320	38,311,148
Investment securities:					
– Available-for-sale	3,599,955	9,945,021	205,031	958,297	14,708,304
– Held-to-maturity	1,947,548	1,201,853	–	233,041	3,382,442
Investments in jointly controlled entities	162,323	–	–	2,451	164,774
Property and equipment	315,887	70,754	–	41,190	427,831
Leasehold land and land use rights	278,661	–	–	–	278,661
Deferred income tax assets	56,454	15,145	–	316	71,915
Other assets	1,390,567	172,332	16,530	43,362	1,622,791
Total assets	49,634,671	35,154,275	1,454,188	7,517,342	93,760,476
Liabilities					
Deposits and balances from banks	2,422,263	1,276,355	1,546	65,214	3,765,378
Derivative financial instruments	8,256	5,282	3,317	2,998	19,853
Deposits from customers	32,554,572	31,236,994	1,423,404	7,022,127	72,237,097
Certificates of deposit issued	3,105,934	–	–	–	3,105,934
Other liabilities	1,111,901	295,031	48,420	31,368	1,486,720
Provisions	91,113	1,600	–	16	92,729
Current income tax liabilities	583	17,428	–	1,472	19,483
Deferred income tax liabilities	67	–	–	–	67
Total liabilities	39,294,689	32,832,690	1,476,687	7,123,195	80,727,261
Net on-balance sheet position	10,339,982	2,321,585	(22,499)	394,147	13,033,215
Credit commitments	24,405,121	7,364,123	164,103	351,519	32,284,866

3 Financial risk management (Continued)

3.2 Market risk (Continued)

3.2.3 Foreign exchange risk (Continued)

Concentrations of currency risk – on- and off-balance sheet financial instruments (Continued)

The Bank

At 31st December 2007

	HK$ HK$'000	US$ HK$'000	EUR HK$'000	Other HK$'000	Total HK$'000
Assets					
Cash and balances with banks	14,042,516	10,241,110	980,238	4,312,440	29,576,304
Placements with and loans and advances to banks	4,078,912	4,971,516	289,874	2,716,417	12,056,719
Trading assets	–	280,788	–	3,984	284,772
Derivative financial instruments	390,660	9,123	22,510	6,141	428,434
Financial assets designated at fair value	–	407,171	–	–	407,171
Loans and advances to customers	33,199,242	11,420,414	118,077	1,193,554	45,931,287
Investment securities:					
– Available-for-sale	2,175,802	9,427,969	331,021	1,136,075	13,070,867
– Held-to-maturity	–	1,119,452	–	257,573	1,377,025
Investments in jointly controlled entities	87,567	–	–	–	87,567
Investments in and loans to subsidiary companies	2,139,083	2,699	–	46,827	2,188,609
Property and equipment	304,200	68,706	–	1,990	374,896
Investment property	7,523	–	–	–	7,523
Leasehold land and land use rights	273,841	–	–	–	273,841
Deferred income tax assets	52,670	17,162	–	345	70,177
Other assets	752,762	12,673	38,363	18,755	822,553
Total assets	57,504,778	37,978,783	1,780,083	9,694,101	106,957,745
Liabilities					
Deposits and balances from banks	2,909,356	728,020	–	440,631	4,078,007
Derivative financial instruments	390,660	16,941	21,380	5,899	434,880
Deposits from customers	37,746,234	33,078,989	1,749,970	8,285,949	80,861,142
Certificates of deposit issued	1,251,596	–	–	–	1,251,596
Other liabilities	3,283,467	1,607,691	28,120	497,266	5,416,544
Provisions	120,264	5,301	–	1,793	127,358
Current income tax liabilities	17,597	18,242	–	2,203	38,042
Total liabilities	45,719,174	35,455,184	1,799,470	9,233,741	92,207,569
Net on-balance sheet position	11,785,604	2,523,599	(19,387)	460,360	14,750,176
Credit commitments	28,550,769	14,111,228	145,917	245,401	43,053,315

3 Financial risk management (Continued)

3.2 Market risk (Continued)

3.2.3 Foreign exchange risk (Continued)

Concentrations of currency risk – on- and off-balance sheet financial instruments (Continued)

The Bank

At 31st December 2006

	HK$ HK$'000	US$ HK$'000	EUR HK$'000	Other HK$'000	Total HK$'000
Assets					
Cash and balances with banks	8,531,151	9,582,787	1,056,754	4,363,094	23,533,786
Placements with and loans and advances to banks	5,390,609	3,655,144	52,086	1,485,637	10,583,476
Trading assets	–	248,084	–	–	248,084
Derivative financial instruments	8,224	5,982	4,122	5,634	23,962
Financial assets designated at fair value	–	403,296	–	–	403,296
Loans and advances to customers	27,953,286	9,853,877	119,665	384,320	38,311,148
Investment securities:					
– Available-for-sale	3,089,635	9,945,021	205,031	958,296	14,197,983
– Held-to-maturity	–	1,197,915	–	233,040	1,430,955
Investments in jointly controlled entities	113,300	–	–	–	113,300
Investments in and loans to subsidiary companies	2,383,167	(384)	–	45,847	2,428,630
Property and equipment	320,270	70,754	–	2,504	393,528
Investment property	7,721	–	–	–	7,721
Leasehold land and land use rights	278,661	–	–	–	278,661
Deferred income tax assets	56,454	15,145	–	316	71,915
Other assets	748,312	172,331	16,530	16,849	954,022
Total assets	48,880,790	35,149,952	1,454,188	7,495,537	92,980,467
Liabilities					
Deposits and balances from banks	2,422,263	1,276,355	1,546	65,214	3,765,378
Derivative financial instruments	8,256	5,282	3,317	2,998	19,853
Deposits from customers	32,554,572	31,236,994	1,423,404	7,022,127	72,237,097
Certificates of deposit issued	3,105,934	–	–	–	3,105,934
Other liabilities	483,922	291,421	48,420	4,276	828,039
Provisions	90,111	1,600	–	16	91,727
Current income tax liabilities	–	17,422	–	1,438	18,860
Total liabilities	38,665,058	32,829,074	1,476,687	7,096,069	80,066,888
Net on-balance sheet position	10,215,732	2,320,878	(22,499)	399,468	12,913,579
Credit commitments	24,405,121	7,364,123	164,103	351,519	32,284,866

3.2.4 Interest rate risk

Interest rate risk is the risk that the Group's position may be adversely affected by a change of market interest rates. The Group's interest rate risk arises primarily from the timing differences in the repricing of interest bearing assets, liabilities and commitments (repricing risk) as well as change of market rates or pricing indices at different time or by different amounts for different financial instruments (basis risk). The primary objective of interest rate risk management is to limit the potential adverse effects of interest rate movement on net interest income by closely monitoring the net repricing gap of the Group's assets and liabilities. The interest rate risk is managed by the Treasury Department and monitored by management and the Asset and Liability Committee under the limits and guidelines laid down in the interest rate risk management policy approved by the Directors.

3 Financial risk management (Continued)

3.2 Market risk (Continued)

3.2.4 Interest rate risk (Continued)

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily by management.

The table below summarises the Group's exposure to interest rate risks. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

The Group

	Up to 1 month HK$'000	1-3 months HK$'000	3-12 months HK$'000	1-5 years HK$'000	Over 5 years HK$'000	Non-interest bearing HK$'000	Total HK$'000
At 31st December 2007							
Assets							
Cash and balances with banks	**28,808,156**	**–**	**–**	**–**	**–**	**768,155**	**29,576,311**
Placements with and loans and advances to banks	**84,484**	**9,538,670**	**2,433,565**	**–**	**–**	**–**	**12,056,719**
Trading assets	**–**	**8,099**	**13,274**	**64,883**	**66,803**	**131,713**	**284,772**
Derivative financial instruments	**–**	**–**	**–**	**–**	**–**	**428,434**	**428,434**
Financial assets designated at fair value	**–**	**–**	**407,171**	**–**	**–**	**–**	**407,171**
Loans and advances to customers	**39,561,432**	**4,596,876**	**1,057,193**	**323,193**	**–**	**392,593**	**45,931,287**
Investment securities:							
– Available-for-sale	**963,481**	**4,513,900**	**1,775,000**	**5,510,204**	**389,640**	**385,700**	**13,537,925**
– Held-to-maturity	**144,149**	**542,496**	**654,124**	**1,771,590**	**–**	**–**	**3,112,359**
Investments in jointly controlled entities	**–**	**–**	**–**	**–**	**–**	**188,685**	**188,685**
Property and equipment	**–**	**–**	**–**	**–**	**–**	**406,925**	**406,925**
Leasehold land and land use rights	**–**	**–**	**–**	**–**	**–**	**273,841**	**273,841**
Deferred income tax assets	**–**	**–**	**–**	**–**	**–**	**70,177**	**70,177**
Other assets	**–**	**–**	**–**	**–**	**–**	**1,750,802**	**1,750,802**
Total financial assets	**69,561,702**	**19,200,041**	**6,340,327**	**7,669,870**	**456,443**	**4,797,025**	**108,025,408**
Liabilities							
Deposits and balances from banks	**2,946,594**	**1,029,656**	**15,780**	**–**	**–**	**85,977**	**4,078,007**
Derivative financial instruments	**–**	**–**	**–**	**–**	**–**	**434,880**	**434,880**
Deposits from customers	**59,996,354**	**11,770,963**	**3,715,618**	**2,275**	**5,000**	**5,370,932**	**80,861,142**
Certificates of deposit issued	**–**	**1,251,596**	**–**	**–**	**–**	**–**	**1,251,596**
Other liabilities	**173,426**	**–**	**–**	**–**	**–**	**6,164,945**	**6,338,371**
Provisions	**–**	**–**	**–**	**–**	**–**	**128,060**	**128,060**
Current income tax liabilities	**–**	**–**	**–**	**–**	**–**	**39,231**	**39,231**
Deferred income tax liabilities	**–**	**–**	**–**	**–**	**–**	**92**	**92**
Total financial liabilities	**63,116,374**	**14,052,215**	**3,731,398**	**2,275**	**5,000**	**12,224,117**	**93,131,379**
Total interest repricing gap	**6,445,328**	**5,147,826**	**2,608,929**	**7,667,595**	**451,443**	**(7,427,092)**	**14,894,029**
At 31st December 2006							
Assets							
Cash and balances with banks	22,873,272	–	–	–	–	660,520	23,533,792
Placements with and loans and advances to banks	–	7,036,287	3,547,189	–	–	–	10,583,476
Trading assets	407	3,491	5,601	56,205	71,063	111,317	248,084
Derivative financial instruments	–	–	–	–	–	23,962	23,962
Financial assets designated at fair value	–	–	403,296	–	–	–	403,296
Loans and advances to customers	32,677,261	4,086,054	814,731	250,668	–	482,434	38,311,148
Investment securities:							
– Available-for-sale	1,091,757	4,192,798	619,551	7,600,215	665,128	538,855	14,708,304
– Held-to-maturity	174,044	411,021	933,637	1,863,740	–	–	3,382,442
Investments in jointly controlled entities	–	–	–	–	–	164,774	164,774
Property and equipment	–	–	–	–	–	427,831	427,831
Leasehold land and land use rights	–	–	–	–	–	278,661	278,661
Deferred income tax assets	–	–	–	–	–	71,915	71,915
Other assets	–	–	–	–	–	1,622,791	1,622,791
Total financial assets	56,816,741	15,729,651	6,324,005	9,770,828	736,191	4,383,060	93,760,476
Liabilities							
Deposits and balances from banks	1,811,428	1,339,513	25,040	–	–	589,397	3,765,378
Derivative financial instruments	–	–	–	–	–	19,853	19,853
Deposits from customers	53,314,587	11,010,884	2,927,474	118,176	5,000	4,860,976	72,237,097
Certificates of deposit issued	240,460	2,865,474	–	–	–	–	3,105,934
Other liabilities	180,409	–	–	–	–	1,306,311	1,486,720
Provisions	–	–	–	–	–	92,729	92,729
Current income tax liabilities	–	–	–	–	–	19,483	19,483
Deferred income tax liabilities	–	–	–	–	–	67	67
Total financial liabilities	55,546,884	15,215,871	2,952,514	118,176	5,000	6,888,816	80,727,261
Total interest repricing gap	1,269,857	513,780	3,371,491	9,652,652	731,191	(2,505,756)	13,033,215

3 Financial risk management (Continued)

3.2 Market risk (Continued)

3.2.4 Interest rate risk (Continued)

The Bank

	Up to 1 month HK$'000	1-3 months HK$'000	3-12 months HK$'000	1-5 years HK$'000	Over 5 years HK$'000	Non-interest bearing HK$'000	Total HK$'000
At 31st December 2007							
Assets							
Cash and balances with banks	28,808,156	–	–	–	–	768,148	29,576,304
Placements with and loans and advances to banks	84,484	9,538,670	2,433,565	–	–	–	12,056,719
Trading assets	–	8,099	13,274	64,883	66,803	131,713	284,772
Derivative financial instruments	–	–	–	–	–	428,434	428,434
Financial assets designated at fair value	–	–	407,171	–	–	–	407,171
Loans and advances to customers	39,561,432	4,596,876	1,057,193	323,193	–	392,593	45,931,287
Investment securities:							
– Available-for-sale	956,852	4,511,772	1,663,294	5,163,609	389,640	385,700	13,070,867
– Held-to-maturity	135,400	222,898	262,850	755,877	–	–	1,377,025
Investments in jointly controlled entities	–	–	–	–	–	87,567	87,567
Investments in and loans to subsidiary companies	–	–	–	–	–	2,188,609	2,188,609
Property and equipment	–	–	–	–	–	374,896	374,896
Investment property	–	–	–	–	–	7,523	7,523
Leasehold land and land use rights	–	–	–	–	–	273,841	273,841
Deferred income tax assets	–	–	–	–	–	70,177	70,177
Other assets	–	–	–	–	–	822,553	822,553
Total financial assets	69,546,324	18,878,315	5,837,347	6,307,562	456,443	5,931,754	106,957,745
Liabilities							
Deposits and balances from banks	2,946,594	1,029,656	15,780	–	–	85,977	4,078,007
Derivative financial instruments	–	–	–	–	–	434,880	434,880
Deposits from customers	59,996,354	11,770,963	3,715,618	2,275	5,000	5,370,932	80,861,142
Certificates of deposit issued	–	1,251,596	–	–	–	–	1,251,596
Other liabilities	173,426	–	–	–	–	5,243,118	5,416,544
Provisions	–	–	–	–	–	127,358	127,358
Current income tax liabilities	–	–	–	–	–	38,042	38,042
Total financial liabilities	63,116,374	14,052,215	3,731,398	2,275	5,000	11,300,307	92,207,569
Total interest repricing gap	6,429,950	4,826,100	2,105,949	6,305,287	451,443	(5,368,553)	14,750,176
At 31st December 2006							
Assets							
Cash and balances with banks	22,873,272	–	–	–	–	660,514	23,533,786
Placements with and loans and advances to banks	–	7,036,287	3,547,189	–	–	–	10,583,476
Trading assets	407	3,491	5,601	56,205	71,063	111,317	248,084
Derivative financial instruments	–	–	–	–	–	23,962	23,962
Financial assets designated at fair value	–	–	403,296	–	–	–	403,296
Loans and advances to customers	32,677,261	4,086,054	814,731	250,668	–	482,434	38,311,148
Investment securities:							
– Available-for-sale	1,086,157	4,112,395	555,961	7,250,156	654,458	538,856	14,197,983
– Held-to-maturity	124,124	271,736	203,997	831,098	–	–	1,430,955
Investments in jointly controlled entities	–	–	–	–	–	113,300	113,300
Investments in and loans to subsidiary companies	–	–	–	–	–	2,428,630	2,428,630
Property and equipment	–	–	–	–	–	393,528	393,528
Investment property	–	–	–	–	–	7,721	7,721
Leasehold land and land use rights	–	–	–	–	–	278,661	278,661
Deferred income tax assets	–	–	–	–	–	71,915	71,915
Other assets	–	–	–	–	–	954,022	954,022
Total financial assets	56,761,221	15,509,963	5,530,775	8,388,127	725,521	6,064,860	92,980,467
Liabilities							
Deposits and balances from banks	1,811,428	1,339,513	25,040	–	–	589,397	3,765,378
Derivative financial instruments	–	–	–	–	–	19,853	19,853
Deposits from customers	53,314,587	11,010,884	2,927,474	118,176	5,000	4,860,976	72,237,097
Certificates of deposit issued	240,460	2,865,474	–	–	–	–	3,105,934
Other liabilities	180,409	–	–	–	–	647,630	828,039
Provisions	–	–	–	–	–	91,727	91,727
Current income tax liabilities	–	–	–	–	–	18,860	18,860
Total financial liabilities	55,546,884	15,215,871	2,952,514	118,176	5,000	6,228,443	80,066,888
Total interest repricing gap	1,214,337	294,092	2,578,261	8,269,951	720,521	(163,583)	12,913,579

3 Financial risk management (Continued)

3.3 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend. The Group's liquidity risk is managed by the Treasury Department and monitored by management and the Asset and Liability Committee in accordance with the guidelines and procedures laid down in the liquidity management policy approved by the Directors, which has regard to a variety of factors, including liquidity ratio, loan to deposit ratio, liquefiable assets to be kept in Hong Kong, maturity mismatch profile, diversity and stability of the deposit base and ability to borrow in the interbank market. An adequate stock of high quality liquid assets is being maintained at all times, in order to enable the Group to meet deposit withdrawals, to repay interbank borrowings, and to make new loans and investments as and when required in a timely and cost effective manner. Liquefiable assets held comprise mainly marketable debt securities and interbank placements.

3.3.1 Liquidity risk management process

The Group's liquidity management process, as carried out within the Group and monitored by management, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities (Note 3.3.4).

Management also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

3.3.2 Maturity analysis

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

The Group

	Repayable on demand HK$'000	Up to 1 month HK$'000	1-3 months HK$'000	3-12 months HK$'000	1-5 years HK$'000	Over 5 years HK$'000	Indefinite HK$'000	Total HK$'000
At 31st December 2007								
Assets								
Cash and balances with banks	946,990	28,629,321	–	–	–	–	–	29,576,311
Placements with and loans and advances to banks	–	–	9,541,105	2,431,765	83,849	–	–	12,056,719
Trading assets	–	750	4,185	12,488	68,834	66,803	131,712	284,772
Derivative financial instruments	–	26,912	8,656	392,866	–	–	–	428,434
Financial assets designated at fair value	–	–	–	1,825	–	405,346	–	407,171
Loans and advances to customers	4,837,978	4,131,490	4,324,377	5,861,257	14,746,397	12,029,788	–	45,931,287
Investment securities:								
– Available-for-sale	–	187,999	294,558	1,748,503	8,210,627	2,520,315	575,923	13,537,925
– Held-to-maturity	–	13,776	403,763	650,234	1,962,607	81,979	–	3,112,359
Investments in jointly controlled entities	–	–	–	–	–	–	188,685	188,685
Property and equipment	–	–	–	–	100,282	268,598	38,045	406,925
Leasehold land and land use rights	–	–	–	–	–	273,841	–	273,841
Deferred income tax assets	–	–	–	–	70,177	–	–	70,177
Other assets	4,943	1,241,209	11,013	28,659	460,859	2,619	1,500	1,750,802
Total assets	5,789,911	34,231,457	14,587,657	11,127,597	25,703,632	15,649,289	935,865	108,025,408
Liabilities								
Deposits and balances from banks	574,347	2,297,145	23,197	1,183,318	–	–	–	4,078,007
Derivative financial instruments	–	25,165	4,211	391,850	13,654	–	–	434,880
Deposits from customers	26,211,470	39,118,159	11,785,419	3,738,818	7,276	–	–	80,861,142
Certificates of deposit issued	–	–	1,596	1,250,000	–	–	–	1,251,596
Other liabilities	49,095	6,019,105	49,380	220,791	–	–	–	6,338,371
Provisions	–	96,495	7,069	24,361	–	135	–	128,060
Current income tax liabilities	–	–	–	39,231	–	–	–	39,231
Deferred income tax liabilities	–	–	–	–	92	–	–	92
Total liabilities	26,834,912	47,556,069	11,870,872	6,848,369	21,022	135	–	93,131,379
Net liquidity gap	(21,045,001)	(13,324,612)	2,716,785	4,279,228	25,682,610	15,649,154	935,865	14,894,029

3 Financial risk management (Continued)

3.3 Liquidity risk (Continued)

3.3.2 Maturity analysis (Continued)

The Group

	Repayable on demand HK$'000	Up to 1 month HK$'000	1-3 months HK$'000	3-12 months HK$'000	1-5 years HK$'000	Over 5 years HK$'000	Indefinite HK$'000	Total HK$'000
At 31st December 2006								
Assets								
Cash and balances with banks	897,976	22,635,816	–	–	–	–	–	23,533,792
Placements with and loans and advances to banks	–	–	6,953,178	3,546,717	83,581	–	–	10,583,476
Trading assets	–	469	3,354	5,676	56,205	71,063	111,317	248,084
Derivative financial instruments	–	2,617	8,651	12,152	542	–	–	23,962
Financial assets designated at fair value	–	–	–	1,861	–	401,435	–	403,296
Loans and advances to customers	3,810,887	3,420,574	3,707,811	3,975,991	12,514,958	10,880,927	–	38,311,148
Investment securities:								
– Available-for-sale	–	272,859	502,131	1,257,277	9,853,018	2,284,165	538,854	14,708,304
– Held-to-maturity	–	174,026	387,643	956,637	1,864,136	–	–	3,382,442
Investments in jointly controlled entities	–	–	–	–	–	–	164,774	164,774
Property and equipment	–	–	–	–	112,762	277,164	37,905	427,831
Leasehold land and land use rights	–	–	–	–	–	278,661	–	278,661
Deferred income tax assets	–	–	–	–	71,915	–	–	71,915
Other assets	1,972	724,990	24,527	366,184	487,565	2,619	14,934	1,622,791
Total assets	4,710,835	27,231,351	11,587,295	10,122,495	25,044,682	14,196,034	867,784	93,760,476
Liabilities								
Deposits and balances from banks	864,556	1,435,999	439,554	25,269	1,000,000	–	–	3,765,378
Derivative financial instruments	–	1,793	5,090	10,901	2,069	–	–	19,853
Deposits from customers	23,902,697	35,117,488	10,139,779	3,050,846	26,287	–	–	72,237,097
Certificates of deposit issued	–	479	5,455	1,850,000	1,250,000	–	–	3,105,934
Other liabilities	68,752	1,148,797	49,190	219,981	–	–	–	1,486,720
Provisions	–	92,569	–	–	–	160	–	92,729
Current income tax liabilities	–	17,773	–	623	1,087	–	–	19,483
Deferred income tax liabilities	–	–	–	–	67	–	–	67
Total liabilities	24,836,005	37,814,898	10,639,068	5,157,620	2,279,510	160	–	80,727,261
Net liquidity gap	(20,125,170)	(10,583,547)	948,227	4,964,875	22,765,172	14,195,874	867,784	13,033,215

The Bank

	Repayable on demand HK$'000	Up to 1 month HK$'000	1-3 months HK$'000	3-12 months HK$'000	1-5 years HK$'000	Over 5 years HK$'000	Indefinite HK$'000	Total HK$'000
At 31st December 2007								
Assets								
Cash and balances with banks	**946,983**	**28,629,321**	**–**	**–**	**–**	**–**	**–**	**29,576,304**
Placements with and loans and advances to banks	**–**	**–**	**9,541,105**	**2,431,765**	**83,849**	**–**	**–**	**12,056,719**
Trading assets	**–**	**750**	**4,185**	**12,488**	**68,834**	**66,803**	**131,712**	**284,772**
Derivative financial instruments	**–**	**26,912**	**8,656**	**392,866**	**–**	**–**	**–**	**428,434**
Financial assets designated at fair value	**–**	**–**	**–**	**1,825**	**–**	**405,346**	**–**	**407,171**
Loans and advances to customers	**4,837,978**	**4,131,490**	**4,324,377**	**5,861,257**	**14,746,397**	**12,029,788**	**–**	**45,931,287**
Investment securities:								
– Available-for-sale	**–**	**177,422**	**294,256**	**1,639,212**	**7,863,739**	**2,520,315**	**575,923**	**13,070,867**
– Held-to-maturity	**–**	**3,409**	**85,507**	**259,236**	**950,874**	**77,999**	**–**	**1,377,025**
Investments in jointly controlled entities	**–**	**–**	**–**	**–**	**–**	**–**	**87,567**	**87,567**
Investments in and loans to subsidiary companies	**(619,952)**	**17,253**	**389,792**	**412,916**	**1,838,259**	**20,248**	**130,093**	**2,188,609**
Property and equipment	**–**	**–**	**–**	**–**	**113,647**	**242,139**	**19,110**	**374,896**
Investment property	**–**	**–**	**–**	**–**	**–**	**7,523**	**–**	**7,523**
Leasehold land and land use rights	**–**	**–**	**–**	**–**	**–**	**273,841**	**–**	**273,841**
Deferred income tax assets	**–**	**–**	**–**	**–**	**70,177**	**–**	**–**	**70,177**
Other assets	**4,943**	**317,472**	**11,175**	**29,389**	**459,574**	**–**	**–**	**822,553**
Total assets	**5,169,952**	**33,304,029**	**14,659,053**	**11,040,954**	**26,195,350**	**15,644,002**	**944,405**	**106,957,745**
Liabilities								
Deposits and balances from banks	**574,347**	**2,297,145**	**23,197**	**1,183,318**	**–**	**–**	**–**	**4,078,007**
Derivative financial instruments	**–**	**25,165**	**4,211**	**391,850**	**13,654**	**–**	**–**	**434,880**
Deposits from customers	**26,211,470**	**39,118,159**	**11,785,419**	**3,738,818**	**7,276**	**–**	**–**	**80,861,142**
Certificates of deposit issued	**–**	**–**	**1,596**	**1,250,000**	**–**	**–**	**–**	**1,251,596**
Other liabilities	**49,095**	**5,097,729**	**49,298**	**220,422**	**–**	**–**	**–**	**5,416,544**
Provisions	**–**	**95,928**	**7,069**	**24,361**	**–**	**–**	**–**	**127,358**
Current income tax liabilities	**–**	**–**	**–**	**38,042**	**–**	**–**	**–**	**38,042**
Total liabilities	**26,834,912**	**46,634,126**	**11,870,790**	**6,846,811**	**20,930**	**–**	**–**	**92,207,569**
Net liquidity gap	**(21,664,960)**	**(13,330,097)**	**2,788,263**	**4,194,143**	**26,174,420**	**15,644,002**	**944,405**	**14,750,176**

3 Financial risk management (Continued)

3.3 Liquidity risk (Continued)

3.3.2 Maturity analysis (Continued)

The Bank

	Repayable on demand HK$'000	Up to 1 month HK$'000	1-3 months HK$'000	3-12 months HK$'000	1-5 years HK$'000	Over 5 years HK$'000	Indefinite HK$'000	Total HK$'000
At 31st December 2006								
Assets								
Cash and balances with banks	897,970	22,635,816	–	–	–	–	–	23,533,786
Placements with and loans and advances to banks	–	–	6,953,178	3,546,717	83,581	–	–	10,583,476
Trading assets	–	469	3,354	5,676	56,205	71,063	111,317	248,084
Derivative financial instruments	–	2,617	8,651	12,152	542	–	–	23,962
Financial assets designated at fair value	–	–	–	1,861	–	401,435	–	403,296
Loans and advances to customers	3,810,887	3,420,574	3,707,811	3,975,991	12,514,958	10,880,927	–	38,311,148
Investment securities:	–	–	–	–	–	–	–	–
– Available-for-sale	–	267,259	421,701	1,194,258	9,502,179	2,273,732	538,854	14,197,983
– Held-to-maturity	–	124,123	248,339	227,395	831,098	–	–	1,430,955
Investments in jointly controlled entities	–	–	–	–	–	–	113,300	113,300
Investments in and loans to subsidiary companies	(170,594)	(3,369)	66,285	75,309	2,345,510	64,434	51,055	2,428,630
Property and equipment	–	–	–	–	123,892	250,587	19,049	393,528
Investment property	–	–	–	–	–	7,721	–	7,721
Leasehold land and land use rights	–	–	–	–	–	278,661	–	278,661
Deferred income tax assets	–	–	–	–	71,915	–	–	71,915
Other assets	1,972	62,082	23,662	366,853	486,019	–	13,434	954,022
Total assets	4,540,235	26,509,571	11,432,981	9,406,212	26,015,899	14,228,560	847,009	92,980,467
Liabilities								
Deposits and balances from banks	864,556	1,435,999	439,554	25,269	1,000,000	–	–	3,765,378
Derivative financial instruments	–	1,793	5,090	10,901	2,069	–	–	19,853
Deposits from customers	23,902,697	35,117,488	10,139,779	3,050,846	26,287	–	–	72,237,097
Certificates of deposit issued	–	479	5,455	1,850,000	1,250,000	–	–	3,105,934
Other liabilities	68,752	490,524	49,116	219,647	–	–	–	828,039
Provisions	–	91,727	–	–	–	–	–	91,727
Current income tax liabilities	–	17,773	–	–	1,087	–	–	18,860
Total liabilities	24,836,005	37,155,783	10,638,994	5,156,663	2,279,443	–	–	80,066,888
Net liquidity gap	(20,295,770)	(10,646,212)	793,987	4,249,549	23,736,456	14,228,560	847,009	12,913,579

3.3.3 Funding approach

Sources of liquidity are regularly reviewed by management to maintain a wide diversification by currency, geography, provider, product and term.

3 Financial risk management (Continued)

3.3 Liquidity risk (Continued)

3.3.4 Undiscounted cash flows by contractual maturities

The table below presents the cash flows payable by the Group under non-derivative financial liabilities, derivative financial liabilities that will be settled on a net basis and derivative financial instruments that will be settled on gross basis by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash inflows.

The Group's derivatives that will be settled on a net basis include interest rate swaps.

The Group's derivatives that will be settled on a gross basis include currency forward and stock accumulator forward.

The Group

	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$'000	Total HK$'000
At 31st December 2007						
Non-derivative cash flow						
Liabilities						
Deposits and balances from banks	**2,872,892**	**33,252**	**1,203,410**	**–**	**–**	**4,109,554**
Deposits from customers	**65,436,498**	**11,876,056**	**3,835,027**	**8,383**	**–**	**81,155,964**
Certificates of deposit issued	**–**	**12,322**	**1,270,957**	**–**	**–**	**1,283,279**
Other liabilities	**6,068,200**	**49,380**	**220,791**	**–**	**–**	**6,338,371**
Provisions	**96,495**	**7,069**	**24,361**	**–**	**135**	**128,060**
Current income tax liabilities	**–**	**–**	**39,231**	**–**	**–**	**39,231**
Deferred income tax liabilities	**–**	**–**	**–**	**92**	**–**	**92**
Total liabilities (contractual maturity dates)	**74,474,085**	**11,978,079**	**6,593,777**	**8,475**	**135**	**93,054,551**
Derivative cash flow						
Derivative financial instruments settled on net basis	**(2,218)**	**(2,991)**	**6,667**	**4,218**	**–**	**5,676**
Derivative financial instruments settled on a gross basis						
Total outflow	**1,636,772**	**1,377,604**	**4,881,279**	**–**	**–**	**7,895,655**
Total inflow	**(1,643,694)**	**(1,379,337)**	**(4,891,949)**	**–**	**–**	**(7,914,980)**
	(6,922)	**(1,733)**	**(10,670)**	**–**	**–**	**(19,325)**
At 31st December 2006						
Non-derivative cash flow						
Liabilities						
Deposits and balances from banks	2,302,689	450,806	50,387	1,020,372	–	3,824,254
Deposits from customers	59,121,341	10,222,527	3,126,729	28,812	–	72,499,409
Certificates of deposit issued	2,590	29,514	1,945,132	1,285,584	–	3,262,820
Other liabilities	1,217,549	49,190	219,981	–	–	1,486,720
Provisions	–	92,569	–	–	160	92,729
Current income tax liabilities	17,773	–	623	1,087	–	19,483
Deferred income tax liabilities	–	–	–	67	–	67
Total liabilities (contractual maturity dates)	62,661,942	10,844,606	5,342,852	2,335,922	160	81,185,482
Derivative cash flow						
Derivative financial instruments settled on net basis	(2,298)	(3,126)	2,865	(9,309)	–	(11,868)
Derivative financial instruments settled on a gross basis						
Total outflow	352,754	1,421,560	3,689,024	10,143	–	5,473,481
Total inflow	(356,431)	(1,430,468)	(3,694,970)	(10,143)	–	(5,492,012)
	(3,677)	(8,908)	(5,946)	–	–	(18,531)

3 Financial risk management (Continued)

3.3 Liquidity risk (Continued)

3.3.4 Undiscounted cash flows by contractual maturities (Continued)

The Bank

	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$'000	Total HK$'000
At 31st December 2007						
Non-derivative cash flow						
Liabilities						
Deposits and balances from banks	**2,872,892**	**33,252**	**1,203,410**	**–**	**–**	**4,109,554**
Deposits from customers	**65,436,498**	**11,876,056**	**3,835,027**	**8,383**	**–**	**81,155,964**
Certificates of deposit issued	**–**	**12,322**	**1,270,957**	**–**	**–**	**1,283,279**
Other liabilities	**5,146,824**	**49,298**	**220,422**	**–**	**–**	**5,416,544**
Provisions	**95,928**	**7,069**	**24,361**	**–**	**–**	**127,358**
Current income tax liabilities	**–**	**–**	**38,042**	**–**	**–**	**38,042**
Total liabilities (contractual maturity dates)	**73,552,142**	**11,977,997**	**6,592,219**	**8,383**	**–**	**92,130,741**
Derivative cash flow						
Derivative financial instruments settled on net basis	**(2,218)**	**(2,991)**	**6,667**	**4,218**	**–**	**5,676**
Derivative financial instruments settled on a gross basis						
Total outflow	**1,636,772**	**1,377,604**	**4,881,279**	**–**	**–**	**7,895,655**
Total inflow	**(1,643,694)**	**(1,379,337)**	**(4,891,949)**	**–**	**–**	**(7,914,980)**
	(6,922)	**(1,733)**	**(10,670)**	**–**	**–**	**(19,325)**
At 31st December 2006						
Non-derivative cash flow						
Liabilities						
Deposits and balances from banks	2,302,689	450,806	50,387	1,020,372	–	3,824,254
Deposits from customers	59,121,341	10,222,527	3,126,729	28,812	–	72,499,409
Certificates of deposit issued	2,590	29,514	1,945,132	1,285,584	–	3,262,820
Other liabilities	559,276	49,116	219,647	–	–	828,039
Provisions	91,727	–	–	–	–	91,727
Current income tax liabilities	17,773	–	–	1,087	–	18,860
Total liabilities (contractual maturity dates)	62,095,396	10,751,963	5,341,895	2,335,855	–	80,525,109
Derivative cash flow						
Derivative financial instruments settled on net basis	(2,298)	(3,126)	2,865	(9,309)	–	(11,868)
Derivative financial instruments settled on a gross basis						
Total outflow	352,754	1,421,560	3,689,024	10,143	–	5,473,481
Total inflow	(356,431)	(1,430,468)	(3,694,970)	(10,143)	–	(5,492,012)
	(3,677)	(8,908)	(5,946)	–	–	(18,531)

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, central bank balances, items in the course of collection and treasury bills; loans and advances to banks; and loans and advances to customers. In addition, debt securities and treasury bills have been pledged to secure liabilities. The Group would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources such as asset-backed markets.

3 Financial risk management (Continued)

3.3 Liquidity risk (Continued)

3.3.5 Contingent liabilities and commitments

	No later than 1 year HK$'000	1-5 years HK$'000	Over 5 years HK$'000	Total HK$'000
The Group				
At 31st December 2007				
Loan and other commitments	**35,003,471**	**2,566,464**	**263,117**	**37,833,052**
Guarantees, acceptances and other financial facilities				
– Acceptances	**638,738**	**–**	**–**	**638,738**
– Guarantees and standby letters of credit	**1,397,699**	**186,185**	**3,043**	**1,586,927**
– Documentary and commercial letters of credit	**2,994,598**	**–**	**–**	**2,994,598**
Operating lease commitments	**38,252**	**55,426**	**7,660**	**101,338**
Capital commitments	**42,055**	**–**	**–**	**42,055**
Total	**40,114,813**	**2,808,075**	**273,820**	**43,196,708**
The Bank				
At 31st December 2007				
Loan and other commitments	**35,003,471**	**2,566,464**	**263,117**	**37,833,052**
Guarantees, acceptances and other financial facilities				
– Acceptances	**638,738**	**–**	**–**	**638,738**
– Guarantees and standby letters of credit	**1,397,699**	**186,185**	**3,043**	**1,586,927**
– Documentary and commercial letters of credit	**2,994,598**	**–**	**–**	**2,994,598**
Operating lease commitments	**40,588**	**63,993**	**7,660**	**112,241**
Capital commitments	**48,716**	**–**	**–**	**48,716**
Total	**40,123,810**	**2,816,642**	**273,820**	**43,214,272**

	No later than 1 year HK$'000	1-5 years HK$'000	Over 5 years HK$'000	Total HK$'000
The Group				
At 31st December 2006				
Loan and other commitments	24,736,130	1,388,360	142,697	26,267,187
Guarantees, acceptances and other financial facilities				
– Acceptances	760,347	253	–	760,600
– Guarantees and standby letters of credit	1,328,574	463,121	1,412	1,793,107
– Documentary and commercial letters of credit	3,463,972	–	–	3,463,972
Operating lease commitments	36,952	38,421	8,392	83,765
Capital commitments	16,254	–	–	16,254
Total	30,342,229	1,890,155	152,501	32,384,885
The Bank				
At 31st December 2006				
Loan and other commitments	24,736,130	1,388,360	142,697	26,267,187
Guarantees, acceptances and other financial facilities				
– Acceptances	760,347	253	–	760,600
– Guarantees and standby letters of credit	1,328,574	463,121	1,412	1,793,107
– Documentary and commercial letters of credit	3,463,972	–	–	3,463,972
Operating lease commitments	39,119	47,588	9,920	96,627
Capital commitments	18,517	–	–	18,517
Total	30,346,659	1,899,322	154,029	32,400,010

(a) Loan and other commitments
The dates of the contractual amounts of the Group's off-balance sheet financial instruments (Note 36(c)) that commit it to extend credit to customers and other facilities, are summarised in the table above.

(b) Financial guarantees and other financial facilities
Financial guarantees (Note 36(c)), are also included above based on the conditions existing at the reporting date as to what contractual payments are required.

(c) Operating lease commitments
Where a group company is the lessee, the future minimum lease payments under non-cancellable operating leases, as disclosed in Note 36(b), are summarised in the table above.

(d) Capital commitments
Capital commitments for the acquisition of buildings and equipment (Note 36(a)) are summarised in the table above.

3 Financial risk management (Continued)

3.4 Fair value of financial assets and liabilities

(a) Financial instruments measured at fair value using a valuation technique
The total amount of the change in fair value estimated using a valuation technique that was recognised in the profit and loss account during the year is a loss of HK$10,555,000 (2006: profit of HK$3,375,000).

(b) Financial instruments not measured at fair value
The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at their fair value.

The Group

	Carrying value		Fair value	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Financial assets				
Placements with and loans and advances to banks	**12,056,719**	10,583,476	**12,056,719**	10,583,476
Loans and advances to customers:				
Loans to individuals:				
– Overdrafts	**477,758**	352,043	**477,758**	352,043
– Credit cards	**325,655**	382,126	**325,655**	382,126
– Term loans and others	**2,877,357**	3,053,106	**2,877,357**	3,053,106
– Mortgages	**5,593,506**	5,143,811	**5,593,506**	5,143,811
Loans to corporate entities:				
– Large corporate customers and others	**31,400,267**	24,206,107	**31,400,267**	24,206,107
– SMEs	**5,256,744**	5,173,955	**5,256,744**	5,173,955
Investment securities – Held-to-maturity	**3,112,359**	3,382,442	**3,152,546**	3,393,428
Financial liabilities				
Deposits and balances from banks	**4,078,007**	3,765,378	**4,078,007**	3,765,378
Deposits from customers	**80,861,142**	72,237,097	**80,861,142**	72,237,097
Certificates of deposit issued	**1,251,596**	3,105,934	**1,252,586**	3,106,656

The Bank

	Carrying value		Fair value	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Financial assets				
Placements with and loans and advances to banks	**12,056,719**	10,583,476	**12,056,719**	10,583,476
Loans and advances to customers:				
Loans to individuals:				
– Overdrafts	**477,758**	352,043	**477,758**	352,043
– Credit cards	**325,655**	382,126	**325,655**	382,126
– Term loans and others	**2,877,357**	3,053,106	**2,877,357**	3,053,106
– Mortgages	**5,593,506**	5,143,811	**5,593,506**	5,143,811
Loans to corporate entities:				
– Large corporate customers and others	**31,400,267**	24,206,107	**31,400,267**	24,206,107
– SMEs	**5,256,744**	5,173,955	**5,256,744**	5,173,955
Investment securities – Held-to-maturity	**1,377,025**	1,430,955	**1,369,519**	1,413,780
Financial liabilities				
Deposits and balances from banks	**4,078,007**	3,765,378	**4,078,007**	3,765,378
Deposits from customers	**80,861,142**	72,237,097	**80,861,142**	72,237,097
Certificates of deposit issued	**1,251,596**	3,105,934	**1,258,586**	3,106,656

3 Financial risk management (Continued)

3.4 Fair value of financial assets and liabilities (Continued)

(i) Placement with and loans and advances to banks
Placement with and loans and advances to banks includes inter-bank placements. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity. Since these placements mature within twelve months, the carrying amount at balance sheet approximates the fair value. The loans to a bank bear interest at a floating rate, the Group has assessed its fair value, after taking into account the relevant market interest rates and noted that its carrying amount at balance sheet approximates the fair value.

(ii) Loans and advances to customers
Loans and advances are net of provisions for impairment. Substantially all the loans and advances to customers are on floating rate term, bear interest at prevailing market interest rates and their carrying value approximates fair value.

(iii) Investment securities
Investment securities include only interest-bearing assets held to maturity; assets classified as available-for-sale are measured at fair value. Fair value for held-to-maturity assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

(iv) Deposits and balances from banks and deposits from customers
The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. Hence, the carrying amount at balance sheet approximates their fair value.

The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity. Since most of these balances mature within twelve months, the carrying amount at balance sheet approximates their fair value.

(v) Certificates of deposit issued
The aggregate fair values are calculated based on quoted market prices.

3.5 Capital management

The Group's policy is to maintain a strong capital base to support the development of the Group's business and to ensure compliance with the statutory capital adequacy ratio requirement, a requirement used to assess the capital adequacy of banks. Capital is allocated to the various activities of the Group depending on the risk taken by each business division. Where the subsidiaries or branches are directly regulated by other regulators, they are required to maintain capital according to the rules of those regulators.

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements under the Banking (Capital) Rules of the Banking Ordinance;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To support the Group's stability and growth;
- To allocate capital in an efficient and risk based approach to optimise risk adjusted return to the shareholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Group's management, employing techniques based on the Banking (Capital) Rules. The required information is filed with the Hong Kong Monetary Authority ("HKMA") on a quarterly basis.

The HKMA requires each bank or banking group to maintain a ratio of total regulatory capital to the risk-weighted asset (the capital adequacy ratio) at or above the minimum of 8%. Subsidiaries of the Group are also subject to statutory capital requirements from other regulatory authorities, such as the Securities and Futures Commission.

3 Financial risk management (Continued)

3.5 Capital management (Continued)

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the ratios and the composition of regulatory capital of the Group for the years ended 31st December. During those two years, the individual entities within the Group and the Group complied with all of the externally imposed capital requirements by the HKMA.

	2007	2006
Capital adequacy ratio	**20%**	22%
Core capital ratio	**20%**	23%

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

The Group

	2007 **HK$'000**	2006 HK$'000
Core capital:		
Paid up ordinary share capital	**2,000,000**	2,000,000
Reserves	**10,227,224**	9,069,417
Profit and loss account	**1,056,486**	1,142,835
Less: net deferred tax assets	**(70,177)**	–
	13,213,533	12,212,252
Other deductions from core capital	**(382,490)**	–
Core capital after deductions	**12,831,043**	12,212,252
Supplementary capital:		
Collective impairment allowances for loans and advances	**132,874**	119,019
Regulatory reserve	**262,370**	262,370
Revaluation reserves for available-for-sale investments	**14,538**	(83,127)
Unrealised fair value gain for securities designated at fair value	**24,951**	–
	434,733	298,262
Other deductions from supplementary capital	**(382,490)**	–
Supplementary capital after deductions	**52,243**	298,262
Total deduction from capital base	**–**	(606,563)
Total capital base	**12,883,286**	11,903,951

The calculation of the capital base as at 31st December 2007 above is based on the Banking (Capital) Rules effective from 1st January 2007. The calculation of the capital base as at 31st December 2006 was based on Third Schedule to the Banking Ordinance. The comparatives of the components of the core capital and supplementary capital were not restated on the ground that different approaches were used to calculate its regulatory capital in years ended 31st December 2007 and 2006.

3.6 Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It is inherent in all material products, activities, processes and systems. The Operational Risk Management Committee oversees the Group's operational risk to ensure the operations are in accordance with the controls and procedures laid down in the operational risk management policy approved by the Directors. A Business Continuity Plan is established to ensure the Group's ability to operate on an ongoing basis and limit losses in the event of severe business disruption, particularly where the Group's physical, telecommunication, or information technology infrastructures have been damaged or made inaccessible.

4 Segmental analysis

(a) By business segment

The Group is engaged predominantly in banking and related financial activities. It comprises retail and corporate banking, bills, treasury and other classes of business.

Retail banking - incorporating private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages; and

Corporate banking - incorporating direct debit facilities, current accounts, deposits, overdrafts, loans and other credit facilities.

The "Others" business mainly comprises remittance, share dealing, provision of trustee, wealth management and insurance agency services.

For the purpose of class of business analysis, the allocation of revenue, besides the direct revenue generated by the business, also includes the benefits of funding resources derived from the other businesses by way of internal fund transfer pricing mechanisms. Cost allocation is based on the direct cost incurred by the class of business and internal allocation of management overheads. Asset allocation is based on the assets directly attributable to the class of business and internal allocation of assets.

Segment assets comprise operating assets, being the majority of the balance sheet.

2007

The Group

	Retail and corporate banking HK$'000	Bills HK$'000	Treasury HK$'000	Others HK$'000	Total HK$'000
Net interest income	1,479,006	126,224	430,477	–	2,035,707
Net fee and commission income	131,475	170,279	–	762,420	1,064,174
Net trading income	–	–	182,743	176,938	359,681
Profit before taxation	1,118,463	199,004	515,685	774,889	2,608,041
Segment assets	42,598,089	4,518,801	59,236,714	1,671,804	108,025,408
Other segment item					
Impairment losses on loans and advances to customers	49,953	46,753	–	–	96,706

4 Segmental analysis (Continued)

(a) By business segment (Continued)

2006

The Group

	Retail and corporate banking HK$'000	Bills HK$'000	Treasury HK$'000	Others HK$'000	Total HK$'000
Net interest income	1,446,396	129,160	273,288	–	1,848,844
Net fee and commission income	121,083	184,154	–	397,662	702,899
Net trading income	–	–	165,581	–	165,581
Profit before taxation	1,118,966	250,746	351,561	288,942	2,010,215
Segment assets	34,897,862	4,559,911	53,296,589	1,006,114	93,760,476
Other segment item Impairment losses on loans and advances to customers	23,110	11,464	–	–	34,574

(b) By geographical segment

The Group

	Total assets HK$'000	**Total liabilities HK$'000**	**Contingent liabilities and commitments HK$'000**	**Total operating income (Net of interest expenses) HK$'000**	**Profit before taxation HK$'000**	**Capital expenditure HK$'000**
At 31st December 2007						
Hong Kong & PRC	**94,958,739**	**81,049,770**	**40,649,665**	**3,262,699**	**2,392,229**	**28,552**
Europe	**5,267,035**	**5,267,135**	**67,154**	**27,308**	**8,683**	**174**
America	**7,799,634**	**6,814,474**	**2,336,496**	**277,152**	**207,129**	**324**
Total	**108,025,408**	**93,131,379**	**43,053,315**	**3,567,159**	**2,608,041**	**29,050**

	Total assets HK$'000	Total liabilities HK$'000	Contingent liabilities and commitments HK$'000	Total operating income (Net of interest expenses) HK$'000	Profit before taxation HK$'000	Capital expenditure HK$'000
At 31st December 2006						
Hong Kong & PRC	82,349,454	70,154,765	29,599,793	2,567,087	1,811,322	67,876
Europe	5,060,474	5,060,254	175,041	20,203	4,190	1,089
America	6,350,548	5,512,242	2,510,032	249,222	194,703	317
Total	93,760,476	80,727,261	32,284,866	2,836,512	2,010,215	69,282

5 Net interest income

Interest income

	The Group		The Bank	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and balances with banks	**1,836,791**	1,355,235	**1,836,791**	1,355,235
Investment securities				
– interest income on listed investments	**338,258**	353,690	**295,260**	295,541
– interest income on unlisted investments	**437,579**	375,344	**382,120**	334,940
Loans and advances				
– to bank	**4,843**	4,526	**4,843**	4,526
– to customers	**2,652,750**	2,421,823	**2,654,822**	2,423,175
Others	**46,915**	55,319	**46,915**	55,319
	5,317,136	4,565,937	**5,220,751**	4,468,736

Interest expense

	The Group		The Bank	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deposits and balances from bank	**244,542**	193,539	**246,067**	194,967
Deposits from customers	**2,888,631**	2,363,100	**2,893,250**	2,368,903
Certificates of deposit issued	**135,931**	139,619	**135,931**	139,619
Others	**12,325**	20,835	**12,325**	20,751
	3,281,429	2,717,093	**3,287,573**	2,724,240

Included within interest income				
Interest income accrued on impaired financial assets	**29,136**	30,383	**29,136**	30,383

The interest income and interest expense for financial assets and financial liabilities are not at fair value through profit or loss respectively.

6 Net fee and commission income

Fee and commission income

	The Group		The Bank	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Commissions from bills	**166,017**	179,678	**166,017**	179,678
Nominees, custodian and securities brokerage commissions	**474,791**	209,059	**418,607**	185,226
Commissions from wealth management products	**217,464**	111,551	**217,464**	111,550
Commissions from remittance	**56,310**	54,819	**56,310**	54,819
Facility fees	**57,178**	57,033	**57,178**	57,033
Fees from credit cards	**44,024**	42,085	**44,024**	42,085
Commissions from retail banking	**52,909**	42,972	**48,705**	39,955
Commissions from insurance	**34,005**	33,205	**29,382**	29,353
Other fees	**4,244**	2,103	**4,244**	2,094
	1,106,942	732,505	**1,041,931**	701,793

6 Net fee and commission income (Continued)

Fee and commission expense

	The Group		The Bank	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Commissions on bills	**2,772**	2,674	**2,772**	2,674
Nominees, custodian and securities brokerage commissions paid	**20,440**	10,073	**11,224**	6,166
Commissions on retail banking	**19,240**	16,524	**17,805**	15,903
Fees on credit cards	**262**	264	**262**	264
Other fees paid	**54**	71	**54**	71
	42,768	29,606	**32,117**	25,078
Of which :				
Net fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value				
– fee income	**271,463**	280,899	**271,463**	280,890
– fee expense	**3,034**	2,938	**3,034**	2,938
Net fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers				
– fee income	**15,229**	11,112	**14,721**	10,669

The Group provides custody, trustee and advisory services to third parties. Those assets that are held in a fiduciary capacity are not included in these financial statements.

7 Dividend income

	The Group		The Bank	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Available-for-sale investments				
– listed investments	**3,748**	3,211	**3,748**	3,211
– unlisted investments	**13,649**	16,188	**13,649**	16,188
	17,397	19,399	**17,397**	19,399
Jointly controlled entities				
– unlisted investments	**–**	–	**24,080**	1,830
Subsidiary companies				
– unlisted investments	**–**	–	**141,136**	100,554
	17,397	19,399	**182,613**	121,783

8 Net trading income

	The Group		The Bank	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Foreign exchange	**152,417**	124,325	**152,405**	124,313
Interest rate instruments	**11,852**	8,340	**11,852**	8,340
Equities	**195,412**	32,916	**195,412**	32,916
	359,681	165,581	**359,669**	165,569

8 Net trading income (Continued)

"Foreign exchange" net trading income includes gains and losses from spot and forward contracts, swaps and translated foreign currency assets and liabilities. "Interest rate instruments" includes the results of making markets in instruments in government securities, corporate debt securities, money market instruments and interest rate swaps. "Equities" trading income includes the results of equity securities in overseas markets and equity derivatives such as stock accumulator forward contracts being conducted principally in Hong Kong.

9 Other operating income

	The Group		The Bank	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Gross rental income from an investment property	**–**	–	**831**	–
Others	**74,186**	78,832	**110,489**	94,363
	74,186	78,832	**111,320**	94,363

10 Operating expenses

	The Group		The Bank	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Auditors' remuneration (Note a)	**6,883**	6,086	**6,640**	5,699
Advertising costs	**12,503**	6,610	**12,441**	6,585
Amortisation of interests in leasehold land (Note 26)	**4,820**	4,823	**4,820**	4,823
Depreciation expenses (Note 24 and 25)	**50,471**	58,435	**58,180**	64,621
Employee benefit expenses				
Wages and salaries and other costs (Note b)	**640,198**	530,861	**626,500**	516,727
Pension costs – defined contribution schemes	**26,573**	26,029	**25,948**	25,454
Pension costs – defined benefit schemes	**134**	147	**134**	147
Premises and equipment expense, excluding depreciation				
Rental of premises	**41,706**	39,474	**44,003**	40,940
Building expenses	**12,257**	13,219	**12,257**	13,219
Building management fee	**5,517**	5,333	**5,283**	5,184
Other operating expenses				
Computer rental and licence	**9,600**	7,942	**8,885**	7,434
Credit card business promotion	**9,517**	8,874	**9,517**	8,874
Legal and consultancy	**9,885**	4,733	**9,744**	5,013
Postage	**14,916**	14,308	**14,860**	14,275
Printing and stationery	**8,506**	7,895	**8,452**	7,853
Repair and maintenance	**17,299**	15,491	**19,984**	17,411
Telegram and telephone	**22,111**	21,683	**22,026**	21,601
Travelling and transportation	**4,232**	4,328	**4,096**	4,190
Water, heat and light	**13,428**	13,190	**13,197**	12,980
Others	**62,824**	52,434	**59,760**	49,400
	973,380	841,895	**966,727**	832,430

(Note a) The amounts of auditors' remuneration comprised of audit fee for Hong Kong office of HK$3,677,000 (2006: HK$3,347,000) and that for overseas branches of HK$2,963,000 (2006: HK$2,352,000) together with HK$243,000 (2006: HK$387,000) for subsidiary companies.

(Note b) Employee benefit expense includes directors' emoluments (Note 11). The average number of persons employed by the Group during the year was 1,788 (2006: 1,761).

11 Directors' emoluments

	The Group and the Bank	
	2007	2006
	HK$'000	HK$'000
Fees	**1,460**	1,630
Basic salaries, allowances and bonus	**21,491**	27,267
Contributions to pension schemes	**811**	797
Compensation for loss of office	**60,902**	–
	84,664	29,694

12 Impairment losses on loans and advances to customers

	The Group		The Bank	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade bills	**19**	(1,665)	**19**	(1,665)
Loans and advances to customers	**96,687**	36,239	**96,687**	36,444
	96,706	34,574	**96,706**	34,779
Net charge/(reversal) of impairment losses on loans and advances to customers				
– Individually assessed (Note 20)	**83,173**	55,488	**83,173**	55,601
– Collectively assessed (Note 20)	**13,533**	(20,914)	**13,533**	(20,822)
	96,706	34,574	**96,706**	34,779
Of which				
– new allowances (including any amount directly written off in the year)	**102,694**	61,716	**102,694**	61,716
– releases	**(5,988)**	(27,142)	**(5,988)**	(26,937)
Net charge to profit and loss account	**96,706**	34,574	**96,706**	34,779

13 Income tax expense

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	The Group		The Bank	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current taxation:				
– Hong Kong profits tax	**344,801**	277,651	**343,028**	276,435
– Overseas taxation	**71,774**	65,558	**71,550**	65,558
– Over provisions in prior years	**(1,325)**	(1,224)	**(1,325)**	(1,224)
Deferred income taxation:				
– Hong Kong deferred tax	**(6,491)**	6,867	**(6,466)**	6,889
– Overseas deferred tax	**(1,122)**	(1,242)	**(1,122)**	(1,242)
	407,637	347,610	**405,665**	346,416

13 Income tax expense (Continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rates of the countries in which the Group operates as follows:

	The Group		The Bank	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Profit before taxation	**2,608,041**	2,010,215	**2,586,525**	1,994,551
Calculated at a taxation rate of 17.5% (2006:17.5%)	**456,407**	351,788	**452,642**	349,046
Effect of different taxation rates in other countries	**37,754**	29,418	**37,754**	29,418
Income not subject to taxation	**(66,745)**	(52,244)	**(64,944)**	(51,950)
Expenses not deductible for taxation purposes	**23,303**	24,680	**23,295**	25,934
Net effect of investments in partnerships (Note)	**(41,757)**	(4,808)	**(41,757)**	(4,808)
Over provisions in prior years	**(1,325)**	(1,224)	**(1,325)**	(1,224)
Taxation charge	**407,637**	347,610	**405,665**	346,416

Note:
The Bank has entered into aircraft leverage lease arrangement as well as coupon bond transaction, involving special purpose partnerships in which the Bank is the general partner. As of 31st December 2007, the unamortised carrying cost of the investments in such partnerships, which was included in "Other assets", amounted to HK$712,864,000 (2006: HK$845,766,000). The Bank's investments in these special purpose partnerships are amortised over the life of the individual partnerships.

14 Dividend

The dividends paid during the year ended 2007 and 2006 were HK$506,000,000 (HK$25.30 per share) and HK$460,000,000 (HK$23 per share). A dividend in respect of 2007 of HK$55 per share, amounting to a total dividend of HK$1,100,000,000 is to be proposed at the Annual General Meeting on 22nd April 2008. These financial statements do not reflect this dividend payable.

	2007 HK$'000	2006 HK$'000
Proposed final dividend of HK$55 (2006: HK$25.30) per ordinary share	**1,100,000**	506,000

15 Cash and balances with banks

	The Group		The Bank	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Cash in hand	**243,717**	225,004	**243,710**	224,998
Balances with central banks and Hong Kong Monetary Authority	**62,208**	9,307	**62,208**	9,307
Balances with banks	**29,270,386**	23,299,481	**29,270,386**	23,299,481
	29,576,311	23,533,792	**29,576,304**	23,533,786

As at 31st December 2007, there was HK$1,500,000 (2006: HK$1,500,000) deposited in the name of the Director of Accounting Services Treasury Hong Kong placed by a subsidiary company in the Bank to comply with statutory requirement.

16 Placements with and loans and advances to banks

	The Group and the Bank	
	2007	2006
	HK$'000	HK$'000
Placements with banks maturing between one and twelve months	**11,972,489**	10,499,525
Gross loans and advances to a bank	**84,230**	83,951
	12,056,719	10,583,476

As of 31st December 2007, HK$88,696,000 (2006: HK$86,474,000) was deposited with state banks in the People's Republic of China to comply with the local reserve requirement. No impairment allowance was deemed necessary to be provided against the banks.

17 Trading assets

	The Group and the Bank	
	2007	2006
	HK$'000	HK$'000
Debt securities		
Government bonds	**61,876**	44,029
Other debt securities	**91,184**	92,738
Total debt securities	**153,060**	136,767
Equity securities		
Listed outside Hong Kong	**131,712**	109,044
Unlisted	**–**	2,273
Total equity securities	**131,712**	111,317
Total trading assets	**284,772**	248,084
Market value of listed debt and equity securities	**222,374**	171,759

18 Derivative financial instruments

	Contract amount	The Group and the Bank Fair values	
		Assets	Liabilities
	HK$'000	**HK$'000**	**HK$'000**
At 31st December 2007			
(a) Derivatives held for trading			
Foreign exchange derivatives			
Currency forward exchange contracts	**3,809,121**	**37,531**	**(30,269)**
Equity derivatives			
Stock accumulator forward contracts (Note)	**5,375,847**	**390,903**	**(390,903)**
Total derivative assets/(liabilities) held for trading	**9,184,968**	**428,434**	**(421,172)**
(b) Derivatives not qualified as hedges for accounting purposes but which are managed in conjunction with the financial instruments designated at fair value through profit or loss			
Interest rate derivatives			
Interest rate swaps contracts	**401,695**	**–**	**(13,708)**
Total derivative assets/(liabilities) not qualified as hedges	**401,695**	**–**	**(13,708)**
Total recognised derivative financial assets/(liabilities)	**9,586,663**	**428,434**	**(434,880)**

18 Derivative financial instruments (Continued)

	Contract amount	The Group and the Bank Fair values	
	HK$'000	Assets HK$'000	Liabilities HK$'000
At 31st December 2006			
(a) Derivatives held for trading			
Foreign exchange derivatives			
Currency forward exchange contracts	6,452,342	14,586	(8,918)
Equity derivatives			
Stock accumulator forward contracts (Note)	1,845,014	8,866	(8,866)
Total derivative assets/(liabilities) held for trading	8,297,356	23,452	(17,784)
(b) Derivatives not qualified as hedges for accounting purposes but which are managed in conjunction with the financial instruments designated at fair value through profit or loss			
Interest rate derivatives			
Interest rate swaps contracts	500,413	510	(2,069)
Total derivative assets/(liabilities) not qualified as hedges	500,413	510	(2,069)
Total recognised derivative financial assets/(liabilities)	8,797,769	23,962	(19,853)

Note:
The contract amount as at 31st December 2007 only represents the short position of stock accumulator forward contracts entered with customers. An equivalent amount of long position of stock accumulator forward contracts were entered with counterparties on a back-to-back basis.

	The Group and the Bank Credit risk weighted amount	
	2007 HK$'000	2006 HK$'000
Currency forward exchange contracts	**36,953**	23,326
Interest rate swaps contracts	**513**	1,078
	37,466	24,404

The contract amounts of these instruments indicate the volume of transactions outstanding as at the balance sheet date, they do not represent the amounts at risk.

The credit risk weighted amounts as at 31st December 2007 are the amounts that have been calculated in accordance with the Banking (Capital) Rules of the Banking Ordinance. The calculation of the credit risk weighted amounts as at 31st December 2006 was based on the Third Schedule to the Banking Ordinance. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

The Group did not enter into any bilateral netting arrangements during the year and accordingly the amounts disclosed are shown on a gross basis.

19 Financial assets designated at fair value

	The Group and the Bank	
	2007	2006
	HK$'000	HK$'000
Debt securities (at market value)		
Listed in Hong Kong	**407,171**	403,296

All the financial assets designated at fair value are issued by banks.

20 Loans and advances to customers

(a) Analysis of loans and advances to customers

	The Group and the Bank	
	2007	2006
	HK$'000	HK$'000
Loans and advances to individuals		
– Overdrafts	**479,399**	353,917
– Credit cards	**329,859**	387,062
– Term loans and others	**2,891,490**	3,072,013
– Mortgages	**5,610,105**	5,160,155
Loans and advances to corporate entities		
– Large corporate customers	**31,534,866**	24,292,963
– SMEs	**5,282,431**	5,205,946
Gross loans and advances to customers	**46,128,150**	38,472,056
Less: impairment allowances		
– Individually assessed	**(63,989)**	(41,889)
– Collectively assessed	**(132,874)**	(119,019)
	45,931,287	38,311,148
Gross trade bills and other eligible bills, included within loans and advances to customers	**1,110,855**	1,003,722
Less: impairment allowances on trade bills		
– Individually assessed	**–**	(124)
– Collectively assessed	**(3,126)**	(2,983)
	1,107,729	1,000,615

The Group accepted listed securities at fair value of HK$4,838,455,000 (2006: HK$2,404,060,000) as collateral for shares financing facilities included in "Term loans and others", which it is permitted to sell or re-pledge in the absence of default by the owner of the collateral.

As of 31st December 2007, certain of our branches in the United States have pledged their real estate loans of HK$71,899,000 (2006: HK$72,937,000) to the State of California and with the Comptroller of the Currency in compliance with the regulatory requirements.

20 Loans and advances to customers (Continued)

(b) Reconciliation of allowance account for losses on loans and advances to customers

The Group and the Bank

	Impairment allowances - Individual assessment				
	Overdrafts HK$'000	Credit cards HK$'000	Term loans and others HK$'000	Mortgages HK$'000	Total HK$'000
Movement in impairment allowances on loans and advances to individuals					
Balance at 1st January 2007	778	3,767	10,490	123	15,158
Impairment losses (Note 12)	(124)	6,917	(2,406)	172	4,559
Loans written off as uncollectible	(403)	(9,272)	(1,771)	(1,180)	(12,626)
Recoveries of advances written off in previous years	–	1,814	763	885	3,462
At 31st December 2007	251	3,226	7,076	–	10,553

	Impairment allowances - Individual assessment		
	Large corporate customers and others HK$'000	SMEs HK$'000	Total HK$'000
Movement in impairment allowances on loans and advances to corporate entities			
Balance at 1st January 2007	10,609	16,122	26,731
Impairment losses (Note 12)	69,534	9,080	78,614
Loans written off as uncollectible	(45,675)	(18,850)	(64,525)
Recoveries of advances written off in previous years	8,295	4,321	12,616
At 31st December 2007	42,763	10,673	53,436

	Impairment allowances - Collective assessment				
	Overdrafts HK$'000	Credit cards HK$'000	Term loans and others HK$'000	Mortgages HK$'000	Total HK$'000
Movement in impairment allowances on loans and advances to individuals					
Balance at 1st January 2007	1,096	1,169	8,417	16,221	26,903
Impairment losses (Note 12)	294	(191)	(1,374)	360	(911)
Exchange and other adjustments	–	–	14	18	32
At 31st December 2007	1,390	978	7,057	16,599	26,024

	Impairment allowances - Collective assessment		
	Large corporate customers and others HK$'000	SMEs HK$'000	Total HK$'000
Movement in impairment allowances on loans and advances to corporate entities			
Balance at 1st January 2007	76,247	15,869	92,116
Impairment losses (Note 12)	15,318	(874)	14,444
Exchange and other adjustments	271	19	290
At 31st December 2007	91,836	15,014	106,850

20 Loans and advances to customers (Continued)

(b) Reconciliation of allowance account for losses on loans and advances to customers (Continued)

The Group

	Impairment allowances - Individual assessment				
	Overdrafts HK$'000	Credit cards HK$'000	Term loans and others HK$'000	Mortgages HK$'000	Total HK$'000
Movement in impairment allowances on loans and advances to individuals					
Balance at 1st January 2006	390	9,248	10,368	–	20,006
Impairment losses (Note 12)	636	2,081	(557)	(113)	2,047
Loans written off as uncollectible	(248)	(9,610)	(470)	(892)	(11,220)
Recoveries of advances written off in previous years	–	2,048	1,149	1,128	4,325
At 31st December 2006	778	3,767	10,490	123	15,158

	Impairment allowances - Individual assessment		
	Large corporate customers and others HK$'000	SMEs HK$'000	Total HK$'000
Movement in impairment allowances on loans and advances to corporate entities			
Balance at 1st January 2006	19,957	14,713	34,670
Impairment losses (Note 12)	28,153	25,288	53,441
Loans written off as uncollectible	(62,516)	(23,940)	(86,456)
Recoveries of advances written off in previous years	25,015	61	25,076
At 31st December 2006	10,609	16,122	26,731

	Impairment allowances - Collective assessment				
	Overdrafts HK$'000	Credit cards HK$'000	Term loans and others HK$'000	Mortgages HK$'000	Total HK$'000
Movement in impairment allowances on loans and advances to individuals					
Balance at 1st January 2006	1,228	1,407	9,403	20,770	32,808
Impairment losses (Note 12)	(132)	(238)	(1,010)	(4,604)	(5,984)
Exchange and other adjustments	–	–	24	55	79
At 31st December 2006	1,096	1,169	8,417	16,221	26,903

	Impairment allowances - Collective assessment		
	Large corporate customers and others HK$'000	SMEs HK$'000	Total HK$'000
Movement in impairment allowances on loans and advances to corporate entities			
Balance at 1st January 2006	92,205	13,939	106,144
Impairment losses (Note 12)	(16,807)	1,877	(14,930)
Exchange and other adjustments	849	53	902
At 31st December 2006	76,247	15,869	92,116

20 Loans and advances to customers (Continued)

(b) Reconciliation of allowance account for losses on loans and advances to customers (Continued)

The Bank

	Impairment allowances - Individual assessment				
	Overdrafts HK$'000	Credit cards HK$'000	Term loans and others HK$'000	Mortgages HK$'000	Total HK$'000
Movement in impairment allowances on loans and advances to individuals					
Balance at 1st January 2006	390	9,248	10,368	–	20,006
Impairment losses (Note 12)	636	2,081	(557)	(113)	2,047
Loans written off as uncollectible	(248)	(9,610)	(470)	(892)	(11,220)
Recoveries of advances written off in previous years	–	2,048	1,149	1,128	4,325
At 31st December 2006	778	3,767	10,490	123	15,158

	Impairment allowances - Individual assessment		
	Large corporate customers and others HK$'000	SMEs HK$'000	Total HK$'000
Movement in impairment allowances on loans and advances to corporate entities			
Balance at 1st January 2006	19,957	14,618	34,575
Impairment losses (Note 12)	28,153	25,401	53,554
Loans written off as uncollectible	(62,516)	(23,940)	(86,456)
Recoveries of advances written off in previous years	25,015	43	25,058
At 31st December 2006	10,609	16,122	26,731

	Impairment allowances - Collective assessment				
	Overdrafts HK$'000	Credit cards HK$'000	Term loans and others HK$'000	Mortgages HK$'000	Total HK$'000
Movement in impairment allowances on loans and advances to individuals					
Balance at 1st January 2006	1,228	1,407	9,403	20,770	32,808
Impairment losses (Note 12)	(132)	(238)	(1,010)	(4,604)	(5,984)
Exchange and other adjustments	–	–	24	55	79
At 31st December 2006	1,096	1,169	8,417	16,221	26,903

	Impairment allowances - Collective assessment		
	Large corporate customers and others HK$'000	SMEs HK$'000	Total HK$'000
Movement in impairment allowances on loans and advances to corporate entities			
Balance at 1st January 2006	92,205	13,847	106,052
Impairment losses (Note 12)	(16,807)	1,969	(14,838)
Exchange and other adjustments	849	53	902
At 31st December 2006	76,247	15,869	92,116

21 Available-for-sale investments

	The Group		The Bank	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Debt securities:				
Listed in Hong Kong	**912,107**	903,664	**912,107**	903,664
Listed outside Hong Kong	**3,970,152**	3,726,258	**3,970,152**	3,726,258
Unlisted	**8,082,497**	9,542,161	**7,615,439**	9,031,840
	12,964,756	14,172,083	**12,497,698**	13,661,762
Equity securities:				
Listed in Hong Kong	**84,564**	150,746	**84,564**	150,746
Unlisted	**488,605**	385,475	**488,605**	385,475
	573,169	536,221	**573,169**	536,221
	13,537,925	14,708,304	**13,070,867**	14,197,983
Market value of listed debt and equity securities	**4,966,823**	4,780,668	**4,966,823**	4,780,668
Included within debt securities are:				
Certificates of deposit held	**628,151**	868,259	**628,151**	868,259
Other debt securities	**12,336,605**	13,215,413	**11,869,547**	12,705,092
Government bond	**–**	88,411	**–**	88,411
	12,964,756	14,172,083	**12,497,698**	13,661,762
Available-for-sale investments are analysed by categories of issuers as follows:				
Sovereigns	**–**	88,411	**–**	88,411
Public sector entities	**1,673,584**	2,469,806	**1,673,584**	2,469,806
Banks	**9,534,820**	10,178,453	**9,067,762**	9,668,132
Corporates	**2,329,521**	1,971,634	**2,329,521**	1,971,634
	13,537,925	14,708,304	**13,070,867**	14,197,983

All debt securities have fixed coupons.

21 Available-for-sale investments (Continued)

The movement in available-for-sale investments is summarised as follows :

The Group

	2007 HK$'000	2006 HK$'000
Balance as at 1st January	**14,708,304**	15,017,036
Exchange differences	**192,060**	89,486
Additions	**2,267,776**	3,481,721
Change in fair value (Note 34)	**187,153**	161,437
Amortised cost of securities redeemed and sold during the year	**(3,705,505)**	(3,957,721)
Investment revaluation reserve realised on disposal (Note 34)	**(30,644)**	(10,008)
Amortisation of premium/discount	**(52,940)**	(58,562)
Others	**(28,279)**	(15,085)
Balance as at 31st December	**13,537,925**	14,708,304

The Bank

	2007 HK$'000	2006 HK$'000
Balance as at 1st January	**14,197,983**	14,563,247
Exchange differences	**192,060**	89,485
Additions	**2,107,499**	3,400,865
Change in fair value (Note 34)	**182,131**	154,361
Amortised cost of securities redeemed and sold during the year	**(3,510,505)**	(3,939,721)
Investment revaluation reserve realised on disposal (Note 34)	**(30,922)**	(10,023)
Amortisation of premium/discount	**(39,701)**	(45,211)
Others	**(27,678)**	(15,020)
Balance as at 31st December	**13,070,867**	14,197,983

22 Held-to-maturity investments

	The Group		The Bank	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Debt securities:				
Listed in Hong Kong	**1,024,256**	1,034,788	**–**	–
Listed outside Hong Kong	**1,009,352**	947,689	**1,005,265**	943,638
Unlisted	**1,078,751**	1,399,965	**371,760**	487,317
	3,112,359	3,382,442	**1,377,025**	1,430,955
Market value of listed debt securities	**2,066,019**	1,996,857	**994,358**	932,472
Included within debt securities are:				
Hong Kong Government Exchange Fund Bills	**706,992**	912,648	**–**	–
Treasury bills	**141,516**	85,820	**141,516**	85,820
Other government bonds	**1,142,124**	1,152,585	**117,868**	117,796
Other debt securities	**1,121,727**	1,231,389	**1,117,641**	1,227,339
	3,112,359	3,382,442	**1,377,025**	1,430,955
Held-to-maturity investments are analysed by categories of issuers as follows:				
Sovereigns	**1,990,632**	2,151,053	**259,384**	203,616
Public sector entities	**291,683**	368,834	**291,683**	368,834
Banks	**747,773**	858,505	**747,773**	858,505
Corporates	**82,271**	4,050	**78,185**	–
	3,112,359	3,382,442	**1,377,025**	1,430,955

As of 31st December 2007, certain of the United States branches have pledged held-to-maturity investments amounting to HK$257,213,000 (2006: HK$232,822,000) to the State of California and with the Comptroller of the Currency in compliance with local regulatory requirements.

Listed debt securities at amortised cost of HK$1,023,856,000 of Exchange Fund Notes and unlisted debt securities at amortised cost of HK$706,992,000 of Exchange Fund Bills were pledged to the Hong Kong Monetary Authority as at 31st December 2007 (2006: HK$1,034,391,000 and HK$912,648,000 respectively) to facilitate settlement operations with no related liabilities at 31st December 2007 and 2006.

22 Held-to-maturity investments (Continued)

The movement in held-to-maturity investments is summarised as follows:

The Group

	2007 HK$'000	2006 HK$'000
Balance as at 1st January	**3,382,442**	3,079,206
Additions	**1,399,309**	1,192,029
Disposals (sale and redemption)	**(1,695,620)**	(897,953)
Amortisation of premium/discount	**25,972**	7,865
Exchange differences	**4,546**	3,575
Others	**(4,290)**	(2,280)
Balance as at 31st December	**3,112,359**	3,382,442

The Bank

	2007 HK$'000	2006 HK$'000
Balance as at 1st January	**1,430,955**	1,427,045
Additions	**561,240**	248,105
Disposals (sale and redemption)	**(616,722)**	(248,086)
Amortisation of premium/discount	**1,296**	(938)
Exchange differences	**4,536**	3,575
Others	**(4,280)**	1,254
Balance as at 31st December	**1,377,025**	1,430,955

The Group has not reclassified any financial assets measured at amortised cost, rather than at fair value, during the year (2006: Nil).

23 Investments in and loans to jointly controlled entities and subsidiary companies

(a) Investments in jointly controlled entities

	The Group	
	2007 HK$'000	2006 HK$'000
Beginning of year	**164,774**	136,938
Share of results	**78,058**	32,520
Share of tax	**(4,334)**	(2,854)
Decrease of advances	**(25,733)**	–
Dividends paid	**(24,080)**	(1,830)
Share of net assets	**188,685**	164,774

	The Bank	
	2007 HK$'000	2006 HK$'000
Unlisted shares, at cost	**81,000**	81,000
Amounts due from jointly controlled entities	**6,567**	32,300
	87,567	113,300

23 Investments in and loans to jointly controlled entities and subsidiary companies (Continued)

(a) Investments in jointly controlled entities (Continued)

The following is a list of the jointly controlled entities at 31st December 2007:

Name	Principal activities	Place of incorporation	Particulars of issued share capital	Percentage of ordinary share capital held
Joint Electronic Teller Services Limited	Automatic teller machine data processing services	Hong Kong	100,000 ordinary 'A' shares of HK$100 each and 238 ordinary 'B' shares of HK$100 each	20% of 'A' shares[1]
Bank Consortium Holding Limited	Provision of trustee, administration and custodian services for retirement schemes	Hong Kong	140,000,000 ordinary 'A' shares of HK$1 each and 10,000,000 ordinary 'B' shares of HK$1 each	14.29% of 'A' shares
BC Reinsurance Limited	Reinsurance	Hong Kong	100,000,000 ordinary shares of HK$1 each	21%
Hong Kong Life Insurance Limited	Life insurance and reinsurance	Hong Kong	210,000,000 ordinary shares of HK$1 each	16.67%
i-Tech Solutions Limited	Document processing services	Hong Kong	6,000,000 ordinary shares of HK$1 each	50%

[1] During the year, the Bank has received 2.88% of the dividends paid by the company (2006: 2.88%).

Note: The balances with the jointly controlled entities arising from normal business transactions are included in Note 39.

(b) Investments in and loans to subsidiary companies

	The Bank	
	2007	2006
	HK$'000	HK$'000
Unlisted shares, at cost	**130,093**	51,055
Loans to subsidiary companies	**2,699,467**	2,601,520
Amounts due from subsidiary companies	**831**	34
Amounts due to subsidiary companies	**(641,782)**	(223,979)
	2,188,609	2,428,630

23 Investments in and loans to jointly controlled entities and subsidiary companies (Continued)

(b) Investments in and loans to subsidiary companies (Continued)

Details of the subsidiary companies are as follows:

Name	Principal activities	Place of incorporation	Particulars of issued share capital	Percentage of ordinary share capital held
Shanghai Commercial Bank (Nominees) Limited	Nominee services	Hong Kong	100 ordinary shares of HK$100 each	100%
Shanghai Commercial Bank Trustee Limited	Trustee services	Hong Kong	1,000 ordinary shares of HK$10,000 each	60%
Shacom Futures Limited	Commodities trading	Hong Kong	100,000 ordinary shares of HK$100 each	100%
Shacom Investment Limited	Investment in Exchange Fund Bills and Notes	Hong Kong	10,000 ordinary shares of HK$100 each	100%
Shacom Property Holdings (BVI) Limited	Property holding	British Virgin Islands	2 ordinary shares of US$1 each	100%
Shacom Property (NY) Inc.	Property holding	United States of America	10 ordinary shares of US$1 each	100%
Shacom Property (CA) Inc.	Property holding	United States of America	10 ordinary shares of US$1 each	100%
Shacom Assets Investments Limited	Investment in notes and bonds	Hong Kong	10,000 ordinary shares of HK$1 each	100%
Infinite Financial Solutions Limited	I.T. application services provider	Hong Kong	500,000 ordinary shares of US$1 each	80%
Shacom Insurance Brokers Limited	Insurance broker	Hong Kong	1,000,000 ordinary shares of HK$1 each	100%
Shacom Securities Limited	Securities brokerage services	Hong Kong	1,000,000 ordinary shares of HK$100 each	100%
Hai Kwang Property Management Company Limited	Property management	Hong Kong	2 ordinary shares of HK$1 each	100%

All subsidiary companies are held directly by the Bank.

24 Property and equipment

The Group

	Bank premises HK$'000	Furniture, fittings and equipment HK$'000	Total HK$'000
At 1st January 2006			
Cost	462,354	555,786	1,018,140
Accumulated depreciation	(150,552)	(426,033)	(576,585)
Net book amount	311,802	129,753	441,555
Year ended December 2006			
Opening net book amount	311,802	129,753	441,555
Additions	7,919	33,287	41,206
Disposals	(252)	(1,464)	(1,716)
Depreciation charge (Note 10)	(9,371)	(49,064)	(58,435)
Exchange rate adjustments	4,970	251	5,221
Closing net book amount	315,068	112,763	427,831
At 31st December 2006			
Cost	475,912	566,775	1,042,687
Accumulated depreciation	(160,844)	(454,012)	(614,856)
Net book amount	315,068	112,763	427,831
Year ended December 2007			
Opening net book amount	**315,068**	**112,763**	**427,831**
Additions	**–**	**29,050**	**29,050**
Disposals	**–**	**(584)**	**(584)**
Depreciation charge (Note 10)	**(9,387)**	**(41,084)**	**(50,471)**
Exchange rate adjustments	**962**	**137**	**1,099**
Closing net book amount	**306,643**	**100,282**	**406,925**
At 31st December 2007			
Cost	**477,071**	**589,134**	**1,066,205**
Accumulated depreciation	**(170,428)**	**(488,852)**	**(659,280)**
Net book amount	**306,643**	**100,282**	**406,925**

24 Property and equipment (Continued)

The Bank

	Bank premises HK$'000	Furniture, fittings and equipment HK$'000	Total HK$'000
At 1st January 2006			
Cost	422,922	581,363	1,004,285
Accumulated depreciation	(144,637)	(441,877)	(586,514)
Net book amount	278,285	139,486	417,771
Year ended December 2006			
Opening net book amount	278,285	139,486	417,771
Additions	–	41,332	41,332
Disposals	(252)	(1,330)	(1,582)
Depreciation charge (Note 10)	(8,645)	(55,778)	(64,423)
Exchange rate adjustments	247	183	430
Closing net book amount	269,635	123,893	393,528
At 31st December 2006			
Cost	422,964	600,735	1,023,699
Accumulated depreciation	(153,329)	(476,842)	(630,171)
Net book amount	269,635	123,893	393,528
Year ended December 2007			
Opening net book amount	**269,635**	**123,893**	**393,528**
Additions	**–**	**39,481**	**39,481**
Disposals	**–**	**(476)**	**(476)**
Depreciation charge (Note 10)	**(8,613)**	**(49,369)**	**(57,982)**
Exchange rate adjustments	**228**	**117**	**345**
Closing net book amount	**261,250**	**113,646**	**374,896**
At 31st December 2007			
Cost	**423,249**	**633,759**	**1,057,008**
Accumulated depreciation	**(161,999)**	**(520,113)**	**(682,112)**
Net book amount	**261,250**	**113,646**	**374,896**

25 Investment property

The Bank

	2007 HK$'000	2006 HK$'000
Net book amount at 1st January	**7,721**	–
Additions	**–**	7,919
Depreciation charge (Note 10)	**(198)**	(198)
Net book amount at 31st December	**7,523**	7,721
At 31st December		
Cost	**7,919**	7,919
Accumulated depreciation	**(396)**	(198)
Net book amount	**7,523**	7,721

The investment property was revalued as at 31st December 2007 of a value of HK$13,200,000 by an independent, professionally qualified valuer, Prudential Surveyors International Ltd., on an open market value basis.

The above investment property is depreciated on a straight-line basis over the shorter of the leases or 40 years.

The carrying value of investment property shown above comprises a building situated in Hong Kong, which is held on a long-term lease.

26 Leasehold land and land use rights

The Group's interests in leasehold land and land use rights represent operating leases and their net book value are analysed as follows:

	The Group and the Bank	
	2007 HK$'000	2006 HK$'000
In Hong Kong held on:		
Leases of over 50 years	**99,711**	100,184
Leases of between 10 to 50 years	**174,130**	178,477
	273,841	278,661
Opening	**278,661**	255,666
Additions	**–**	28,076
Disposal	**–**	(258)
Amortisation of prepaid operating lease payment (Note 10)	**(4,820)**	(4,823)
	273,841	278,661

There are interests in freehold land held by the Group and are included as property and equipment (Note 24).

27 Other assets

	The Group		The Bank	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Repossessed assets	**16,635**	18,487	**16,635**	18,487
Accounts receivable and prepayments *	**1,550,908**	1,496,844	**745,028**	873,323
Others	**183,259**	107,460	**60,890**	62,212
	1,750,802	1,622,791	**822,553**	954,022

* As stated in Note 13, there are unamortised carrying cost of investment in special purpose partnerships included in accounts receivable and prepayments.

28 Deposits from customers

	The Group and the Bank 2007		
	Corporate customers	**Individual customers**	**Total**
	HK$'000	**HK$'000**	**HK$'000**
Demand deposits and current accounts	**3,435,917**	**1,947,596**	**5,383,513**
Savings deposits	**7,872,795**	**12,645,855**	**20,518,650**
Time, call and notice deposits	**20,815,663**	**33,751,128**	**54,566,791**
Deposits from Hong Kong Government Exchange Fund	**392,188**	**–**	**392,188**
	32,516,563	**48,344,579**	**80,861,142**

	The Group and the Bank 2006		
	Corporate customers	Individual customers	Total
	HK$'000	HK$'000	HK$'000
Demand deposits and current accounts	3,318,469	1,542,507	4,860,976
Savings deposits	7,244,423	11,466,116	18,710,539
Time, call and notice deposits	17,771,039	30,503,385	48,274,424
Deposits from Hong Kong Government Exchange Fund	391,158	–	391,158
	28,725,089	43,512,008	72,237,097

29 Certificates of deposit issued

	The Group and the Bank	
	2007	2006
	HK$'000	HK$'000
As stated in balance sheet at amortised cost	**1,251,596**	3,105,934

30 Other liabilities

	The Group		The Bank	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Margin deposits	**229,034**	260,495	**229,034**	260,495
Accounts payable and accruals	**5,315,882**	722,348	**4,402,916**	73,266
Others	**793,455**	503,877	**784,594**	494,278
	6,338,371	1,486,720	**5,416,544**	828,039

31 Provisions

	The Group		The Bank	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 1st January	**92,729**	125,442	**91,727**	124,078
Add: additional accruals	**194,907**	145,608	**193,569**	143,793
Less: written back and payments	**(159,576)**	(178,321)	**(157,938)**	(176,144)
At 31st December	**128,060**	92,729	**127,358**	91,727

Majority of the 2007 and 2006 balances represents provision for staff gratuity.

32 Deferred income tax

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax liabilities

	The Group				
	Impairment allowances HK$'000	**Accelerated tax depreciation HK$'000**	**Fair value loss HK$'000**	**Others HK$'000**	**Total HK$'000**
At 1st January 2006	–	(89)	–	–	(89)
Recognised in the profit and loss account	–	22	–	–	22
At 31st December 2006	–	(67)	–	–	(67)
Recognised in the profit and loss account	**–**	**(25)**	**–**	**–**	**(25)**
At 31st December 2007	**–**	**(92)**	**–**	**–**	**(92)**

There were no deferred income tax liabilities for the Bank as at 31st December 2006 and 2007.

32 Deferred income tax (Continued)

Deferred income tax assets

	The Group and the Bank				
	Impairment allowances HK$'000	Accelerated tax depreciation HK$'000	Fair value loss HK$'000	Others HK$'000	Total HK$'000
At 1st January 2006	36,504	(4,590)	50,476	3,764	86,154
Recognised in the profit and loss account	(3,823)	(1,533)	–	(291)	(5,647)
Charged to equity (Note 34)	–	–	(9,400)	–	(9,400)
Reclassification to current income tax liabilities	–	–	–	401	401
Exchange differences	324	5	–	78	407
At 31st December 2006	33,005	(6,118)	41,076	3,952	71,915
Recognised in the profit and loss account	**7,364**	**(47)**	**–**	**271**	**7,588**
Charged to equity (Note 34)	**–**	**–**	**(9,474)**	**–**	**(9,474)**
Exchange differences	**124**	**(2)**	**–**	**26**	**148**
At 31st December 2007	**40,493**	**(6,167)**	**31,602**	**4,249**	**70,177**

The deferred taxation charged to equity during the year is as follows:

	The Group and the Bank	
	2007 HK$'000	2006 HK$'000
Reserves in shareholders' equity – Available-for-sale investment revaluation reserve	**(9,474)**	(9,400)

33 Share capital

	The Group and the Bank	
	2007 HK$'000	2006 HK$'000
Authorised: 30,000,000 shares of HK$100 each	**3,000,000**	3,000,000
Issued and fully paid: 20,000,000 shares of HK$100 each	**2,000,000**	2,000,000

34 Other reserves

The Group

	Regulatory reserve HK$'000	Available-for-sale investment revaluation reserve/ (deficit) HK$'000	General reserve HK$'000	Total HK$'000
Balance at 1st January 2006	262,370	(225,156)	7,245,166	7,282,380
Change in fair value of available-for-sale investments (Note 21)	–	161,437	–	161,437
Realisation on disposal of available-for-sale investments (Note 21)	–	(10,008)	–	(10,008)
Effect of deferred taxation (Note 32)	–	(9,400)	–	(9,400)
Currency translation differences	–	–	9,214	9,214
Balance at 31st December 2006	262,370	(83,127)	7,254,380	7,433,623
Balance at 1st January 2007	**262,370**	**(83,127)**	**7,254,380**	**7,433,623**
Change in fair value of available-for-sale investments (Note 21)	**–**	**187,153**	**–**	**187,153**
Realisation on disposal of available-for-sale investments (Note 21)	**–**	**(30,644)**	**–**	**(30,644)**
Effect of deferred taxation (Note 32)	**–**	**(9,474)**	**–**	**(9,474)**
Currency translation differences	**–**	**–**	**17,182**	**17,182**
Transfer to retained earnings	**–**	**–**	**(5,000)**	**(5,000)**
Balance at 31st December 2007	**262,370**	**63,908**	**7,266,562**	**7,592,840**

The Bank

	Regulatory reserve HK$'000	Available-for-sale investment revaluation reserve/ (deficit) HK$'000	General reserve HK$'000	Total HK$'000
Balance at 1st January 2006	262,370	(217,155)	7,240,156	7,285,371
Change in fair value of available-for-sale investments (Note 21)	–	154,361	–	154,361
Realisation on disposal of available-for-sale investments (Note 21)	–	(10,023)	–	(10,023)
Effect of deferred taxation (Note 32)	–	(9,400)	–	(9,400)
Currency translation differences	–	–	9,252	9,252
Balance at 31st December 2006	262,370	(82,217)	7,249,408	7,429,561
Balance at 1st January 2007	**262,370**	**(82,217)**	**7,249,408**	**7,429,561**
Change in fair value of available-for-sale investments (Note 21)	**–**	**182,131**	**–**	**182,131**
Realisation on disposal of available-for-sale investments (Note 21)	**–**	**(30,922)**	**–**	**(30,922)**
Effect of deferred taxation (Note 32)	**–**	**(9,474)**	**–**	**(9,474)**
Currency translation differences	**–**	**–**	**17,179**	**17,179**
Balance at 31st December 2007	**262,370**	**59,518**	**7,266,587**	**7,588,475**

34 Other reserves (Continued)

Nature and purpose of reserves:

(a) Regulatory reserve
The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudent supervision purpose. Any movements in the regulatory reserve are made in consultation with the Hong Kong Monetary Authority.

(b) Reserve for fair value changes of available-for-sale investments
Reserve for fair value changes of available-for-sale investments represent the cumulative net change in the fair value of available-for-sale investments until the financial assets are derecognised or impaired as stated in the accounting policy for financial assets. (Note 2.7 and Note 2.8)

(c) General reserve
General reserve comprises previous years' transfers from retained earnings and inner reserve.

35 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprises the following balances with less than three months' maturity from the date of acquisition.

	2007 HK$'000	2006 HK$'000
Cash and balances with banks with original maturity within three months	**29,360,311**	23,103,792
Placements with and loans and advances to banks with original maturity within three months	**8,685,543**	3,747,049
	38,045,854	26,850,841

Included in cash and balances with banks are HK$7,964,000 (2006: HK$3,729,000) of statutory deposits with the central bank in the country the Group is operating the business for the purpose of complying with the local statutory requirements of the country.

36 Contingent liabilities and commitments

(a) Capital commitments

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	The Group		**The Bank**	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Property and equipment				
Contracted but not provided for	**17,931**	8,495	**21,043**	10,602
Authorised but not contracted for	**24,124**	7,759	**27,673**	7,915
	42,055	16,254	**48,716**	18,517

36 Contingent liabilities and commitments (Continued)

(b) Operating lease commitments

Where a Group company is the lessee, the future minimum lease payments under non-cancellable building operating leases are as follows:

	The Group		The Bank	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
No later than 1 year	**38,252**	36,952	**40,588**	39,119
Later than 1 year and no later than 5 years	**55,426**	38,421	**63,993**	47,588
Later than 5 years	**7,660**	8,392	**7,660**	9,920
	101,338	83,765	**112,241**	96,627

(c) Credit commitments

The contract amounts of the Group's off-balance sheet financial instruments that commit it to extend credit to customers:

	The Group and the Bank	
	2007	2006
	HK$'000	HK$'000
Direct credit substitutes	**1,571,217**	1,783,587
Trade-related contingencies	**3,649,046**	4,234,092
Other commitments with an original maturity of:		
– under 1 year	**1,057,701**	2,296,480
– 1 year and over	**2,829,581**	1,531,057
– unconditionally cancellable	**33,945,770**	22,439,650
	43,053,315	32,284,866

The credit risk weighted amount of credit commitments is HK$3,771,402,000 (2006: HK$3,343,092,000).

37 Loans to officers

Particulars of loans made by the Bank to officers and companies related to officers and disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	Balance outstanding at 31st December		Maximum balance during the year	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Aggregate amount outstanding in respect of principal and interest	**609,343**	158,492	**613,359**	171,314

38 Balances with group companies

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

	The Group and the Bank	
	2007	2006
	HK$'000	HK$'000
Cash and balances with banks	**577**	1,315
Loans and advances to customers - trade bills	**3,862**	2,309
Available-for-sale investments	**74,221**	71,172
	78,660	74,796
Collectively assessed impairment allowances	**11**	7
Deposits and balances from banks at 1st January	**452,241**	580,194
Deposits and balances from banks received during the year	**33,853**	673
Deposits and balances from banks repaid during the year	**(98,449)**	(128,626)
Deposits and balances from banks at 31st December	**387,645**	452,241
Interest income on deposits placed at and loans to the ultimate holding company	**301**	328
Interest expense on deposits from the ultimate holding company	**17,786**	22,754
Contingent liabilities and other commitments	**134,447**	190,409

Included in the following balance sheet captions are balances with subsidiary companies of the ultimate holding company:

	The Group and the Bank	
	2007	2006
	HK$'000	HK$'000
Deposits from customers at 1st January	**290,266**	280,825
Deposits from customers received during the year	**14,569**	11,408
Deposits from customers repaid during the year	**(1,463)**	(1,967)
Deposits from customers at 31st December	**303,372**	290,266
Interest expense on deposits from the subsidiary companies of the ultimate holding company	**14,475**	13,058

39 Related party transactions

A number of banking transactions were entered into with related parties by the Group or the Bank in the normal course of business and at arm's length basis. These include loans, deposits, trade finance transactions and foreign currency transactions. The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

Included in the following balance sheet captions are balances with jointly controlled entities:

	The Group and the Bank	
	2007	2006
	HK$'000	HK$'000
Deposits from customers at 1st January	**270,621**	103,621
Deposits from customers received during the year	**21,198**	171,742
Deposits from customers repaid during the year	**(135,237)**	(4,742)
Deposits from customers at 31st December	**156,582**	270,621
Interest expenses on deposits from the jointly controlled entities	**8,728**	7,310
Contingent liabilities and other commitments	**8,000**	8,000

Amounts due from/(to) subsidiary companies are included in Note 23(b) and amounts due from jointly controlled entities are included in Note 23(a).

Included in the following balance sheet captions are balances with the Directors and their relatives:

	The Group and the Bank	
	2007	2006
	HK$'000	HK$'000
Loans and advances to customers at 1st January	**180,489**	18,998
Loans and advances to customers granted during the year	**9,032**	161,771
Loans and advances to customers repaid during the year	**(20,436)**	(280)
Loans and advances to customers at 31st December	**169,085**	180,489
Collectively assessed impairment allowances	**490**	560
Deposits from customers at 1st January	**222,153**	236,726
Deposits from customers received during the year	**27,497**	117,184
Deposits from customers repaid during the year	**(81,861)**	(131,757)
Deposits from customers at 31st December	**167,789**	222,153
Interest income on loans and advances to the Directors and their relatives	**10,320**	6,608
Interest expenses on deposits from the Directors and their relatives	**8,718**	9,668
Contingent liabilities and other commitments	**77,576**	65,502

39 Related party transactions (Continued)

Included in the following balance sheet captions are balances with companies controlled by the Directors and their relatives:

	The Group and the Bank	
	2007	2006
	HK$'000	HK$'000
Loans and advances to customers at 1st January	**399,550**	358,616
Loans and advances to customers granted during the year	**184,842**	109,524
Loans and advances to customers repaid during the year	**(101,955)**	(68,590)
Loans and advances to customers at 31st December	**482,437**	399,550
Collectively assessed impairment allowances	**1,399**	1,239
Deposits from customers at 1st January	**649,330**	432,464
Deposits from customers received during the year	**176,894**	420,206
Deposits from customers repaid during the year	**(378,437)**	(203,340)
Deposits from customers at 31st December	**447,787**	649,330
Interest income on loans and advances to the companies controlled by the Directors and their relatives	**31,793**	27,284
Interest expenses on deposits from the companies controlled by the Directors and their relatives	**23,997**	22,458
Contingent liabilities and other commitments	**806,378**	378,395

Included in the following balance sheet captions are balances with the key management personnel, other than Directors of the Bank and the ultimate holding company and their relatives:

	The Group and the Bank	
	2007	2006
	HK$'000	HK$'000
Loans and advances to customers at 1st January	**19,993**	9,232
Loans and advances to customers granted during the year	**11,123**	10,842
Loans and advances to customers repaid during the year	**(2,428)**	(81)
Loans and advances to customers at 31st December	**28,688**	19,993
Collectively assessed impairment allowances	**83**	62
Deposits from customers at 1st January	**10,528**	4,982
Deposits from customers received during the year	**2,458**	7,618
Deposits from customers repaid during the year	**(3,625)**	(2,072)
Deposits from customers at 31st December	**9,361**	10,528
Interest income on loans and advances to the key management personnel of the Bank and the ultimate holding company and their relatives	**1,598**	1,020
Interest expenses on deposits from the key management personnel of the Bank and the ultimate holding company and their relatives	**317**	248
Contingent liabilities and other commitments	**4,626**	2,825

39 Related party transactions (Continued)

Included in the following balance sheet captions are balances with companies controlled by the key management personnel, other than Directors of the Bank and the ultimate holding company and their relatives:

	The Group and the Bank	
	2007	2006
	HK$'000	HK$'000
Deposits from customers at 1st January	**17,557**	14,731
Deposits from customers received during the year	**1,342**	10,578
Deposits from customers repaid during the year	**(2,452)**	(7,752)
Deposits from customers at 31st December	**16,447**	17,557
Interest expenses on deposits from the companies controlled by the key management personnel of the Bank and the ultimate holding company and their relatives	**736**	677
The compensation of Directors and key management personnel of the Bank:		
Salaries and other short-term employee benefits	**35,039**	39,269
Termination benefits	**60,902**	–
	95,941	39,269

Note: The aggregate movement of revolving loans is shown in its net position during the year.

Supplementary Financial Information

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

1 Corporate governance

(a) The Bank has fully complied with the requirements set out in the guideline on "Corporate Governance of Locally Incorporated Authorized Institutions" issued by the Hong Kong Monetary Authority.

(b) Key specialised committees established under the Board of Directors (the "Board")

(i) Executive Committee

The Executive Committee meets monthly and operates as a general management committee under the direct authority of the Board to review the management and performance of the Bank. The members of the Executive Committee are Mr. David Sek-chi Kwok (Chairman), Mr. Hung-ching Yung, Mr. Shen Ruolei, Mr. David Joseph Zuercher and Mr. Edward Kawah Chu.

(ii) Audit Committee

The Audit Committee meets quarterly to consider the nature and scope of audit reviews, as well as to review the Bank's financial statements, the findings of both internal and external auditors and the effectiveness of the internal control systems of the Bank. The members of the Audit Committee are Mr. Johnson Mou Daid Cha (Chairman), Mr. Lincoln Chu Kuen Yung and Dr. Richard Lee.

(iii) Remuneration Committee

The Remuneration Committee meets at least once a year to make recommendations to the Board on the remuneration of directors and senior management of the Bank. The members of the Remuneration Committee are Mr. Hung-ching Yung (Chairman), Dr. Philip Kin Hang Wong and Dr. Richard Lee.

(iv) Asset and Liability Committee

The Asset and Liability Committee meets monthly to oversee the Bank's operations relating to interest rate risk and liquidity risk and in particular to ensure that the Bank has adequate funds to meet its obligations. The members of the Asset and Liability Committee are Mr. David Sek-chi Kwok (Chairman), Mr. Edward Kawah Chu, Mr. Henry Koon-man To, Mr. Chun-yiu Chan, Mr. Francis Wai-choi Cheung and Mr. Paul Kun-kow Wong.

(v) Credit Committee

The Credit Committee meets monthly to ensure that the Bank's credit policies are adequate and lending activities are conducted in accordance with established policies and relevant laws and regulations. The Credit Committee is also responsible for establishing credit policies, monitoring loan portfolio quality, ensuring compliance with statutory and internal lending limits, and evaluating credit applications and making credit decisions. The members of the Credit Committee are Mr. David Sek-chi Kwok (Chairman), Mr. Edward Kawah Chu, Mr. Chun-yiu Chan, Mr. Francis Wai-choi Cheung and Mr. Chun-sum Chan.

(vi) Operational Risk Management Committee

The Operational Risk Management Committee meets quarterly to establish and to review operational risk management policies, processes and procedures for managing operational risk in all of the Bank's material products, activities, processes and systems. The Operational Risk Management Committee is also responsible for overseeing the identification, assessment, monitoring and control of operational risk exposures. The members of the Operational Risk Management Committee are Mr. David Sek-chi Kwok (Chairman), Mr. Edward Kawah Chu, Mr. Chun-yiu Chan, Mr. Francis Wai-choi Cheung, Mr. Burton Chi-shan Cheng, Mr. Raymond Pui-kam Tse, Mr. Wai-chau Tang, Mr. Kwong-yiu Chong, Ms. Rebecca May-ka Mo and Mr. Stephen Chi-ming Chow.

2 Liquidity ratio

	2007	2006
Liquidity ratio	**52%**	53%

The liquidity ratio is calculated as the simple average of each calendar month's average liquidity ratio for the twelve months of the financial year of the Bank's overseas and Hong Kong offices computed in accordance with the Banking (Disclosure) Rules (2006: twelve months of the financial year for the Bank's overseas and Hong Kong offices and Shacom Finance Limited).

3 Capital charges for credit, market and operational risks

The capital adequacy ratio in Note 3.5 to the financial statements represents the consolidated ratio that comprises the positions of the Bank and subsidiaries for regulatory purposes as at 31st December computed in accordance with the Banking (Capital) Rules. For accounting purposes, the basis of consolidation is described in Note 2.2 to the financial statements.

Due to the adoption of Banking (Capital) Rules in the year 2007, different approach is used to calculate the regulatory capital and capital charges, it is exempted to present the comparative quantitative information for capital adequacy.

The capital requirements for each class of exposures are summarised as follows:

(a) Capital charge for credit risk

	Capital requirement
	2007 HK$'000
Sovereign exposures	–
Public Sector Entity exposures	31,182
Multilateral Development Bank exposures	–
Bank exposures	940,251
Securities Firm exposures	205
Corporate exposures	1,968,730
Cash items	2,939
Regulatory Retail exposures	252,807
Residential Mortgage Loans	586,716
Other exposures which are not past due exposures	518,367
Past due exposures	17,090
Total capital charge for on-balance sheet exposures	4,318,287
Direct credit substitutes	122,636
Trade-related contingencies	57,249
Other commitments	121,827
Exchange rate contracts	2,956
Interest rate contracts	41
Total capital charge for off-balance sheet exposures	304,709
Total capital charge for credit risk	4,622,996

This disclosure is made by multiplying the Group's risk-weighted amount derived from the relevant calculation approach by 8%, not the institution's actual "regulatory capital".

(b) Capital charge for market risk

	Capital charge
	2007 HK$'000
Interest rate exposures (including options)	22,008
Equity exposures (including options)	21,074
Foreign exchange exposures (including gold and options)	4,480
Capital charge for market risk	47,562

The Bank uses the Standardised Approach for calculating market risk.

3 Capital charges for credit, market and operational risks (Continued)

(c) Capital charge for operational risk

	2007 HK$'000
Capital charge for operational risk	**461,231**

The Bank uses the Basic Indicator Approach for calculating operational risk.

4 Loans and advances to customers

(a) Gross advances to customers by loan usage

The Group

	2007		2006	
	Gross advance HK$'000	**Amount covered by collateral/ other security HK$'000**	Gross advance HK$'000	Amount covered by collateral/ other security HK$'000
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	**1,508,539**	**223,514**	1,161,955	79,586
– Property investment	**10,093,071**	**9,426,516**	8,234,894	7,967,923
– Financial concerns	**28,667**	**26,935**	32,470	32,470
– Stockbrokers	**5,105**	**105**	7,446	446
– Wholesale and retail trade	**753,975**	**688,061**	577,664	505,043
– Manufacturing	**1,408,462**	**1,047,993**	1,277,010	902,558
– Transport and transport equipment	**698,590**	**357,732**	387,010	185,128
– Information technology - telecommunication	**2,392**	**1,880**	2,798	2,503
– Hotels, boarding houses and catering	**982,211**	**970,507**	1,045,600	1,023,166
– Others	**6,450,589**	**4,671,719**	3,699,563	2,438,863
Individuals				
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**485,974**	**481,595**	391,103	386,373
– Loans for the purchase of other residential properties	**4,831,728**	**4,831,728**	4,480,254	4,480,254
– Credit card advances	**313,453**	**–**	386,746	402
– Others	**2,472,776**	**2,289,944**	2,744,753	2,569,995
Trade finance	**5,613,210**	**3,768,086**	5,959,056	3,832,683
Loans for use outside Hong Kong *	**9,368,553**	**8,623,166**	7,080,012	6,318,679
	45,017,295	**37,409,481**	37,468,334	30,726,072

* Included in 'Loans for use outside Hong Kong' were advances to individuals of HK$1,206,922,000 (2006: HK$970,639,000).

4 Loans and advances to customers (Continued)

(b) Impairment allowances on loans and advances by loan usage

For those industry sectors to which the Bank's total amount of loans and advances constitute not less than 10% of the Bank's total amount of loans and advances, the amount of impaired loans and advances which are individually determined to be impaired are analysed as follows:

The Group

	2007			
	Individually assessed to be impaired HK$'000	**Overdue HK$'000**	**Individual impairment allowance HK$'000**	**Collective impairment allowance HK$'000**
Industrial, commercial and financial				
– Property investment	**11,030**	**368,365**	**–**	**29,270**
Individuals				
– Loans for the purchase of other residential properties	**2,511**	**223,841**	**–**	**14,012**
	13,541	**592,206**	**–**	**43,282**

	2006			
	Individually assessed to be impaired HK$'000	Overdue HK$'000	Individual impairment allowance HK$'000	Collective impairment allowance HK$'000
Industrial, commercial and financial				
– Property investment	24,513	275,474	465	25,452
Individuals				
– Loans for the purchase of other residential properties	123	231,860	123	13,888
	24,636	507,334	588	39,340

4 Loans and advances to customers (Continued)

(b) Impairment allowances on loans and advances by loan usage (Continued)

The Group

	2007	
	New provisions HK$'000	**Recoveries of advances written off in previous years HK$'000**
Industrial, commercial and financial		
– Property investment	**–**	**5,673**
Individuals		
– Loans for the purchase of other residential properties	**–**	**885**
	–	**6,558**

	2006	
	New provisions HK$'000	Recoveries of advances written off in previous years HK$'000
Industrial, commercial and financial		
– Property investment	117	17,014
Individuals		
– Loans for the purchase of other residential properties	–	1,128
	117	18,142

There were no loans written off as uncollectible in 2007 and 2006.

(c) Overdue and impaired loans by geographical area

The Group

	2007		
	Individually assessed to be impaired HK$'000	**Individual impairment allowance HK$'000**	**Collective impairment allowance HK$'000**
Hong Kong	**570,268**	**63,989**	**–**
Asia Pacific excluding Hong Kong	**2,996**	**–**	**9**
North America	**121,292**	**–**	**353**
	694,556	**63,989**	**362**

	2007		
	Overdue HK$'000	**Individual impairment allowance HK$'000**	**Collective impairment allowance HK$'000**
Hong Kong	**1,658,875**	**5,550**	**4,505**
North America	**661,280**	**–**	**1,918**
Western Europe	**28,944**	**–**	**84**
	2,349,099	**5,550**	**6,507**

4 Loans and advances to customers (Continued)

(c) Overdue and impaired loans by geographical area (Continued)

The Group

	2006		
	Individually assessed to be impaired HK$'000	Individual impairment allowance HK$'000	Collective impairment allowance HK$'000
Hong Kong	449,411	41,889	–
Asia Pacific excluding Hong Kong	7,262	–	23
	456,673	41,889	23

	2006		
	Overdue HK$'000	Individual impairment allowance HK$'000	Collective impairment allowance HK$'000
Hong Kong	1,166,964	16,086	3,229
North America	111,901	–	346
Western Europe	16,946	–	52
	1,295,811	16,086	3,627

5 Segmental information

(a) 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.

The Group

2007

	Banks and other financial institutions HK$'000	**Public sector entities HK$'000**	**Others HK$'000**	**Total HK$'000**
Asia Pacific excluding Hong Kong	**13,727,000**	**–**	**815,000**	**14,542,000**
North America	**6,011,000**	**366,000**	**2,462,000**	**8,839,000**
Western Europe	**26,154,000**	**–**	**262,000**	**26,416,000**

2006

	Banks and other financial institutions HK$'000	Public sector entities HK$'000	Others HK$'000	Total HK$'000
Asia Pacific excluding Hong Kong	8,140,000	–	817,000	8,957,000
North America	5,507,000	511,000	3,053,000	9,071,000
Western Europe	26,842,000	7,000	255,000	27,104,000

5 Segmental information (Continued)

(b) Non-bank mainland exposures

2007

	On-balance sheet exposure HK$million	Off-balance sheet exposure HK$million	Total HK$million	Impairment allowances HK$million
Types of counterparties				
Mainland entities	**1,367**	**26**	**1,393**	**1**
Companies and individuals outside Mainland where the credit is granted for use in Mainland	**4,184**	**1,054**	**5,238**	**21**
Other counterparties the exposures to whom are considered by the Group to be non-bank Mainland exposures	**131**	**379**	**510**	**–**
	5,682	**1,459**	**7,141**	**22**

6 Currency concentrations

2007

The Group

Equivalent in Hong Kong dollars	Spot assets HK$'000	Spot liabilities HK$'000	Forward purchases HK$'000	Forward sales HK$'000	Net long/ (short) position HK$'000	Net structural position HK$'000
US Dollars	**38,999,000**	**(37,487,000)**	**3,515,000**	**(2,588,000)**	**2,439,000**	**1,626,000**
Pound Sterling	**2,569,000**	**(2,552,000)**	**90,000**	**(88,000)**	**19,000**	**8,000**
Canadian Dollars	**1,848,000**	**(1,853,000)**	**25,000**	**(16,000)**	**4,000**	**–**
Euro	**1,776,000**	**(1,817,000)**	**898,000**	**(832,000)**	**25,000**	**–**
Other currencies and gold	**6,573,000**	**(6,572,000)**	**537,000**	**(560,000)**	**(22,000)**	**42,000**
	51,765,000	**(50,281,000)**	**5,065,000**	**(4,084,000)**	**2,465,000**	**1,676,000**

2006

The Group

Equivalent in Hong Kong dollars	Spot assets HK$'000	Spot liabilities HK$'000	Forward purchases HK$'000	Forward sales HK$'000	Net long/ (short) position HK$'000	Net structural position HK$'000
US Dollars	35,847,000	(34,497,000)	4,961,000	(2,647,000)	3,664,000	1,476,000
Pound Sterling	1,849,000	(1,849,000)	86,000	(67,000)	19,000	8,000
Canadian Dollars	1,729,000	(1,736,000)	23,000	(14,000)	2,000	–
Euro	1,467,000	(1,473,000)	489,000	(431,000)	52,000	–
Other currencies and gold	5,076,000	(5,064,000)	395,000	(412,000)	(5,000)	23,000
	45,968,000	(44,619,000)	5,954,000	(3,571,000)	3,732,000	1,507,000

Net structural position includes structural positions of the Bank's overseas branches, banking subsidiaries and other subsidiaries substantially involved in foreign exchange. Structural assets and liabilities include:
– investments in fixed assets and premises, net of depreciation;
– capital and statutory reserves of overseas branches; and
– investments in overseas subsidiaries and related company.

7 Risk management

(a) Credit risk

(i) Credit risk exposures

Standard & Poor's Ratings Services, Moody's Investors Service and Fitch Ratings are the ECAIs that the institution has used in relation to the each and all classes of securitization exposures below. The process it used to map ECAI issuer ratings to exposures booked in its banking book is a process as prescribed in Part 4 of the Banking (Capital) Rules.

The Group

	Total exposures	Exposures after recognised credit risk mitigation		Risk-weighted amounts		Total risk-weighted amounts	Total exposure covered by recognised collateral	Total exposure covered by recognised guarantees or recognised credit derivative contracts
		Rated	Unrated	Rated	Unrated			
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
A. On-balance Sheet								
1 Sovereign	2,042,041	2,042,041	–	–	–	–	–	–
2 Public Sector Entity	1,948,863	1,948,863	–	389,772	–	389,772	–	–
3 Multilateral Development Bank	467,058	467,058	–	–	–	–	–	–
4 Bank	51,520,689	50,619,600	901,089	11,550,111	203,028	11,753,139	–	–
5 Securities Firm	5,113	–	5,113	–	2,557	2,557	–	–
6 Corporate	26,537,961	3,602,348	22,457,456	1,673,515	22,915,834	24,609,128	478,157	1,303,395
7 Cash Items	243,707	–	1,131,884	–	36,739	36,739	–	–
8 Regulatory Retail	4,213,457	–	4,047,966	–	3,153,248	3,160,093	165,491	–
9 Residential Mortgage Loan	10,833,548	–	10,819,817	–	7,333,377	7,333,945	13,731	–
10 Other exposures which are not Past Due Exposures	6,479,589	–	6,248,791	–	6,470,042	6,479,589	230,798	–
11 Past Due Exposures	208,128	–	208,128	–	213,625	213,625	184,487	–

	Total exposures	Exposures after recognised credit risk mitigation		Risk-weighted amounts		Total risk-weighted amounts	Total exposure covered by recognised collateral	Total exposure covered by recognised guarantees or recognised credit derivative contracts
		Rated	Unrated	Rated	Unrated			
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
B. Off-balance Sheet								
1 Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	3,927,357	201,087	3,726,270	99,460	3,671,943	3,771,403	–	196,242
2 OTC derivative transactions	76,928	50,186	26,742	10,957	26,509	37,466	–	–

7 Risk management (Continued)

(a) Credit risk (Continued)

(ii) Counterparty credit risk exposures

The following table summarises the Group's main credit exposures arises from OTC derivative transactions:

The Group

	2007 OTC derivative transactions HK$'000
OTC derivative & credit derivative:	
Gross total positive fair value	**37,531**
Credit equivalent amount	**76,928**
Risk weighted amounts	**37,466**

The breakdown of the credit equivalent amounts or net credit exposures, and the risk-weighted amount is summarised as follows:

The Group

	2007 OTC derivative transactions HK$'000
Notional amounts:	
– Banks	**3,259,557**
– Corporates	**773,218**
– Others	**178,041**
	4,210,816
Credit equivalent amounts/net credit exposures:	
– Banks	**50,186**
– Corporates	**20,312**
– Others	**6,430**
	76,928
Risk-weighted amounts:	
– Banks	**10,957**
– Corporates	**20,126**
– Others	**6,383**
	37,466

7 Risk management (Continued)

(b) Asset securitization

The Bank uses the Standardised (Securitization) Approach to calculate the credit risk for securitization exposures. It is an investing institution for all classes of exposures below.

Standard & Poor's Ratings Services, Moody's Investors Service and Fitch Ratings are the ECAIs that the institution has used in relation to the each and all classes of securitization exposures below.

2007

The Group

Securitization exposures	Outstanding amounts	Risk-weighted amount	Capital requirements	Exposures deducted from its Core Capital	Exposures deducted from its Supplementary Capital
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Traditional securitizations – Properties	**88,697**	**17,739**	**–**	**–**	**–**

(c) Equity exposures in banking book

The Group

	2007	2006
	HK$'000	HK$'000
Realised gains from disposal	**37,097**	21,038
Unrealised revaluation gains/(losses):		
– Amount included in reserves but not through the profit and loss account	**32,308**	(124,201)
– Amount added to/(deducted from) supplementary capital	**14,538**	(83,127)

(d) Interest rate exposures in banking book

2007

	Currency			
Equivalent in Hong Kong dollars	**Hong Kong Dollars HK$'000**	**US Dollars HK$'000**	**Other currencies HK$'000**	**Total HK$'000**
Interest rate risk shock (200 basis points upward) – Increase/(decline) in earnings	**237,717**	**(80,456)**	**(9,401)**	**147,860**

2006

	Currency			
Equivalent in Hong Kong dollars	Hong Kong Dollars HK$'000	US Dollars HK$'000	Other currencies HK$'000	Total HK$'000
Interest rate risk shock (200 basis points upward) – Increase/(decline) in earnings	177,283	(89,339)	(18,918)	69,026

For 2007 and 2006, the effect of decline in earnings and increase in earnings with interest rate risk shock of 200 basis points downward are contra to that with interest rate risk shock of 200 basis points upward.

Branches and Subsidiary Companies

Head Office

12 Queen's Road Central
Telephone: (852) 2841 5415
Fax: (852) 2810 4623
Telex: 73390; 73650 SCBK HX
SWIFT: SCBK HK HH
Web Site: http://www.shacombank.com.hk

Hong Kong Island Branches

Aberdeen Branch	118 Aberdeen Main Road
Causeway Bay Branch	18 Pennington Street
Hennessy Road Branch	Shop LG 16, C.C. Wu Building, 302 Hennessy Road
North Point Branch	486 King's Road
President Theatre Branch	Shop A, G/F., 517 Jaffe Road
Shaukiwan Branch	136 Shaukiwan Main Street East
Sheung Wan Branch	19-25 Jervois Street
Siu Sai Wan Branch	Shop 9, G/F., Harmony Garden, 9 Siu Sai Wan Road
Taikoo Shing Branch	G502, Tai Yue Avenue, Taikoo Shing
Victoria Centre Branch	G7, Victoria Centre, 15 Watson Road
Wanchai Branch	19-21 Hennessy Road
West Point Branch	47 Catchick Street

Kowloon Branches

Jordan Road Branch	Shop 2, G/F., Sino Cheer Plaza, 23 Jordan Road
Kowloon Bay Branch	Telford House, 16 Wang Hoi Road
Kowloon Tong Branch	G28, Franki Centre, 320 Junction Road
Kwun Tong Branch	57-61 Hong Ning Road
Laichikok Branch	Shops 5-8, G/F., Lai Kwan Court, 438 Castle Peak Road
Mei Foo Sun Chuen (Stage 1) Branch	29D Broadway, Mei Foo Sun Chuen
Mei Foo Sun Chuen (Stage 4) Branch	83B Broadway, Mei Foo Sun Chuen
Mongkok Branch	666 Nathan Road
Ping Shek Estate Branch	115 Tsuen Shek House, Ping Shek Estate
Sanpokong Branch	28 Hong Keung Street
Sham Shui Po Branch	141 Cheung Sha Wan Road
Tokwawan Branch	60 Tokwawan Road
Tsimshatsui Branch	7 Hankow Road
Tsimshatsui East Branch	G27, Houston Centre, 63 Mody Road
Waterloo Road Branch	84K Waterloo Road
Whampoa Garden Branch	Shop 9, Palm Mansions, Whampoa Garden, Site 4
Wong Tai Sin Branch	Shop LG 4, Lung Cheung Mall, 136 Lung Cheung Road

New Territories and Outlying Island Branches

Kingswood Villa Branch	Shop G08, G/F., Phase 2, Kingswood Ginza, 18 Tin Yan Road
Kwai Chung Branch	Shop 3, Hutchison Estate, 482 Castle Peak Road
Ma On Shan Branch	Shop 308, Level 3, Ma On Shan Plaza, 608 Sai Sha Road
Shatin Branch	Shop 70B, Level 3, Shatin Centre, Wang Pok Street
Sheung Shui Branch	126 San Fung Avenue
Tai Po Branch	Shop 83, Level 1, Uptown Plaza, 9 Nam Wan Road
Texaco Road Branch	Shops B128-131, East Asia Commercial Centre, 36-60 Texaco Road
Tseung Kwan O Branch	Shops G1-2, G/F., Metro City Plaza III, The Metropolis, 8 Mau Yip Road
Tsuen Wan Branch	405 Castle Peak Road
Tuen Mun Branch	Shop 4A, Level Two (South Wing), Trend Plaza
Tung Chung Branch	Shops 1-2 , Block 5, Tung Chung Crescent
TVB Office	2/F., Workshop Block, TVB City, 77 Chun Choi Street, Tseung Kwan O Industrial Estate
Yuen Long Branch	17 Hong Lok Road

Overseas Branches

London Branch	65 Cornhill, London EC3V 3NB, U.K.
San Francisco Branch	231 Sansome Street, San Francisco, CA 94104, U.S.A.
New York Branch	125 East 56th Street, New York, NY 10022, U.S.A.
Los Angeles Branch	383 East Valley Boulevard, Alhambra, CA 91801, U.S.A.

Mainland Branch

Shenzhen Branch	26/F., Shenzhen International Financial Building, 2022 Jianshe Road, Shenzhen 518001, P.R.C.

Mainland Representative Office

Shanghai Representative Office	Room 09-13, 9/F., China Merchants Tower, 161 Lu Jia Zui Road (E), Pu Dong, Shanghai 200120, P.R.C.

Wholly-owned Subsidiary Companies

Hai Kwang Property Management Company Limited
Shacom Assets Investments Limited
Shacom Futures Limited
Shacom Insurance Brokers Limited
Shacom Investment Limited
Shacom Property (CA) Inc.
Shacom Property (NY) Inc.
Shacom Property Holdings (BVI) Limited
Shacom Securities Limited
Shanghai Commercial Bank (Nominees) Limited

Subsidiary Companies

Infinite Financial Solutions Limited
Shanghai Commercial Bank Trustee Limited