SHANGHAI COMMERCIAL BANK LIMITED



ANNUAL REPORT 2008

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FIVE-YEAR FINANCIAL SUMMARY

	2008	2007	2006	2005	2004
For The Year (In HK$ Million)					
Net interest income	1,966	2,036	1,849	1,682	1,500
Other operating income	958	1,569	1,008	908	825
Operating expenses	1,004	973	842	810	785
Operating profit	1,547	2,534	1,981	1,785	1,525
Profit attributable to shareholders	1,185	2,199	1,662	1,472	1,329
Dividend	800	1,100	506	460	460
At Year End (In HK$ Million)					
Shareholders' funds	14,833	14,886	13,026	11,673	10,631
Total assets	109,749	108,025	93,760	80,702	75,058
Total deposits	89,532	82,113	75,343	64,037	60,373
Total loans and advances	50,168	46,128	38,472	35,600	30,205
Financial Ratios					
Capital adequacy ratio*	19%	20%	22%	23%	24%
Liquidity ratio	47%	52%	53%	57%	64%
Loan to deposit ratio**	58.06%	59.09%	55.79%	61.10%	59.42%
Dividend payout ratio	67.49%	50.02%	30.45%	31.25%	34.60%
Return on average assets	1.09%	2.18%	1.90%	1.89%	1.77%

* The calculation of the Capital adequacy ratio commencing from 2007 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-eighth Annual General Meeting of the Members of the Bank will be held at its Registered Office, 12 Queen's Road Central, Hong Kong on Wednesday, 22nd April 2009 at 10:15 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 2008;
(2) To declare Dividend in respect of the year 2008;
(3) To elect Directors;
(4) To approve the payment of Directors' fees for the year ended 31st December 2008;
(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 Wednesday, 15th April 2009 to Wednesday, 22nd April 2009, both days inclusive.

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

Hong Kong, 21st January 2009

BOARD OF DIRECTORS

Lincoln Chu Kuen Yung, JP
Chairman & Non-executive Director

David Sek-chi Kwok
Chief Executive & Managing Director

Hung-ching Yung, JP

Shen Ruolei

* **Dr. Philip Kin Hang Wong, GBS, JP, LLD, DH**
(David Ying Kit Wong, Alternate) (appointed on 21st August 2008)

David Joseph Zuercher
(Clifford Sterling Lawrence, Alternate)

* **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)

* **Gordon Che Keung Kwong** (appointed on 29th August 2008)

* Independent Non-executive Directors

MANAGEMENT

Executives

Chief Executive & Managing Director	David Sek-chi Kwok	
Director & Assistant General Manager	Edward Kawah Chu	
Assistant General Managers	Francis Wai-choi Cheung	
	Henry Koon-man To	
	Paul Kun-kow Wong	
	Daniel Kwok-hung Chan	
	Burton Chi-shan Cheng	
	Wilson Fung-cheung Chan	
Senior Managers	Chun-sum Chan	Raymond Pui-kam Tse
	Hon-ming Mak	Alvin Kwok-kit Lau
	Pui-man Yeung	Zachary Wing-kwong Kwan
	Henry Siu-chuen Lau	Danny Kong-keung Tsang
Managers	Albert Tak-wo Leung	Stephen Wing-hing Lai
	Elizabeth Po-san Ng	Wai-chau Tang
	Vincent Chi-wing Man	Blanche Ching-kwan Fong
	Tony Kwok-keung Wat	Eric Kai-chiu Fok
	Thomas Chee-kin Lo	

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 — Chen Li Ying

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Directors

Mr. Lincoln Chu Kuen Yung, JP

Aged 63. 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 55. 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. Hung-ching Yung, JP

Aged 86. Appointed a Director of the Bank in March 1973. Managing Director 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. Shen Ruolei

Aged 63. Appointed a Director of the Bank in March 1999. Chairman of Shanghai United International Investment Ltd. and United MetLife Life Insurance Company Limited. A Director of Bank of Shanghai.

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

Aged 76. 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 62. 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 71. 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 57. 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 57. 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 62. Appointed 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 53. 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 53. 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 69. 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. Gordon Che Keung Kwong

Aged 59. Appointed a Director of the Bank in August 2008. Chairman of the Audit Committee of the Bank since January 2009. An Independent Non-executive Director of a number of locally listed companies, including Ping An Insurance (Group) Company of China, Ltd., Henderson Land Development Company Limited, Henderson Investment Limited and COSCO International Holdings Limited.

Mr. Ignatius Wooi-kean Choong

Aged 47. 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 57. Appointed an Alternate Director to Mr. Johnson Mou Daid Cha in May 2002. He has more than 20 years of investment experience, including 18 years in Silicon Valley, California and 14 years in Asia. He is an Executive Director of Mingly Corporation.

Mr. Zhang Qi

Aged 35. 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. Clifford Sterling Lawrence

Aged 60. 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 51. Appointed an Alternate Director to Mr. Chen Yih Pin in February 2007. Director and President of The Shanghai Commercial & Savings Bank, Ltd.

Mr. David Ying Kit Wong
Aged 45. Appointed an Alternate Director to Dr. Philip Kin Hang Wong in August 2008. A member of The Hong Kong Institute of Architects and also a qualified registered architect in Hong Kong. Managing Director of Shanghai Grand Sunfire Property Development Co., Ltd. and Deputy Chairman of Guangzhou Jin Xin Property Development Co. Ltd.

Senior Management

Mr. David Sek-chi Kwok
(Biographical details are set out on page 5)

Mr. Edward Kawah Chu
(Biographical details are set out on page 6)

Mr. Francis Wai-choi Cheung
Aged 58. Assistant General Manager & Chief of Corporate Banking of the Bank. Joined the Bank in July 1969.

Mr. Henry Koon-man To
Aged 56. Assistant General Manager & Chief Financial Controller of the Bank. Joined the Bank in December 1988.

Mr. Paul Kun-kow Wong
Aged 57. Assistant General Manager & Chief of Treasury of the Bank. Joined the Bank in February 1974.

Mr. Daniel Kwok-hung Chan
Aged 47. Assistant General Manager & Chief of Retail Banking of the Bank. First joined the Bank in July 1984.

Mr. Burton Chi-shan Cheng
Aged 47. Assistant General Manager & Chief of Information Technology & Operations of the Bank. First joined the Bank in November 1985.

Mr. Wilson Fung-cheung Chan
Aged 48. Assistant General Manager & Chief of Investment & Product Development of the Bank. Joined the Bank in January 2009.

Mr. Pui-man Yeung
Aged 56. Chief Auditor of the Bank. Joined the Bank in May 1982.

BOARD OF DIRECTORS
董事會



Front row from left to right: Mr. David Joseph Zuercher, Mr. Fu Jianhua, Mr. Shen Ruolei, Mr. Hung-ching Yung, Mr. Lincoln Chu Kuen Yung, Mr. David Allen Hoyt, Mr. Stephen Ching Yen Lee, Dr. Philip Kin Hang Wong.
Back row from left to right: Mr. Edward Kawah Chu, Dr. Richard Lee, Mr. David Sek-chi Kwok, Mr. Johnson Mou Daid Cha, Mr. Chen Yih Pin, Mr. Gordon Che Keung Kwong (not pictured here).

前排由左至右：David Joseph Zuercher先生、傅建華先生、沈若雷先生、榮鴻慶先生、榮智權先生、David Allen Hoyt先生、李慶言先生、黃乾亨博士。
後排由左至右：朱嘉華先生、李雍熙博士、郭錫志先生、查懋德先生、陳逸平先生、鄺志強先生（未有參予）。



SHANGHAI COMMERCIAL BANK HEADQUARTERS REDEVELOPMENT SITE
上海商業銀行總部重建位置

The future redevelopment of 10 (left) and 12 (right) Queen's Road Central will enhance the Bank's usage efficiency, corporate image and provide a better environment for our customers.
中環皇后大道中10號（左）及12號（右）的重建計劃將提升本銀行行址之使用效能及企業形象，並為客戶提供更優質銀行及理財服務環境。

MESSAGE TO SHAREHOLDERS

2008 was one of the most difficult years in financial history. The subprime mortgage crisis and the collapse of many major financial institutions in the United States have severely impacted the financial markets worldwide and redefined the global banking industry.

These extraordinary events impacted all walks of life, and Shanghai Commercial Bank Limited ("the Bank") was no exception. The consolidated profit attributable to shareholders in 2008 was HK$1,185 million (2007: HK$2,199 million), a decline of 46.1 percent. Net interest income and net fee and commission income fell, by 3.4 percent and 33.5 percent respectively, due mainly to a significant drop in wealth management and stock brokerage business. Adverse trading conditions and significantly weakened investment markets also resulted in HK$58 million mark-to-market and HK$84 million losses. In view of the deteriorating market conditions, a higher loan impairment allowance provision has been made to cushion the balance sheet against further asset quality decline. The Bank's cost-to-income ratio was 34.3 percent, while return on total assets and return on equity were 1.1 percent and 8.0 percent, respectively. The Bank has distinguished itself by maintaining a strong financial position. The capital adequacy ratio was 19 percent and the average liquidity ratio was 47 percent.

In 2008, a couple of strategic initiatives have been launched:

- Expansion of our Headquarters in Hong Kong through the purchase of the CNAC Group Building. The redevelopment of the two properties, at 10 & 12 Queen's Road Central, will greatly increase usage efficiency, enhance the Bank's corporate image and provide a better environment for our customers. Conceptual development works to redevelop our Headquarters into a new landmark in the heart of Central have already commenced.

- The Bank will continue to take full advantage of the warming in cross-strait relations by strengthening its focus on the "Green Channel". Since April 2008, the "Green Channel" became a tri-bank alliance, which provides unique one-stop premium banking services to VIP customers of the Bank in Hong Kong, Bank of Shanghai in China and Shanghai Commercial & Savings Bank in Taiwan.

On behalf of the Board, we would like to thank Dr. Philip Kin Hang Wong, who will be retiring as a Director of the Bank at this year's Annual General Meeting. During his eight-year tenure as Director, Dr. Wong has been an invaluable contributor to the ongoing success of the Bank. We would also like to extend our warm welcome to Mr. Gordon

Che Keung Kwong, who was appointed a Director of the Bank on 29th August 2008 and the Chairman of the Audit Committee since January 2009. He is a fellow member of the Institute of Chartered Accountants in England and Wales and was a partner at Price Waterhouse until 1998. Mr. Kwong also serves on the board of many listed companies in Hong Kong. We will benefit greatly from his counsel and experience.

We also would like to thank the task force and management team who have been proactive in addressing the mini-bond situation and guiding the Bank's staff to respond professionally to every challenge.

Finally, we would like to express our gratitude to the Board for their guidance and confidence in us. Also a special thanks to our staff at every level for their hard work and dedication. We look forward to 2009 with confidence and we shall overcome the challenges.

Lincoln Chu Kuen Yung
Chairman

David Sek-chi Kwok
Chief Executive & Managing Director

Hong Kong, 25th February 2009

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their report together with the audited financial statements for the year ended 31st December 2008.

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		1,185,325
Deduct:	Profit retained by subsidiary companies	(6,391)
Add:	Loss borne by jointly controlled entities	87,684
Profit for the year dealt with in the financial statements of the Bank		1,266,618
Add:	Retained earnings of the Bank brought forward	4,061,701
Deduct:	Currency translation differences	(5,108)
Deduct:	Transfer to regulatory reserve	(100,000)
		5,223,211
which the Directors proposed a dividend of HK$40 per share		(800,000)
Retained earnings of the Bank carried forward		4,423,211

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$2,597,000.

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:

Hung-ching Yung	
Lincoln Chu Kuen Yung	
Shen Ruolei	
Dr. Philip Kin Hang Wong	
(David Ying Kit Wong, Alternate)	(appointed on 21st August 2008)
David Joseph Zuercher	
(Clifford Sterling Lawrence, Alternate)	
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)	
Gordon Che Keung Kwong	(appointed on 29th August 2008)

In accordance with Article 104(A) of the Bank's Articles of Association, Mr. Shen Ruolei, Dr. Philip Kin Hang Wong, Mr. David Allen Hoyt and Mr. Chen Yih Pin shall retire by rotation at the forthcoming Annual General Meeting and, with the exception of Dr. Philip Kin Hang Wong, offer themselves for re-election.

In accordance with Article 95 of the Bank's Articles of Association, Mr. Gordon Che Keung Kwong shall retire at the forthcoming Annual General Meeting and, being eligible, offer himself 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, 25th February 2009

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 16 to 99, which comprise the consolidated and company balance sheets as at 31st December 2008, 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 2008 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, 25th February 2009

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31st December 2008

	Note	2008 HK$'000	2007 HK$'000
Interest income	5	3,936,222	5,317,136
Interest expense	5	(1,970,558)	(3,281,429)
Net interest income		1,965,664	2,035,707
Fee and commission income	6	751,397	1,106,942
Fee and commission expense	6	(43,623)	(42,768)
Net fee and commission income		707,774	1,064,174
Dividend income	7	20,509	17,397
Net trading income	8	94,584	359,681
Net (loss)/income from financial instruments designated at fair value through profit or loss		(57,914)	16,014
Net loss from disposal of property and equipment		(626)	(538)
Net gain from disposal/redemption of held-to-maturity and available-for-sale investments		117,675	37,782
Other operating income	9	76,366	74,186
Operating expenses	10	(1,004,144)	(973,380)
Impairment losses on loans and advances to customers	12	(372,995)	(96,706)
Operating profit		1,546,893	2,534,317
Share of net (losses)/profits of jointly controlled entities		(83,554)	73,724
Profit before taxation		1,463,339	2,608,041
Income tax expense	13	(276,463)	(407,637)
Profit after taxation		1,186,876	2,200,404
Attributable to:			
Shareholders of the Bank		1,185,325	2,199,150
Minority interests		1,551	1,254
		1,186,876	2,200,404
Dividend			
Final dividend proposed after the balance sheet date	14	800,000	1,100,000

PROFIT AND LOSS ACCOUNT

for the year ended 31st December 2008

	Note	2008 HK$'000	2007 HK$'000
Interest income	5	**3,855,328**	5,220,751
Interest expense	5	**(1,971,117)**	(3,287,573)
Net interest income		**1,884,211**	1,933,178
Fee and commission income	6	**707,261**	1,041,931
Fee and commission expense	6	**(36,998)**	(32,117)
Net fee and commission income		**670,263**	1,009,814
Dividend income	7	**110,969**	182,613
Net trading income	8	**94,613**	359,669
Net (loss)/income from financial instruments designated at fair value through profit or loss		**(57,914)**	16,014
Net loss from disposal of property and equipment		**(584)**	(432)
Net gain from disposal/redemption of held-to-maturity and available-for-sale investments		**117,675**	37,782
Other operating income	9	**95,254**	111,320
Operating expenses	10	**(1,000,025)**	(966,727)
Impairment losses on loans and advances to customers	12	**(372,995)**	(96,706)
Profit before taxation		**1,541,467**	2,586,525
Income tax expense	13	**(274,849)**	(405,665)
Profit after taxation		**1,266,618**	2,180,860
Dividend			
Final dividend proposed after the balance sheet date	14	**800,000**	1,100,000

CONSOLIDATED BALANCE SHEET

as at 31st December 2008

	Note	2008 HK$'000	2007 HK$'000
Assets			
Cash and balances with banks	15	**22,565,794**	29,576,311
Placements with and loans and advances to banks	16	**17,859,712**	12,056,719
Trading assets	17	**310,128**	284,772
Derivative financial instruments	18	**37,252**	428,434
Financial assets designated at fair value	19	**341,866**	407,171
Loans and advances to customers	20(a)	**49,756,984**	45,931,287
Investment securities:			
– Available-for-sale	21	**11,625,020**	13,537,925
– Held-to-maturity	22	**2,950,520**	3,112,359
Investments in jointly controlled entities	23(a)	**125,181**	188,685
Property and equipment	24	**392,904**	406,925
Investment property	25	**56,465**	–
Leasehold land and land use rights	26	**1,648,779**	273,841
Deferred income tax assets	32	**160,137**	70,177
Other assets	27	**1,917,956**	1,750,802
Total assets		**109,748,698**	108,025,408
Liabilities			
Deposits and balances from banks		**3,808,753**	4,078,007
Derivative financial instruments	18	**63,021**	434,880
Deposits from customers	28	**89,531,873**	80,861,142
Certificates of deposit issued	29	**–**	1,251,596
Other liabilities	30	**1,416,015**	6,338,371
Provisions	31	**83,593**	128,060
Current income tax liabilities		**3,689**	39,231
Deferred income tax liabilities	32	**79**	92
Total liabilities		**94,907,023**	93,131,379
Equity			
Capital and reserves attributable to the equity holders of the bank			
Share capital	33	**2,000,000**	2,000,000
Retained earnings		**5,276,236**	5,293,541
Other reserves	34	**7,556,959**	7,592,840
		14,833,195	14,886,381
Minority interests in equity		**8,480**	7,648
Total equity		**14,841,675**	14,894,029
Total equity and liabilities		**109,748,698**	108,025,408

Approved and authorised for issue by the Board of Directors on 25th February 2009.

Lincoln Chu Kuen Yung
Chairman

Hung-ching Yung
Director

Gordon Che Keung Kwong
Director

David Sek-chi Kwok
Managing Director & Chief Executive

BALANCE SHEET

as at 31st December 2008

	Note	2008 HK$'000	2007 HK$'000
Assets			
Cash and balances with banks	15	**22,565,788**	29,576,304
Placements with and loans and advances to banks	16	**17,859,712**	12,056,719
Trading assets	17	**310,128**	284,772
Derivative financial instruments	18	**37,252**	428,434
Financial assets designated at fair value	19	**341,866**	407,171
Loans and advances to customers	20(a)	**49,756,984**	45,931,287
Investment securities:			
– Available-for-sale	21	**11,224,599**	13,070,867
– Held-to-maturity	22	**981,626**	1,377,025
Investments in jointly controlled entities	23(a)	**117,300**	87,567
Investments in and loans to subsidiary companies	23(b)	**2,326,523**	2,188,609
Property and equipment	24	**372,727**	374,896
Investment properties	25	**63,790**	7,523
Leasehold land and land use rights	26	**1,648,779**	273,841
Deferred income tax assets	32	**160,137**	70,177
Other assets	27	**1,661,227**	822,553
Total assets		**109,428,438**	106,957,745
Liabilities			
Deposits and balances from banks		**3,808,753**	4,078,007
Derivative financial instruments	18	**63,021**	434,880
Deposits from customers	28	**89,531,873**	80,861,142
Certificates of deposit issued	29	**–**	1,251,596
Other liabilities	30	**1,164,470**	5,416,544
Provisions	31	**83,005**	127,358
Current income tax liabilities		**2,784**	38,042
Total liabilities		**94,653,906**	92,207,569
Equity			
Capital and reserves attributable to the equity holders of the bank			
Share capital	33	**2,000,000**	2,000,000
Retained earnings		**5,223,211**	5,161,701
Other reserves	34	**7,551,321**	7,588,475
		14,774,532	14,750,176
Total equity and liabilities		**109,428,438**	106,957,745

Approved and authorised for issue by the Board of Directors on 25th February 2009.

Lincoln Chu Kuen Yung
Chairman

Hung-ching Yung
Director

Gordon Che Keung Kwong
Director

David Sek-chi Kwok
Managing Director & Chief Executive

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to the equity holders of the Bank			Minority interests	Total equity
		Share capital HK$'000	Other reserves HK$'000	Retained earnings 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

	Note	Attributable to the equity holders of the Bank			Minority interests	Total equity
		Share capital HK$'000	Other reserves HK$'000	Retained earnings HK$'000	HK$'000	HK$'000
Balance at 1st January 2008		**2,000,000**	**7,592,840**	**5,293,541**	**7,648**	**14,894,029**
Fair value losses, net of tax:						
– available-for-sale investments	34	**–**	**(89,696)**	**–**	**–**	**(89,696)**
Currency translation differences	34	**–**	**790**	**(2,630)**	**–**	**(1,840)**
Net income recognised directly in equity		**–**	**(88,906)**	**(2,630)**	**–**	**(91,536)**
Share of investment revaluation reserve of jointly controlled entities	34	**–**	**(5,553)**	**–**	**–**	**(5,553)**
Realised on disposal of available-for-sale investments	34	**–**	**(41,422)**	**–**	**–**	**(41,422)**
Profit for the year		**–**	**–**	**1,185,325**	**1,551**	**1,186,876**
Transfer from retained earnings	34	**–**	**100,000**	**(100,000)**	**–**	**–**
Total recognised income and expenses for 2008		**–**	**(35,881)**	**1,082,695**	**1,551**	**1,048,365**
Dividend relating to 2007		**–**	**–**	**(1,100,000)**	**(719)**	**(1,100,719)**
Balance at 31st December 2008		**2,000,000**	**7,556,959**	**5,276,236**	**8,480**	**14,841,675**

	Year ended 31st December	
	2008 HK$'000	2007 HK$'000
Proposed dividend in retained earnings	**800,000**	1,100,000

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31st December 2008

	2008 HK$'000	2007 HK$'000
Profit before taxation	1,463,339	2,608,041
Share of net losses/(profits) of jointly controlled entities	83,554	(73,724)
Impairment losses on loans and advances to customers	372,995	96,706
Depreciation expenses on property and equipment	57,146	50,471
Amortisation of interests in leasehold land	6,468	4,820
Net loss from disposal of property and equipment	626	538
Net gain from disposal/redemption of held-to-maturity and available-for-sale investments	(117,675)	(37,782)
Amortisation of held-to-maturity and available-for-sale investments	46,275	26,968
Interest income on held-to-maturity and available-for-sale investments	(654,894)	(802,726)
Dividend income on available-for-sale investments	(20,509)	(17,397)
Operating cash inflow before changes in operating assets and liabilities	1,237,325	1,855,915
(Increase)/decrease in operating assets:		
Other assets	(144,247)	(386,177)
Loans and advances to customers, amounts written off and recoveries	(4,196,752)	(7,717,167)
Trading assets	(28,571)	(36,688)
Financial assets designated at fair value	65,305	(3,875)
Cash and balances with banks with original maturity beyond three months	(1,966,888)	214,000
Placements with and loans and advances to banks with original maturity beyond three months	(879,957)	3,465,251
Increase/(decrease) in operating liabilities:		
Other liabilities and provisions	(4,947,500)	4,907,934
Certificates of deposit issued	(1,251,596)	(1,854,338)
Deposits from customers	8,670,731	8,624,045
Deposits and balances from banks	(269,254)	312,629
Net cash (outflow)/inflow from operating activities before taxation	(3,711,404)	9,381,529
Hong Kong profits tax paid	(273,432)	(67,101)
Overseas tax paid	(92,056)	(70,308)
Net cash (outflow)/inflow from operating activities	(4,076,892)	9,244,120

	Note	2008 HK$'000	2007 HK$'000
Cash flows from investing activities			
Interest received on held-to-maturity and available-for-sale investments		**677,377**	835,297
Dividends received on available-for-sale investments		**17,882**	16,195
Dividends received from jointly controlled entities		**4,130**	24,080
Purchase of available-for-sale investments		**(6,880,716)**	(2,276,971)
Purchase of held-to-maturity investments		**(1,948,761)**	(1,399,309)
Proceeds from sale and redemption of available-for-sale investments		**8,388,976**	3,743,287
Proceeds from sale and redemption of held-to-maturity investments		**2,110,859**	1,695,620
Repayment of advances from a jointly controlled entity		**5,267**	25,733
Increase in investment in a jointly controlled entity		**(35,000)**	–
Purchase of an investment property		**(62,739)**	–
Purchase of leasehold land		**(1,381,406)**	–
Purchase of property and equipment		**(48,993)**	(29,050)
Proceeds from sale of property and equipment		**193**	46
Net cash inflow from investing activities		**847,069**	2,634,928
Net cash (outflow)/inflow before financing activities		**(3,229,823)**	11,879,048
Cash flows from financing activities			
Dividend paid on ordinary shares to the equity holders of the Bank		**(1,100,000)**	(506,000)
Dividend paid to a minority shareholder of a subsidiary company		**(719)**	(481)
Net cash outflow from financing activities		**(1,100,719)**	(506,481)
Effect of exchange rate changes		**281,179**	(177,554)
Net (decrease)/increase in cash and cash equivalents		**(4,049,363)**	11,195,013
Cash and cash equivalents at 1st January		**38,045,854**	26,850,841
Cash and cash equivalents at 31st December	35	**33,996,491**	38,045,854

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 1,800 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.

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 25th February 2009.

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").

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 2.23.

(a) Amendments and interpretations effective in 2008

HKAS 39 Financial Instruments: Recognition and Measurement amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7 - Financial Instruments: Disclosures, introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1st July 2008. This amendment does not have any impact on the Group's financial statements, as the Group has not reclassified any financial assets.

HK(IFRIC) Int 11 - HKFRS 2 Group and treasury share transactions, provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Group's financial statements.

HK(IFRIC) Int 14 - HKAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction, provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the Group's financial statements.

(b) Interpretations effective in 2008 but not relevant to the Group's operations

The following interpretation is mandatory for accounting periods beginning on or after 1st January 2008 but is not relevant to the Group's operations:

HK(IFRIC) - Int 12 Service Concession Arrangements 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. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(c) Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group

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 2008:

HKAS 1 (Revised) - Presentation of Financial Statements (effective from 1st January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the profit and loss account and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The adoption of this revised standard is not expected to have significant impact on the Group's results of operations or financial position.

HKAS 23 (Revised) Borrowing Costs (effective from 1st January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying assets (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The adoption of this revised standard is not expected to have significant impact on the Group's financial statements.

HKAS 27 (Revised) Consolidated and Separate Financial Statements (effective from 1st July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to transactions with non-controlling interests from 1st January 2010.

HKAS 32 (Amendment) - Financial Instruments: Presentation and HKAS 1 (Amendment) - Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation (effective from 1st January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The Group will apply the HKAS 32 (Amendment) and HKAS 1 (Amendment) from 1st January 2009, but is not expected to have significant impact on the Group's financial statements.

HKFRS 3 (Revised) Business Combinations (effective from 1st July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the profit and loss account. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1st January 2010.

HKFRS 8 Operating Segment (effective from 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 significant effect on the Group's results of operations or financial position.

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 not been early adopted by the Group (Continued)

HK(IFRIC) - Int 13 - Customer Loyalty Programmes Statements (effective from 1st July 2008). HK(IFRIC) Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The Group will apply HK(IFRIC) Int 13 from 1st January 2009 and the adoption of this interpretation is not expected to have significant impact on the Group's financial statements.

HKICPA's improvements to HKFRS published in October 2008

HKAS 1 (Amendment) - Presentation of Financial Statements (effective from 1st January 2009). The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with HKAS 39 Financial Instruments: Recognition and Measurement are examples of current assets and liabilities respectively. The Group will apply HKAS 1 (Amendment) from 1st January 2009. It is not expected to have an significant impact on the Group's financial statements.

HKAS 19 (Amendment) - Employee Benefits (effective from 1st January 2009).
– The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.
– The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.
– The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.
– HKAS 37 Provisions, Contingent Liabilities and Contingent Assets requires contingent liabilities to be disclosed, not recognised. HKAS 19 has been amended to be consistent.
The Group will apply HKAS 19 (Amendment) from 1st January 2009.

HKAS 23 (Amendment) - Borrowing Costs (effective from 1st January 2009). The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in HKAS 39 Financial Instruments: Recognition and Measurement. This eliminates the inconsistency of terms between HKAS 39 and HKAS 23. The Group will apply the HKAS 23 (Amendment) prospectively to the capitalisation of borrowing costs on qualifying assets from 1st January 2009.

HKAS 28 (Amendment) - Investments in Associates (and consequential amendments to HKAS 32 - Financial Instruments: Presentation and HKFRS 7 - Financial instruments: Disclosures) (effective from 1st January 2009). An investment in associate is treated as a single asset for the purposes of impairment testing and any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The Group will apply the HKAS 28 (Amendment) to impairment tests related to investment in associates and any related impairment losses from 1st January 2009.

HKAS 36 (Amendment) - Impairment of Assets (effective from 1st January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply HKAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1st January 2009.

HKAS 38 (Amendment) - Intangible Assets (effective from 1st January 2009). A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group will apply the HKAS 38 (Amendment) from 1st January 2009.

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 not been early adopted by the Group (Continued)

HKICPA's improvements to HKFRS published in October 2008 (Continued)

HKAS 39 (Amendment) - Financial Instruments: Recognition and Measurement (effective from 1st January 2009).
– This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.
– The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.
– The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes this requirement so that HKAS 39 is consistent with HKFRS 8 Operating Segments which requires disclosure for segments to be based on information reported to the chief operating decision maker. Currently for segment reporting purposes, each subsidiary designates and documents (including effectiveness testing) contracts with group treasury as fair value or cash flow hedges so that the hedges are reflected in the segment to which the hedged items relate. This is consistent with the information viewed by the chief operating decision maker. After the amendment is effective, the hedge will continue to be reflected in the segment to which the hedged items relate (and information provided to the chief operating decisions maker) but the Group will not formally document and test this hedging relationship.
– When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used.

The Group will apply the HKAS 39 (Amendment) from 1st January 2009. It is not expected to have significant impact on the Group's profit and loss account.

HKFRS 5 (Amendment) - Non-current Assets Held for Sale and Discontinued Operations (and consequential amendment to HKFRS 1, 'First-time adoption') (effective from 1st July 2009). The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to HKFRS 1 states that these amendments are applied prospectively from the date of transition to HKFRSs. The Group will apply the HKFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1st January 2010.

HKAS 31 (Amendment) - Interests in Joint Ventures (and consequential amendments to HKAS 32 and HKFRS 7) (effective from 1st January 2009). Where an investment in joint venture is accounted for in accordance with HKAS 39, only certain rather than all disclosure requirements in HKAS 31 need to be made in addition to disclosures required by HKAS 32 Financial instruments: Presentation and HKFRS 7 Financial instruments: Disclosures. The amendment will not have significant impact on the Group's operations.

HKAS 38 (Amendment) - Intangible Assets (effective from 1st January 2009). The amendment deletes the wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight line method. The amendment will not currently have significant impact on the Group's operations as all intangible assets are amortised using the straight line method.

HKAS 40 (Amendment) - Investment Property (and consequential amendments to HKAS 16) (effective from 1st January 2009). Property that is under construction or development for future use as investment property is within the scope of HKAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable. The Group is in the process of assessing the impact of HKAS 40 (Amendment) - Investment Property (and consequential amendment to HKAS 16) on the Group's operations.

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 not been early adopted by the Group (Continued)

HKICPA's improvements to HKFRS published in October 2008 (Continued)

There are a number of minor amendments to HKFRS 7 Financial Instruments: Disclosures, HKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, HKAS 10 Events after the Reporting Period, HKAS 18 Revenue and HKAS 34 Interim Financial Reporting, which are not addressed above. These amendments are unlikely to have an impact on the Group's financial statements and have therefore not been analysed in details.

(d) Standards, amendments and interpretations that are not yet effective and not relevant to the Group's operations

HKFRS 1 (Amendment) - First Time Adoption of HKFRS and HKAS 27 - Consolidated and Separate Financial Statements (effective from 1st January 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from HKAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. This amendment is not relevant to the Group.

HKFRS 2 (Amendment) - Share-based Payment (effective from 1st January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. This amendment is not relevant to the Group.

HKICPA's improvements to HKFRS published in October 2008

HKAS 16 (Amendment) - Property, Plant and Equipment (and consequential amendment to HKAS 7 'Statement of Cash Flows') (effective from 1st January 2009). Entities whose ordinary activities comprise renting and subsequently selling assets present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held-for-sale. A consequential amendment to HKAS 7 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities. The amendment will not have an impact on the Group's operations because none of the Group's companies ordinary activities comprise renting and subsequently selling assets.

HKAS 27 (Amendment) - Consolidated and Separate Financial Statements (effective for annual periods beginning from 1st January 2009). Where an investment in a subsidiary that is accounted for under HKAS 39 Financial Instruments: Recognition and Measurement is classified as held for sale under HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations, HKAS 39 would continue to be applied. The amendment will not have an impact on the Group's operations because it is the Group's policy for an investment in subsidiary to be recorded at cost in the standalone financial statements of each entity.

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 all entities (including special purpose 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.

2. Summary of significant accounting policies (Continued)

2.2 Basis of consolidation (Continued)

(a) Subsidiaries (Continued)

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 interest. 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 dividend received and receivable.

(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.

2.3 Foreign currency translation

(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 the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. 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 securities and other changes in the carrying amount of the securities. 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 financial assets and liabilities, such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale investment revaluation reserve in equity.

2. Summary of significant accounting policies (Continued)

2.3 Foreign currency translation (Continued)

(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 disposed of, or partially disposed of, exchange differences 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.

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.

(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.

2. Summary of significant accounting policies (Continued)

2.4 Income recognition (Continued)

(c) Dividend income

Dividends are recognised in the profit and loss account when the entity's 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.

Where the Group is a lessor under operating leases, assets leased out are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

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. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

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. Summary of significant accounting policies (Continued)

2.7 Financial assets

2.7.1 Classification

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: financial assets held for trading, 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 or incurred principally for the purpose of selling in the near 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.

(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 because 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.

2. Summary of significant accounting policies (Continued)

2.7 Financial assets (Continued)

2.7.2 Reclassification

The Group may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

2.7.3 Recognition and measurement

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.

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.

2.8 Impairment of financial assets

(a) Assets carried at amortised cost

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. A financial asset or a group of financial assets is impaired and impairment losses are incurred 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.

2. Summary of significant accounting policies (Continued)

2.8 Impairment of financial assets (Continued)

(a) Assets carried at amortised cost (Continued)

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 individually or 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 instruments 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.

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.

2. Summary of significant accounting policies (Continued)

2.8 Impairment of financial assets (Continued)

(a) Assets carried at amortised cost (Continued)

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 (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit and loss account.

(b) 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 (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in 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 profit and loss account, the impairment loss is reversed through the profit and loss account.

(c) 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.

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, including our own debt securities in issue and deposits received from customers that are embedded with certain derivatives, 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.

2. Summary of significant accounting policies (Continued)

2.9 Financial liabilities (Continued)

(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.

2.10 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 Current and Deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and jointly controlled entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, 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. 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 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 income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from depreciation of property, plant 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.

2. Summary of significant accounting policies (Continued)

2.11 Current and Deferred income tax (Continued)

Deferred income tax assets are recognised only 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.

Deferred tax 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.

(c) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

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 properties are buildings located in Hong Kong. Investment properties are 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. Summary of significant accounting policies (Continued)

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 at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. 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. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

(b) Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as 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 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 and certificate of deposits that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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. Summary of significant accounting policies (Continued)

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 Impairment of investment in subsidiaries, 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 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.

2.21 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.

2.22 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 judgement of management.

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

2. Summary of significant accounting policies (Continued)

2.23 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.

(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 judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. 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 current and deferred income tax and deferred tax assets and liabilities 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.

2. Summary of significant accounting policies (Continued)

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

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

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.

3. Financial risk management (Continued)

3.1 Credit risk (Continued)

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.

3.1.1 Risk limit control and mitigation policies

(a) Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is a common practice. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable; and
- Charges over bank deposits and financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities and treasury bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

(b) 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.

(c) 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.

3. Financial risk management (Continued)

3.1 Credit risk (Continued)

3.1.1 Risk limit control and mitigation policies (Continued)

(c) Credit-related commitments (Continued)

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

	2008		2007	
	Loans and advances (%)	Impairment provision (%)	Loans and advances (%)	Impairment provision (%)
1 – satisfactory	**93.94**	**0.41**	93.78	0.30
2 – special monitoring	**3.51**	**0.41**	4.71	0.22
3 – sub-standard	**2.18**	**17.01**	1.24	9.21
4 – doubtful	**0.21**	**20.69**	0.11	14.39
5 – loss	**0.16**	**5.73**	0.16	5.80
	100.00		100.00	

Grade 1 "Satisfactory" represents loans for which borrowers are current in meeting commitments and full repayment of interest and principal is not in doubt.

Grade 2 "Special monitoring" represents loans with significant deficiencies and potential weakness such that if adverse conditions persist, ultimate loss for the Bank may occur.

Grade 3 "Sub-standard" represents loans in which borrowers are displaying a definable weakness that is likely to jeopardize payment. These loans include rescheduled loans and loans where some loss of principal or interest is possible after taking account of the net realisable value of security.

Grade 4 "Doubtful" represents loans which collection in full is improbable and the Bank expects to sustain a loss of interest and/or principal after taking account of the net realisable value of security.

Grade 5 "Loss" represents loans which considered as uncollectible after exhausting all collection efforts such as realisation of collateral, initiation of legal proceedings and need to be fully or partially written off.

The internal rating tool assists management to determine whether objective evidence of impairment exists under HKAS 39, based on the following criteria set out by the Group:

- 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; and
- Deterioration in the value of collateral.

3. Financial risk management (Continued)

3.1 Credit risk (Continued)

3.1.2 Impairment and provisioning policies (Continued)

The Group's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgement and statistical techniques.

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

The Group

	Maximum exposure	
	2008 HK$'000	2007 HK$'000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Balances with banks	**22,240,048**	29,270,386
Placements with and loans and advances to banks	**17,859,712**	12,056,719
Loans and advances to customers:		
Loans to individuals:		
– Overdrafts	**435,683**	477,758
– Credit cards	**305,121**	325,655
– Term loans and others	**5,611,911**	5,161,151
– Mortgages	**6,768,656**	5,593,506
Loans to corporate entities:		
– Large corporate customers and others	**30,975,007**	29,116,473
– Small and medium size enterprises (SMEs)	**5,660,606**	5,256,744
Trading assets:		
– Debt securities	**240,961**	153,060
Financial assets designated at fair value:		
– Debt securities	**341,866**	407,171
Derivative financial instruments	**37,252**	428,434
Investment securities:		
– Debt securities	**13,829,991**	16,077,115
Other assets	**1,917,956**	1,750,802
Credit risk exposures relating to off-balance sheet items are as follows:		
– Financial guarantees	**2,447,463**	1,586,927
– Loan commitments and other credit related liabilities	**41,819,586**	41,466,388
At 31st December	**150,491,819**	149,128,289

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	
	2008 HK$'000	2007 HK$'000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Balances with banks	**22,240,048**	29,270,386
Placements with and loans and advances to banks	**17,859,712**	12,056,719
Loans and advances to customers:		
Loans to individuals:		
– Overdrafts	**435,683**	477,758
– Credit cards	**305,121**	325,655
– Term loans and others	**5,611,911**	5,161,151
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Loans to corporate entities:		
– Large corporate customers and others	**30,975,007**	29,116,473
– Small and medium size enterprises (SMEs)	**5,660,606**	5,256,744
Trading assets:		
– Debt securities	**240,961**	153,060
Financial assets designated at fair value:		
– Debt securities	**341,866**	407,171
Derivative financial instruments	**37,252**	428,434
Investment securities:		
– Debt securities	**11,460,676**	13,874,723
Other assets	**1,661,227**	822,553
Credit risk exposures relating to off-balance sheet items are as follows:		
– Financial guarantees	**2,447,463**	1,586,927
– Loan commitments and other credit related liabilities	**41,819,586**	41,466,388
At 31st December	**147,865,775**	145,997,648

The above table represents a worse case scenario of credit risk exposure to the Group and the Bank at 31st December 2008 and 2007, 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 2008		31st December 2007	
	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	**47,126,055**	**83,527**	43,496,078	84,230
Past due but not impaired	**1,765,573**	**–**	1,937,516	–
Impaired	**1,276,073**	**–**	694,556	–
Gross	**50,167,701**	**83,527**	46,128,150	84,230
Less: allowance for impairment	**(410,717)**	**–**	(196,863)	–
Net	**49,756,984**	**83,527**	45,931,287	84,230

The total impairment provision for loans and advances is HK$410,717,000 (2007: HK$196,863,000) of which HK$211,768,000 (2007: HK$63,989,000) represents the individual assessment provision and the remaining amount of HK$198,949,000 (2007: HK$132,874,000) 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 policies and procedures adopted by the Group.

The Group and the Bank 31st December 2008

	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	397,034	301,638	5,134,535	6,450,456	28,293,439	5,213,600	45,790,702	83,527
2 – special monitoring	9,717	5,823	160,204	139,096	768,313	252,200	1,335,353	–
Total	406,751	307,461	5,294,739	6,589,552	29,061,752	5,465,800	47,126,055	83,527

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	4,811,338	5,379,063	26,082,490	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	4,985,246	5,396,309	27,364,015	5,037,990	43,496,078	84,230

(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 2008

	Individual (retail customers)				
	Overdrafts HK$'000	Credit cards HK$'000	Term loans and others HK$'000	Mortgages HK$'000	Total HK$'000
Past due up to 30 days	–	–	138,846	139,270	278,116
Past due 30 - 60 days	8,784	–	25,983	24,998	59,765
Past due 60 - 90 days	–	–	7,590	2,564	10,154
Past due over 90 days	10,985	–	–	2,415	13,400
Total	19,769	–	172,419	169,247	361,435
Fair value of collateral	16,525	–	370,362	332,266	719,153

	Corporate entities		
	Large corporate customers and others HK$'000	SMEs HK$'000	Total HK$'000
Past due up to 30 days	1,130,045	71,862	1,201,907
Past due 30 - 60 days	60,181	23,583	83,764
Past due 60 - 90 days	40,707	4,766	45,473
Past due over 90 days	67,310	5,684	72,994
Total	1,298,243	105,895	1,404,138
Fair value of collateral	1,743,335	409,538	2,152,873

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 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 up to 30 days	–	6,572	80,075	171,959	258,606
Past due 30 - 60 days	71,907	1,985	39	21,725	95,656
Past due 60 - 90 days	3,851	–	3,452	17,277	24,580
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 up to 30 days	1,326,786	118,577	1,445,363
Past due 30 - 60 days	67,348	13,896	81,244
Past due 60 - 90 days	24,425	7,642	32,067
Total	1,418,559	140,115	1,558,674
Fair value of collateral	1,920,718	137,521	2,058,239

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

	2008		2007	
	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	133,052	0.27	92,672	0.20
– one year or less but over six months	122,746	0.24	60,165	0.13
– over one year	80,287	0.16	68,901	0.15
	336,085	0.67	221,738	0.48

(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 2008					
Overdue loans and advances on:					
– Customers	336,085	507,566	236,527	99,558	37,489
31st December 2007					
Overdue loans and advances on:					
– Customers	221,738	364,598	142,978	78,760	13,122

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$1,276,073,000 (2007: HK$694,556,000).

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 2008									
Individually impaired loans	11,912	5,871	219,698	65,300	846,922	126,370	1,276,073	2.54	211,768
Fair value of collateral	12,501	–	161,940	124,815	1,000,030	249,353	1,548,639		
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		

(ii) Loans and advances to a bank

There were no gross impaired loans and advances to a bank at 31st December 2008 (2007: 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 judgement 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$62,892,000 at 31st December 2008 (2007: HK$11,778,000).

The Group and the Bank

	2008 HK$'000	2007 HK$'000
Loans and advances to customers - individuals:		
– Credit cards	2,469	1,466
– Term loans and others	5,383	1,898
– Mortgages	20,561	542
Loans and advances to customers - corporate entities:		
– SMEs	13,610	5,769
– Large corporate customers and others	20,869	2,103
Total	62,892	11,778

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 overdue for more than 3 months

The Group and the Bank	2008 HK$'000	% of total loans and advances to customers	2007 HK$'000	% of total loans and advances to customers
Loans and advances to customers	81,827	0.16	59,286	0.13

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 2008	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	101,974	1,104,200	–	–	1,206,174
AA- to AA+	6,514	4,259,070	2,211,309	–	6,476,893
A- to A+	87,843	3,684,358	81,633	–	3,853,834
Lower than A-	18,568	851,090	–	341,866	1,211,524
Unrated	26,062	980,753	657,578	–	1,664,393
Total	240,961	10,879,471	2,950,520	341,866	14,412,818

The Bank 2008	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	101,974	703,779	–	–	805,753
AA- to AA+	6,514	4,259,070	639,752	–	4,905,336
A- to A+	87,843	3,684,358	77,584	–	3,849,785
Lower than A-	18,568	851,090	–	341,866	1,211,524
Unrated	26,062	980,753	264,290	–	1,271,105
Total	240,961	10,479,050	981,626	341,866	12,043,503

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

There were no overdue debt securities in the year of 2008 (2007: 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	
	2008 HK$'000	2007 HK$'000
Nature of assets		
Commercial property	**1,044**	–
Industrial property	**8,423**	–
Residential properties	**32,156**	12,435

At 31st December 2008, the fair value of repossessed assets of the Group and the Bank amounted to HK$55,040,000 (2007: HK$20,290,000).

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 2008. 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 2008

	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
Balances with banks	**1,178,789**	**9,907,694**	**2,710,195**	**18**	**8,443,352**	**–**	**22,240,048**
Placements with and loans and advances to banks	**188,959**	**7,056,794**	**694,382**	**–**	**9,919,577**	**–**	**17,859,712**
Loans and advances to customers:							
Loans to individuals:							
– Overdrafts	**431,467**	**3,841**	**–**	**63**	**312**	**–**	**435,683**
– Credit cards	**302,932**	**2,189**	**–**	**–**	**–**	**–**	**305,121**
– Term loans and others	**4,940,907**	**371,156**	**276,196**	**–**	**23,652**	**–**	**5,611,911**
– Mortgages	**5,422,285**	**195,568**	**1,033,988**	**1,331**	**115,484**	**–**	**6,768,656**
Loans to corporate entities:							
– Large corporate customers and others	**20,378,692**	**1,280,320**	**7,806,191**	**1,778**	**192,817**	**1,315,209**	**30,975,007**
– SMEs	**5,587,947**	**787**	**937**	**–**	**–**	**70,935**	**5,660,606**
Trading assets – debt securities	**356**	**96,408**	**144,197**	**–**	**–**	**–**	**240,961**
Financial assets designated at fair value:							
– Debt securities	**341,866**	**–**	**–**	**–**	**–**	**–**	**341,866**
Derivative financial instruments	**34,082**	**135**	**47**	**–**	**2,988**	**–**	**37,252**
Investment securities - debt securities	**5,003,871**	**2,343,438**	**4,143,146**	**–**	**1,168,904**	**1,170,632**	**13,829,991**
Other assets	**1,914,742**	**169**	**2,131**	**–**	**914**	**–**	**1,917,956**
	45,726,895	**21,258,499**	**16,811,410**	**3,190**	**19,868,000**	**2,556,776**	**106,224,770**

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 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
Balances with banks	1,659,965	6,371,637	2,229,583	48	19,009,153	–	29,270,386
Placements with and loans and advances to banks	1,089,046	5,094,824	158,227	–	5,714,622	–	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	4,660,326	47,330	440,197	–	13,298	–	5,161,151
– Mortgages	5,313,011	40,118	139,341	–	101,036	–	5,593,506
Loans to corporate entities:							
– Large corporate customers and others	20,624,616	885,783	6,808,895	–	–	797,179	29,116,473
– SMEs	4,922,199	15,751	59,564	–	224,285	34,945	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
	45,879,421	15,094,895	16,111,823	48	27,098,423	1,890,364	106,074,974

The Bank as at 31st December 2008

	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**
Balances with banks	**1,178,789**	**9,907,694**	**2,710,195**	**18**	**8,443,352**	**–**	**22,240,048**
Placements with and loans and advances to banks	**188,959**	**7,056,794**	**694,382**	**–**	**9,919,577**	**–**	**17,859,712**
Loans and advances to customers:							
Loans to individuals:							
– Overdrafts	**431,467**	**3,841**	**–**	**63**	**312**	**–**	**435,683**
– Credit cards	**302,932**	**2,189**	**–**	**–**	**–**	**–**	**305,121**
– Term loans and others	**4,940,907**	**371,156**	**276,196**	**–**	**23,652**	**–**	**5,611,911**
– Mortgages	**5,422,285**	**195,568**	**1,033,988**	**1,331**	**115,484**	**–**	**6,768,656**
Loans to corporate entities:							
– Large corporate customers and others	**20,378,692**	**1,280,320**	**7,806,191**	**1,778**	**192,817**	**1,315,209**	**30,975,007**
– SMEs	**5,587,947**	**787**	**937**	**–**	**–**	**70,935**	**5,660,606**
Trading assets – debt securities	**356**	**96,408**	**144,197**	**–**	**–**	**–**	**240,961**
Financial assets designated at fair value:							
– Debt securities	**341,866**	**–**	**–**	**–**	**–**	**–**	**341,866**
Derivative financial instruments	**34,082**	**135**	**47**	**–**	**2,988**	**–**	**37,252**
Investment securities - debt securities	**3,034,977**	**2,343,438**	**3,894,337**	**–**	**1,017,292**	**1,170,632**	**11,460,676**
Other assets	**1,658,013**	**169**	**2,131**	**–**	**914**	**–**	**1,661,227**
	43,501,272	**21,258,499**	**16,562,601**	**3,190**	**19,716,388**	**2,556,776**	**103,598,726**

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
Balances with banks	1,659,965	6,371,637	2,229,583	48	19,009,153	–	29,270,386
Placements with and loans and advances to banks	1,089,046	5,094,824	158,227	–	5,714,622	–	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	4,660,326	47,330	440,197	–	13,298	–	5,161,151
– Mortgages	5,313,011	40,118	139,341	–	101,036	–	5,593,506
Loans to corporate entities:							
– Large corporate customers and others	20,624,616	885,783	6,808,895	–	–	797,179	29,116,473
– SMEs	4,922,199	15,751	59,564	–	224,285	34,945	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
	43,215,838	15,094,895	15,914,308	48	26,828,879	1,890,365	102,944,333

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 banks 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 2008

	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
Balances with banks	22,240,048	–	–	–	–	–	–	22,240,048
Placements with and loans and advances to banks	17,859,712	–	–	–	–	–	–	17,859,712
Loans and advances to customers:								
Loans to individuals:								
– Overdrafts	–	–	–	–	–	–	435,683	435,683
– Credit cards	–	–	–	–	–	–	305,121	305,121
– Term loans and others	–	–	–	–	–	–	5,611,911	5,611,911
– Mortgages	–	–	–	–	–	–	6,768,656	6,768,656
Loans to corporate entities:								
– Large corporate customers and others	–	2,427,074	17,074,363	849,809	191,616	10,432,145	–	30,975,007
– SMEs	–	632,767	3,105,153	254,253	–	1,668,433	–	5,660,606
	40,099,760	3,059,841	20,179,516	1,104,062	191,616	12,100,578	13,121,371	89,856,744

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
Balances with banks	29,270,386	–	–	–	–	–	–	29,270,386
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	–	–	–	–	–	–	5,161,151	5,161,151
– Mortgages	–	–	–	–	–	–	5,593,506	5,593,506
Loans to corporate entities:								
– Large corporate customers and others	–	1,680,792	15,270,654	945,662	–	11,219,365	–	29,116,473
– SMEs	–	540,436	2,244,898	288,396	–	2,183,014	–	5,256,744
	41,327,105	2,221,228	17,515,552	1,234,058	–	13,402,379	11,558,070	87,258,392

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 2008 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 2008 and 2007

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 2008, if market interest rates had been 100 basis points (2007: 100 basis points) higher with other variables held constant, profit before taxation for the year would have been HK$90,453,000 (2007: HK$63,194,000) 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$73,754,000 (2007: HK$110,208,000) lower.

Foreign exchange risk
At 31st December 2008, over 90% (2007: 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 2008

	HK$ HK$'000	US$ HK$'000	EUR HK$'000	Other HK$'000	Total HK$'000
Assets					
Cash and balances with banks	7,875,176	8,732,464	890,967	5,067,187	22,565,794
Placements with and loans and advances to banks	7,280,252	7,725,572	773,261	2,080,627	17,859,712
Trading assets	–	213,364	–	96,764	310,128
Derivative financial instruments	19,333	4,741	11,472	1,706	37,252
Financial assets designated at fair value	–	341,866	–	–	341,866
Loans and advances to customers	35,244,003	12,889,076	130,117	1,493,788	49,756,984
Investment securities:					
– Available-for-sale	1,822,382	8,775,535	261,401	765,702	11,625,020
– Held-to-maturity	1,964,952	985,568	–	–	2,950,520
Investments in jointly controlled entities	125,181	–	–	–	125,181
Property and equipment	297,474	66,782	–	28,648	392,904
Investment property	56,465	–	–	–	56,465
Leasehold land and land use rights	1,648,779	–	–	–	1,648,779
Deferred income tax assets	138,024	21,712	–	401	160,137
Other assets	1,524,935	49,563	62,825	280,633	1,917,956
Total assets	57,996,956	39,806,243	2,130,043	9,815,456	109,748,698
Liabilities					
Deposits and balances from banks	2,052,813	1,198,781	2,250	554,909	3,808,753
Derivative financial instruments	19,333	32,564	9,510	1,614	63,021
Deposits from customers	42,418,928	36,165,311	2,113,737	8,833,897	89,531,873
Other liabilities	978,791	97,643	69,403	270,178	1,416,015
Provisions	80,483	3,028	–	82	83,593
Current income tax liabilities	893	1,363	–	1,433	3,689
Deferred income tax liabilities	79	–	–	–	79
Total liabilities	45,551,320	37,498,690	2,194,900	9,662,113	94,907,023
Net on-balance sheet position	12,445,636	2,307,553	(64,857)	153,343	14,841,675
Credit commitments	27,434,322	16,351,260	279,888	201,579	44,267,049

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 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 Bank at 31st December 2008

	HK$ HK$'000	US$ HK$'000	EUR HK$'000	Other HK$'000	Total HK$'000
Assets					
Cash and balances with banks	7,875,170	8,732,464	890,967	5,067,187	22,565,788
Placements with and loans and advances to banks	7,280,252	7,725,572	773,261	2,080,627	17,859,712
Trading assets	–	213,364	–	96,764	310,128
Derivative financial instruments	19,333	4,741	11,472	1,706	37,252
Financial assets designated at fair value	–	341,866	–	–	341,866
Loans and advances to customers	35,244,003	12,889,076	130,117	1,493,788	49,756,984
Investment securities:					
– Available-for-sale	1,421,961	8,775,535	261,401	765,702	11,224,599
– Held-to-maturity	–	981,626	–	–	981,626
Investments in jointly controlled entities	117,300	–	–	–	117,300
Investments in and loans to subsidiary companies	2,290,214	2,705	–	33,604	2,326,523
Property and equipment	304,679	66,782	–	1,266	372,727
Investment properties	63,790	–	–	–	63,790
Leasehold land and land use rights	1,648,779	–	–	–	1,648,779
Deferred income tax assets	138,024	21,712	–	401	160,137
Other assets	1,266,299	49,563	62,825	282,540	1,661,227
Total assets	57,669,804	39,805,006	2,130,043	9,823,585	109,428,438
Liabilities					
Deposits and balances from banks	2,052,813	1,198,781	2,250	554,909	3,808,753
Derivative financial instruments	19,333	32,564	9,510	1,614	63,021
Deposits from customers	42,418,928	36,165,311	2,113,737	8,833,897	89,531,873
Other liabilities	725,767	97,619	69,403	271,681	1,164,470
Provisions	79,895	3,028	–	82	83,005
Current income tax liabilities	–	1,363	–	1,421	2,784
Total liabilities	45,296,736	37,498,666	2,194,900	9,663,604	94,653,906
Net on-balance sheet position	12,373,068	2,306,340	(64,857)	159,981	14,774,532
Credit commitments	27,434,322	16,351,260	279,888	201,579	44,267,049

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

3.2.4 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 at 31st December 2008

	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
Assets							
Cash and balances with banks	21,644,885	–	–	–	–	920,909	22,565,794
Placements with and loans and advances to banks	83,710	16,793,816	982,186	–	–	–	17,859,712
Trading assets	361	98,498	3,698	67,076	71,328	69,167	310,128
Derivative financial instruments	–	–	–	–	–	37,252	37,252
Financial assets designated at fair value	–	–	341,866	–	–	–	341,866
Loans and advances to customers	44,197,774	3,524,310	1,379,158	222,071	–	433,671	49,756,984
Investment securities:							
– Available-for-sale	2,259,595	3,959,930	1,590,282	2,328,528	738,382	748,303	11,625,020
– Held-to-maturity	170,519	196,065	1,153,982	1,426,011	3,943	–	2,950,520
Investments in jointly controlled entities	–	–	–	–	–	125,181	125,181
Property and equipment	–	–	–	–	–	392,904	392,904
Investment property	–	–	–	–	–	56,465	56,465
Leasehold land and land use rights	–	–	–	–	–	1,648,779	1,648,779
Deferred income tax assets	–	–	–	–	–	160,137	160,137
Other assets	–	–	–	–	–	1,917,956	1,917,956
Total financial assets	68,356,844	24,572,619	5,451,172	4,043,686	813,653	6,510,724	109,748,698
Liabilities							
Deposits and balances from banks	2,130,853	1,293,773	184,887	–	–	199,240	3,808,753
Derivative financial instruments	–	–	–	–	–	63,021	63,021
Deposits from customers	56,818,769	20,218,091	7,476,484	10,068	–	5,008,461	89,531,873
Certificates of deposit issued	–	–	–	–	–	–	–
Other liabilities	136,778	–	–	–	–	1,279,237	1,416,015
Provisions	–	–	–	–	–	83,593	83,593
Current income tax liabilities	–	–	–	–	–	3,689	3,689
Deferred income tax liabilities	–	–	–	–	–	79	79
Total financial liabilities	59,086,400	21,511,864	7,661,371	10,068	–	6,637,320	94,907,023
Total interest repricing gap	9,270,444	3,060,755	(2,210,199)	4,033,618	813,653	(126,596)	14,841,675

The Group at 31st December 2007

	Up to 1 month HK$'000	1-3 months HK$'000	3-12 months HK$'000	1-5 years HK$'000	Over 5 years HK$'000	Non-interest bearing HK$'000	Total HK$'000
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

3. Financial risk management (Continued)

3.2 Market risk (Continued)

3.2.4 Interest rate risk (Continued)

The Bank at 31st December 2008

	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
Assets							
Cash and balances with banks	21,644,885	–	–	–	–	920,903	22,565,788
Placements with and loans and advances to banks	83,710	16,793,816	982,186	–	–	–	17,859,712
Trading assets	361	98,498	3,698	67,076	71,328	69,167	310,128
Derivative financial instruments	–	–	–	–	–	37,252	37,252
Financial assets designated at fair value	–	–	341,866	–	–	–	341,866
Loans and advances to customers	44,197,774	3,524,310	1,379,158	222,071	–	433,671	49,756,984
Investment securities:							
– Available-for-sale	2,258,635	3,958,247	1,450,017	2,071,015	738,382	748,303	11,224,599
– Held-to-maturity	171,480	197,171	380,474	232,501	–	–	981,626
Investments in jointly controlled entities	–	–	–	–	–	117,300	117,300
Investments in and loans to subsidiary companies	–	–	–	–	–	2,326,523	2,326,523
Property and equipment	–	–	–	–	–	372,727	372,727
Investment properties	–	–	–	–	–	63,790	63,790
Leasehold land and land use rights	–	–	–	–	–	1,648,779	1,648,779
Deferred income tax assets	–	–	–	–	–	160,137	160,137
Other assets	–	–	–	–	–	1,661,227	1,661,227
Total financial assets	68,356,845	24,572,042	4,537,399	2,592,663	809,710	8,559,779	109,428,438
Liabilities							
Deposits and balances from banks	2,130,853	1,293,773	184,887	–	–	199,240	3,808,753
Derivative financial instruments	–	–	–	–	–	63,021	63,021
Deposits from customers	56,818,769	20,218,091	7,476,484	10,068	–	5,008,461	89,531,873
Certificates of deposit issued	–	–	–	–	–	–	–
Other liabilities	136,778	–	–	–	–	1,027,692	1,164,470
Provisions	–	–	–	–	–	83,005	83,005
Current income tax liabilities	–	–	–	–	–	2,784	2,784
Total financial liabilities	59,086,400	21,511,864	7,661,371	10,068	–	6,384,203	94,653,906
Total interest repricing gap	9,270,445	3,060,178	(3,123,972)	2,582,595	809,710	2,175,576	14,774,532

The Bank at 31st December 2007

	Up to 1 month HK$'000	1-3 months HK$'000	3-12 months HK$'000	1-5 years HK$'000	Over 5 years HK$'000	Non-interest bearing HK$'000	Total HK$'000
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

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 at 31st December 2008

	Repayable on demand HK$'000	Up to 1 month HK$'000	1-3 months HK$'000	3-12 months HK$'000	1-5 years HK$'000	Over 5 years HK$'000	Indefinite HK$'000	Total HK$'000
Assets								
Cash and balances with banks	1,194,187	21,371,607	–	–	–	–	–	22,565,794
Placements with and loans and advances to banks	–	–	16,795,532	1,064,180	–	–	–	17,859,712
Trading assets	–	762	2,184	4,180	162,507	71,328	69,167	310,128
Derivative financial instruments	–	18,409	13,125	5,718	–	–	–	37,252
Financial assets designated at fair value	–	–	–	1,749	–	340,117	–	341,866
Loans and advances to customers	4,824,040	4,277,073	4,639,737	7,782,485	15,034,534	13,199,115	–	49,756,984
Investment securities:								
– Available-for-sale	–	834,372	570,212	1,836,751	4,979,042	2,656,341	748,302	11,625,020
– Held-to-maturity	–	5,237	123,571	1,068,118	1,672,151	81,443	–	2,950,520
Investments in jointly controlled entities	–	–	–	–	–	–	125,181	125,181
Property and equipment	–	–	–	–	106,262	251,176	35,466	392,904
Investment property	–	–	–	–	–	56,465	–	56,465
Leasehold land and land use rights	–	–	–	–	–	1,648,779	–	1,648,779
Deferred income tax assets	–	–	–	–	160,137	–	–	160,137
Other assets	6,161	628,479	206,803	346,972	725,422	2,619	1,500	1,917,956
Total assets	6,024,388	27,135,939	22,351,164	12,110,153	22,840,055	18,307,383	979,616	109,748,698
Liabilities								
Deposits and balances from banks	541,930	1,818,768	311,575	341,229	795,251	–	–	3,808,753
Derivative financial instruments	–	20,083	8,897	3,544	30,497	–	–	63,021
Deposits from customers	26,713,617	35,078,474	20,219,954	7,509,754	10,074	–	–	89,531,873
Certificates of deposit issued	–	–	–	–	–	–	–	–
Other liabilities	42,513	1,201,254	32,759	139,489	–	–	–	1,416,015
Provisions	–	83,459	7	–	–	127	–	83,593
Current income tax liabilities	–	–	–	3,689	–	–	–	3,689
Deferred income tax liabilities	–	–	–	–	79	–	–	79
Total liabilities	27,298,060	38,202,038	20,573,192	7,997,705	835,901	127	–	94,907,023
Net liquidity gap	(21,273,672)	(11,066,099)	1,777,972	4,112,448	22,004,154	18,307,256	979,616	14,841,675

3. Financial risk management (Continued)

3.3 Liquidity risk (Continued)

3.3.2 Maturity analysis (Continued)

The Group at 31st December 2007

	Repayable on demand HK$'000	Up to 1 month HK$'000	1-3 months HK$'000	3-12 months HK$'000	1-5 years HK$'000	Over 5 years HK$'000	Indefinite HK$'000	Total HK$'000
Assets								
Cash and balances with banks	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	264,582	42,061	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	15,645,273	939,881	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	15,645,138	939,881	14,894,029

The Bank at 31st December 2008

	Repayable on demand HK$'000	Up to 1 month HK$'000	1-3 months HK$'000	3-12 months HK$'000	1-5 years HK$'000	Over 5 years HK$'000	Indefinite HK$'000	Total HK$'000
Assets								
Cash and balances with banks	1,194,181	21,371,607	–	–	–	–	–	22,565,788
Placements with and loans and advances to banks	–	–	16,795,532	1,064,180	–	–	–	17,859,712
Trading assets	–	762	2,184	4,180	162,507	71,328	69,167	310,128
Derivative financial instruments	–	18,409	13,125	5,718	–	–	–	37,252
Financial assets designated at fair value	–	–	–	1,749	–	340,117	–	341,866
Loans and advances to customers	4,824,040	4,277,073	4,639,737	7,782,485	15,034,534	13,199,115	–	49,756,984
Investment securities:								
– Available-for-sale	–	829,769	569,842	1,698,814	4,721,531	2,656,341	748,302	11,224,599
– Held-to-maturity	–	3,526	43,374	378,584	478,642	77,500	–	981,626
Investments in jointly controlled entities	–	–	–	–	–	–	117,300	117,300
Investments in and loans to subsidiary companies	(569,030)	(19,239)	99,922	962,330	1,707,986	14,538	130,016	2,326,523
Property and equipment	–	–	–	–	120,188	233,551	18,988	372,727
Investment properties	–	–	–	–	–	63,790	–	63,790
Leasehold land and land use rights	–	–	–	–	–	1,648,779	–	1,648,779
Deferred income tax assets	–	–	–	–	160,137	–	–	160,137
Other assets	6,161	376,148	207,037	348,011	723,870	–	–	1,661,227
Total assets	5,455,352	26,858,055	22,370,753	12,246,051	23,109,395	18,305,059	1,083,773	109,428,438
Liabilities								
Deposits and balances from banks	541,930	1,818,768	311,575	341,229	795,251	–	–	3,808,753
Derivative financial instruments	–	20,083	8,897	3,544	30,497	–	–	63,021
Deposits from customers	26,713,617	35,078,474	20,219,954	7,509,754	10,074	–	–	89,531,873
Certificates of deposit issued	–	–	–	–	–	–	–	–
Other liabilities	42,513	950,526	32,611	138,820	–	–	–	1,164,470
Provisions	–	82,998	7	–	–	–	–	83,005
Current income tax liabilities	–	–	–	2,784	–	–	–	2,784
Total liabilities	27,298,060	37,950,849	20,573,044	7,996,131	835,822	–	–	94,653,906
Net liquidity gap	(21,842,708)	(11,092,794)	1,797,709	4,249,920	22,273,573	18,305,059	1,083,773	14,774,532

3. Financial risk management (Continued)

3.3 Liquidity risk (Continued)

3.3.2 Maturity analysis (Continued)

The Bank at 31st December 2007

	Repayable on demand HK$'000	Up to 1 month HK$'000	1-3 months HK$'000	3-12 months HK$'000	1-5 years HK$'000	Over 5 years HK$'000	Indefinite HK$'000	Total HK$'000
Assets								
Cash and balances with banks	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

3.3.3 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 at 31st December 2008

	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
Non-derivative cash flow						
Liabilities						
Deposits and balances from banks	2,371,084	318,398	358,703	825,101	–	3,873,286
Deposits from customers	61,856,262	20,283,346	7,602,676	10,967	–	89,753,251
Certificates of deposit issued	–	–	–	–	–	–
Other liabilities	1,243,767	32,759	139,489	–	–	1,416,015
Provisions	83,459	7	–	–	127	83,593
Current income tax liabilities	–	–	3,689	–	–	3,689
Deferred income tax liabilities	–	–	–	79	–	79
Total liabilities (contractual maturity dates)	65,554,572	20,634,510	8,104,557	836,147	127	95,129,913
Derivative cash flow						
Derivative financial instruments settled on net basis	(1,573)	(1,877)	13,926	12,654	–	23,130
Derivative financial instruments settled on a gross basis						
Total outflow	986,400	3,983,450	1,756,128	397,836	–	7,123,814
Total inflow	(980,266)	(3,988,148)	(1,759,635)	(395,251)	–	(7,123,300)
	6,134	(4,698)	(3,507)	2,585	–	514

The Group at 31st December 2007

	Up to 1 month HK$'000	1-3 months HK$'000	3-12 months HK$'000	1-5 years HK$'000	Over 5 years HK$'000	Total HK$'000
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)

3. Financial risk management (Continued)

3.3 Liquidity risk (Continued)

3.3.4 Undiscounted cash flows by contractual maturities (Continued)

The Bank at 31st December 2008

	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
Non-derivative cash flow						
Liabilities						
Deposits and balances from banks	2,371,084	318,398	358,703	825,101	–	3,873,286
Deposits from customers	61,856,262	20,283,346	7,602,676	10,967	–	89,753,251
Certificates of deposit issued	–	–	–	–	–	–
Other liabilities	993,039	32,611	138,820	–	–	1,164,470
Provisions	82,998	7	–	–	–	83,005
Current income tax liabilities	–	–	2,784	–	–	2,784
Total liabilities (contractual maturity dates)	65,303,383	20,634,362	8,102,983	836,068	–	94,876,796
Derivative cash flow						
Derivative financial instruments settled on net basis	(1,573)	(1,877)	13,926	12,654	–	23,130
Derivative financial instruments settled on a gross basis						
Total outflow	986,400	3,983,450	1,756,128	397,836	–	7,123,814
Total inflow	(980,266)	(3,988,148)	(1,759,635)	(395,251)	–	(7,123,300)
	6,134	(4,698)	(3,507)	2,585	–	514

The Bank at 31st December 2007

	Up to 1 month HK$'000	1-3 months HK$'000	3-12 months HK$'000	1-5 years HK$'000	Over 5 years HK$'000	Total HK$'000
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)

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

The Group at 31st December 2008

	No later than 1 year HK$'000	1-5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Loan and other commitments	37,035,886	2,348,474	146,445	39,530,805
Guarantees, acceptances and other financial facilities				
– Acceptances	429,095	–	–	429,095
– Guarantees and standby letters of credit	2,151,924	288,405	7,134	2,447,463
– Documentary and commercial letters of credit	1,859,686	–	–	1,859,686
Operating lease commitments	42,186	75,775	3,720	121,681
Capital commitments	8,017	–	–	8,017
Total	41,526,794	2,712,654	157,299	44,396,747

The Bank at 31st December 2008

	No later than 1 year HK$'000	1-5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Loan and other commitments	37,035,886	2,348,474	146,445	39,530,805
Guarantees, acceptances and other financial facilities				
– Acceptances	429,095	–	–	429,095
– Guarantees and standby letters of credit	2,151,924	288,405	7,134	2,447,463
– Documentary and commercial letters of credit	1,859,686	–	–	1,859,686
Operating lease commitments	43,863	80,248	3,720	127,831
Capital commitments	12,527	–	–	12,527
Total	41,532,981	2,717,127	157,299	44,407,407

The Group at 31st December 2007

	No later than 1 year HK$'000	1-5 years HK$'000	Over 5 years HK$'000	Total HK$'000
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

	No later than 1 year HK$'000	1-5 years HK$'000	Over 5 years HK$'000	Total HK$'000
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

(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 property 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$19,323,000 (2007: loss of HK$10,555,000).

(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	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Balances with banks	**22,325,248**	29,332,594	**22,325,248**	29,332,594
Placements with and loans and advances to banks	**17,859,712**	12,056,719	**17,859,712**	12,056,719
Loans and advances to customers:				
Loans to individuals:				
– Overdrafts	**435,683**	477,758	**435,683**	477,758
– Credit cards	**305,121**	325,655	**305,121**	325,655
– Term loans and others	**5,611,911**	5,161,151	**5,611,911**	5,161,151
– Mortgages	**6,768,656**	5,593,506	**6,768,656**	5,593,506
Loans to corporate entities:				
– Large corporate customers and others	**30,975,007**	29,116,473	**30,975,007**	29,116,473
– SMEs	**5,660,606**	5,256,744	**5,660,606**	5,256,744
Investment securities – Held-to-maturity	**2,950,520**	3,112,359	**3,020,200**	3,152,546
Financial liabilities				
Deposits and balances from banks	**3,808,753**	4,078,007	**3,808,753**	4,078,007
Deposits from customers	**89,531,873**	80,861,142	**89,531,873**	80,861,142
Certificates of deposit issued	**–**	1,251,596	**–**	1,252,586

The Bank

	Carrying value		Fair value	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Balances with banks	**22,325,248**	29,332,594	**22,325,248**	29,332,594
Placements with and loans and advances to banks	**17,859,712**	12,056,719	**17,859,712**	12,056,719
Loans and advances to customers:				
Loans to individuals:				
– Overdrafts	**435,683**	477,758	**435,683**	477,758
– Credit cards	**305,121**	325,655	**305,121**	325,655
– Term loans and others	**5,611,911**	5,161,151	**5,611,911**	5,161,151
– Mortgages	**6,768,656**	5,593,506	**6,768,656**	5,593,506
Loans to corporate entities:				
– Large corporate customers and others	**30,975,007**	29,116,473	**30,975,007**	29,116,473
– SMEs	**5,660,606**	5,256,744	**5,660,606**	5,256,744
Investment securities – Held-to-maturity	**981,626**	1,377,025	**957,129**	1,369,519
Financial liabilities				
Deposits and balances from banks	**3,808,753**	4,078,007	**3,808,753**	4,078,007
Deposits from customers	**89,531,873**	80,861,142	**89,531,873**	80,861,142
Certificates of deposit issued	**–**	1,251,596	**–**	1,258,586

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.

	2008	2007
Capital adequacy ratio	19%	20%
Core capital ratio	18%	20%

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	2008 HK$'000	2007 HK$'000
Core capital:		
Paid up ordinary share capital	2,000,000	2,000,000
Reserves	10,261,150	10,225,175
Profit and loss account	1,266,707	1,078,957
Less: net deferred tax assets	(68,482)	(70,177)
	13,459,375	13,233,955
Other deductions from core capital	(454,924)	(382,490)
Core capital after deductions	13,004,451	12,851,465
Supplementary capital:		
Collective impairment allowances for loans and advances	198,949	132,874
Regulatory reserve	362,370	262,370
Revaluation reserves for available-for-sale investments	–	14,538
Unrealised fair value gain for securities designated at fair value	–	2,038
	561,319	411,820
Other deductions from supplementary capital	(454,925)	(382,490)
Supplementary capital after deductions	106,394	29,330
Total capital base	13,110,845	12,880,795

The calculations of the capital base as at 31st December 2008 and 2007 above are based on the Banking (Capital) Rules effective from 1st January 2007.

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. The Risk Management Department is responsible for the central operational risk management function. Policies and procedures have been established to control exposures to identified operational risk factors. Insurance policies are taken to mitigate unforeseeable operational risks. 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. Business activities analysis

(a) By business activities

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.

The Group 2008

	Retail and corporate banking HK$'000	Bills HK$'000	Treasury HK$'000	Others HK$'000	Total HK$'000
Net interest income	1,213,338	168,500	583,826	–	1,965,664
Net fee and commission income	128,689	152,759	–	426,326	707,774
Net trading income	–	–	61,016	33,568	94,584
Profit before taxation	548,322	102,532	554,324	258,161	1,463,339
Operating assets	48,050,910	4,485,539	56,530,884	681,365	109,748,698
Impairment losses on loans and advances to customers	218,482	154,513	–	–	372,995

4. Business activities analysis (Continued)

(a) By business activities (Continued)

The Group 2007

	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
Operating assets	42,598,089	4,518,801	59,236,714	1,671,804	108,025,408
Impairment losses on loans and advances to customers	49,953	46,753	–	–	96,706

(b) By geographical activities

The Group at 31st December 2008

	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
Hong Kong & PRC	**96,338,340**	**82,602,324**	**42,159,406**	**2,498,697**	**1,265,635**	**110,785**
Europe	**4,229,428**	**4,225,418**	**20,746**	**27,997**	**9,962**	**364**
America	**9,180,930**	**8,079,281**	**2,086,897**	**280,289**	**187,742**	**583**
Total	**109,748,698**	**94,907,023**	**44,267,049**	**2,806,983**	**1,463,339**	**111,732**

The Group at 31st December 2007

	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
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

5. Net interest income

Interest income

	The Group		The Bank	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Cash and balances with banks	**1,225,572**	1,836,791	**1,225,572**	1,836,791
Investment securities				
– interest income on listed investments	**285,076**	338,258	**235,108**	295,260
– interest income on unlisted investments	**323,556**	437,579	**290,923**	382,120
Loans and advances				
– to a bank	**3,530**	4,843	**3,530**	4,843
– to customers	**2,056,484**	2,652,750	**2,058,191**	2,654,822
Others	**42,004**	46,915	**42,004**	46,915
	3,936,222	5,317,136	**3,855,328**	5,220,751

Interest expense

	The Group		The Bank	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Deposits and balances from bank	**104,072**	244,542	**104,072**	246,067
Deposits from customers	**1,832,873**	2,888,631	**1,833,432**	2,893,250
Certificates of deposit issued	**24,939**	135,931	**24,939**	135,931
Others	**8,674**	12,325	**8,674**	12,325
	1,970,558	3,281,429	**1,971,117**	3,287,573
Included within interest income				
Interest income accrued on impaired financial assets	**25,344**	29,136	**25,344**	29,136

6. Net fee and commission income

Fee and commission income

	The Group		The Bank	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Commissions from bills	**147,337**	166,017	**147,337**	166,017
Nominees, custodian and securities brokerage commissions	**269,607**	474,791	**234,810**	418,607
Commissions from wealth management products	**87,947**	217,464	**87,947**	217,464
Commissions from remittance	**54,625**	56,310	**54,625**	56,310
Facility fees	**60,606**	57,178	**60,606**	57,178
Fees from credit cards	**44,038**	44,024	**44,038**	44,024
Commissions from retail banking	**45,410**	52,909	**41,198**	48,705
Commissions from insurance	**35,957**	34,005	**30,830**	29,382
Other fees	**5,870**	4,244	**5,870**	4,244
	751,397	1,106,942	**707,261**	1,041,931

6. Net fee and commission income (Continued)

Fee and commission expense	The Group		The Bank	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Commissions on bills	**2,778**	2,772	**2,778**	2,772
Nominees, custodian and securities brokerage commissions paid	**16,098**	20,440	**10,418**	11,224
Commissions on retail banking	**24,436**	19,240	**23,491**	17,805
Fees on credit cards	**195**	262	**195**	262
Other fees paid	**116**	54	**116**	54
	43,623	42,768	**36,998**	32,117
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	**257,851**	271,463	**257,851**	271,463
– fee expense	**2,973**	3,034	**2,973**	3,034
Net fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers				
– fee income	**17,899**	15,229	**17,368**	14,721

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	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Available-for-sale investments				
– listed investments	**2,737**	3,748	**2,737**	3,748
– unlisted investments	**17,772**	13,649	**17,772**	13,649
	20,509	17,397	**20,509**	17,397
Jointly controlled entities				
– unlisted investments	**–**	–	**4,130**	24,080
Subsidiary companies				
– unlisted investments	**–**	–	**86,330**	141,136
	20,509	17,397	**110,969**	182,613

8. Net trading income

	The Group		The Bank	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Foreign exchange	**121,636**	152,417	**121,665**	152,405
Interest rate instruments	**(3,923)**	11,852	**(3,923)**	11,852
Equities	**(23,129)**	195,412	**(23,129)**	195,412
	94,584	359,681	**94,613**	359,669

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	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Gross rental income from an investment property	**7,708**	–	**9,091**	831
Others	**68,658**	74,186	**86,163**	110,489
	76,366	74,186	**95,254**	111,320

10. Operating expenses

	The Group		The Bank	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Auditors' remuneration (Note a)	**7,569**	6,883	**7,267**	6,640
Advertising costs	**14,304**	12,503	**14,274**	12,441
Amortisation of interests in leasehold land (Note 26)	**6,468**	4,820	**6,468**	4,820
Depreciation expenses (Note 24 and 25)	**57,146**	50,471	**65,725**	58,180
Employee benefit expenses				
Wages and salaries and other costs (Note b)	**584,350**	640,198	**569,529**	626,500
Pension costs - defined contribution schemes	**29,999**	26,573	**29,341**	25,948
Pension costs - defined benefit schemes	**125**	134	**125**	134
Premises and equipment expense, excluding depreciation				
Rental of premises	**49,477**	41,706	**51,345**	44,003
Building expenses	**10,095**	12,257	**10,095**	12,257
Building management fee	**5,701**	5,517	**5,510**	5,283
Other operating expenses				
Computer rental and licence	**9,828**	9,600	**9,529**	8,885
Credit card business promotion	**13,474**	9,517	**13,474**	9,517
Credit card service fee	**10,084**	9,387	**10,084**	9,387
Insurance	**10,147**	9,480	**9,916**	9,250
Legal and consultancy	**12,296**	9,885	**12,526**	9,744
Postage	**14,075**	14,916	**14,035**	14,860
Printing and stationery	**8,350**	8,506	**8,296**	8,452
Repair and maintenance	**18,315**	17,299	**22,539**	19,984
Telegram and telephone	**24,238**	22,111	**24,146**	22,026
Travelling and transportation	**4,946**	4,232	**4,840**	4,096
Water, heat and light	**13,558**	13,428	**13,310**	13,197
Others	**99,599**	43,957	**97,651**	41,123
	1,004,144	973,380	**1,000,025**	966,727

(Note a)
The amounts of auditors' remuneration comprised of audit fee for Hong Kong office of HK$3,986,000 (2007: HK$3,677,000) and that for overseas branches of HK$3,281,000 (2007: HK$2,963,000) together with HK$302,000 (2007: HK$243,000) 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 1,809 (2007: 1,788).

11. Directors' emoluments

The Group and the Bank	2008 HK$'000	2007 HK$'000
Fees	**1,730**	1,460
Basic salaries, allowances and bonus	**18,990**	21,491
Contributions to pension schemes	**606**	811
Compensation for loss of office	**–**	60,902
	21,326	84,664

12. Impairment losses on loans and advances to customers

The Group and the Bank	2008 HK$'000	2007 HK$'000
Trade bills	**1,220**	19
Loans and advances to customers	**371,775**	96,687
	372,995	96,706
Net charge of impairment losses on loans and advances to customers		
– Individually assessed (Note 20)	**304,979**	83,173
– Collectively assessed (Note 20)	**68,016**	13,533
	372,995	96,706
Of which		
– new allowances (net of recoveries (Note 20) and any amount directly written off during the year)	**392,842**	102,694
– releases	**(19,847)**	(5,988)
Net charge to profit and loss account	**372,995**	96,706

13. Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 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	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Current taxation:				
– Hong Kong profits tax	**227,260**	344,801	**225,537**	343,028
– Overseas taxation	**74,190**	71,774	**74,286**	71,550
– Under/(over) provisions in prior years	**4,747**	(1,325)	**4,747**	(1,325)
Deferred income taxation:				
– Hong Kong deferred tax	**(24,423)**	(6,491)	**(24,410)**	(6,466)
– Overseas deferred tax	**(5,311)**	(1,122)	**(5,311)**	(1,122)
	276,463	407,637	**274,849**	405,665

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	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Profit before taxation	**1,463,339**	2,608,041	**1,541,467**	2,586,525
Calculated at a taxation rate of 16.5% (2007: 17.5%)	**241,451**	456,407	**254,342**	452,642
Effect of different taxation rates in other countries	**35,685**	37,754	**35,685**	37,754
Income not subject to taxation	**(64,602)**	(66,745)	**(79,077)**	(64,944)
Expenses not deductible for taxation purposes	**67,439**	23,303	**67,409**	23,295
Net effect of investments in partnerships (Note)	**(8,257)**	(41,757)	**(8,257)**	(41,757)
Under/(over) provisions in prior years	**4,747**	(1,325)	**4,747**	(1,325)
Taxation charge	**276,463**	407,637	**274,849**	405,665

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 2008, the unamortised carrying cost of the investments in such partnerships, which was included in "Other assets", amounted to HK$1,138,761,000 (2007: HK$712,864,000). 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 2008 and 2007 were HK$1,100,000,000 (HK$55 per share) and HK$506,000,000 (HK$25.30 per share). A dividend in respect of 2008 of HK$40 per share, amounting to a total dividend of HK$800,000,000 is to be proposed at the Annual General Meeting on 22nd April 2009. These financial statements do not reflect this dividend payable.

	2008 HK$'000	2007 HK$'000
Proposed final dividend of HK$40 (2007: HK$55) per ordinary share	**800,000**	1,100,000

15. Cash and balances with banks

	The Group		The Bank	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Cash in hand	**240,546**	243,717	**240,540**	243,710
Balances with central banks and Hong Kong Monetary Authority	**85,200**	62,208	**85,200**	62,208
Balances with banks	**22,240,048**	29,270,386	**22,240,048**	29,270,386
	22,565,794	29,576,311	**22,565,788**	29,576,304

As at 31st December 2008, there was HK$1,500,000 (2007: 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	2008 HK$'000	2007 HK$'000
Placements with banks maturing between one and twelve months	**17,776,185**	11,972,489
Gross loans and advances to a bank	**83,527**	84,230
	17,859,712	12,056,719

As of 31st December 2008, HK$90,314,000 (2007: HK$88,696,000) was deposited with state banks in the People's Republic of China to comply with the local reserve requirement. No impairment allowance was necessary to be provided against the banks.

17. Trading assets

The Group and the Bank	2008 HK$'000	2007 HK$'000
Debt securities		
Government bonds	**53,317**	61,876
Other debt securities	**187,644**	91,184
Total debt securities	**240,961**	153,060
Equity securities		
Listed outside Hong Kong	**69,167**	131,712
Unlisted	**–**	–
Total equity securities	**69,167**	131,712
Total trading assets	**310,128**	284,772
Market value of listed debt and equity securities	**176,241**	222,374

18. Derivative financial instruments

At 31st December 2008	Contract amount	The Group and the Bank Fair values	
		Assets	Liabilities
	HK$'000	HK$'000	HK$'000
(a) Derivatives held for trading			
Foreign exchange derivatives			
Currency forward exchange contracts	**6,640,387**	**17,919**	**(12,381)**
Cross-currency interest rate swaps contracts	**395,251**	**–**	**(235)**
Equity derivatives			
Stock accumulator forward contracts (Note)	**88,609**	**19,333**	**(19,333)**
Total derivative assets/(liabilities) held for trading	**7,124,247**	**37,252**	**(31,949)**
(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	**399,126**	**–**	**(31,072)**
Total derivative assets/(liabilities) not qualified as hedges	**399,126**	**–**	**(31,072)**
Total recognised derivative financial assets/(liabilities)	**7,523,373**	**37,252**	**(63,021)**

18. Derivative financial instruments (Continued)

At 31st December 2007

	Contract amount	The Group and the Bank Fair values	
	HK$'000	Assets HK$'000	Liabilities HK$'000
(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)

Note:
The contract amount as at 31st December 2008 and 31st December 2007 only represented 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	
	2008 HK$'000	2007 HK$'000
Exchange rate contracts	**33,519**	36,953
Interest rate swaps contracts	**748**	513
Equity derivatives	**5,099**	310,825
	39,366	348,291

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 2008 and 2007 are the amounts that have been calculated in accordance with the Banking (Capital) Rules of the Banking Ordinance.

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	2008 HK$'000	2007 HK$'000
Debt securities (at market value)		
Listed in Hong Kong	**341,866**	407,171

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	2008 HK$'000	2007 HK$'000
Loans and advances to individuals		
– Overdrafts	**438,436**	479,399
– Credit cards	**313,331**	329,859
– Term loans and others	**5,689,118**	5,181,926
– Mortgages	**6,804,993**	5,610,105
Loans and advances to corporate entities		
– Large corporate customers and others	**31,223,748**	29,244,430
– SMEs	**5,698,075**	5,282,431
Gross loans and advances to customers	**50,167,701**	46,128,150
Less: impairment allowances		
– Individually assessed	**(211,768)**	(63,989)
– Collectively assessed	**(198,949)**	(132,874)
	49,756,984	45,931,287
Gross trade bills and other eligible bills, included within loans and advances to customers	**1,011,208**	1,110,855
Less: impairment allowances on trade bills		
– Collectively assessed	**(4,346)**	(3,126)
	1,006,862	1,107,729

The Group accepted listed securities at fair value of HK$1,998,254,000 (2007: HK$4,838,455,000) as collateral for shares financing facilities included in "Term loans and others", which it is permitted to sell or re-pledge in the event of default by the owner of the collateral.

As of 31st December 2008, certain of our branches in the United States have pledged their real estate loans of HK$69,742,000 (2007: HK$71,899,000) 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 2008	251	3,226	7,076	–	10,553
Impairment losses (Note 12)	223	5,519	50,485	8,033	64,260
Loans written off as uncollectible	(92)	(7,652)	(4,622)	–	(12,366)
Recoveries of advances written off in previous years	17	1,261	1,399	1,168	3,845
At 31st December 2008	399	2,354	54,338	9,201	66,292

	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 2008	42,763	10,673	53,436
Impairment losses (Note 12)	220,577	20,142	240,719
Loans written off as uncollectible	(145,577)	(18,441)	(164,018)
Recoveries of advances written off in previous years	14,572	767	15,339
At 31st December 2008	132,335	13,141	145,476

	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 2008	1,390	978	13,699	16,599	32,666
Impairment losses (Note 12)	966	4,878	9,190	11,103	26,137
Exchange and other adjustments	(2)	–	(20)	(566)	(588)
At 31st December 2008	2,354	5,856	22,869	27,136	58,215

	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 2008	85,194	15,014	100,208
Impairment losses (Note 12)	32,565	9,314	41,879
Exchange and other adjustments	(1,353)	–	(1,353)
At 31st December 2008	116,406	24,328	140,734

20. Loans and advances to customers (Continued)

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

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)	5,268	360	5,731
Exchange and other adjustments	–	–	14	18	32
At 31st December 2007	1,390	978	13,699	16,599	32,666

	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)	8,676	(874)	7,802
Exchange and other adjustments	271	19	290
At 31st December 2007	85,194	15,014	100,208

21. Available-for-sale investments

	The Group		The Bank	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Debt securities:				
Listed in Hong Kong	**884,736**	912,107	**884,736**	912,107
Listed outside Hong Kong	**3,793,887**	3,970,152	**3,793,887**	3,970,152
Unlisted	**6,200,848**	8,082,497	**5,800,427**	7,615,439
	10,879,471	12,964,756	**10,479,050**	12,497,698
Equity securities:				
Listed in Hong Kong	**43,013**	84,564	**43,013**	84,564
Listed outside Hong Kong	**30,103**	–	**30,103**	–
Unlisted	**672,433**	488,605	**672,433**	488,605
	745,549	573,169	**745,549**	573,169
	11,625,020	13,537,925	**11,224,599**	13,070,867
Market value of listed debt and equity securities	**4,751,739**	4,966,823	**4,751,739**	4,966,823
Included within debt securities are:				
Certificates of deposit held	**99,634**	628,151	**99,634**	628,151
Other debt securities	**10,339,477**	12,336,605	**9,939,056**	11,869,547
Government bonds	**440,360**	–	**440,360**	–
	10,879,471	12,964,756	**10,479,050**	12,497,698
Available-for-sale investments are analysed by categories of issuers as follows:				
Sovereigns	**440,360**	–	**440,360**	–
Public sector entities	**1,598,510**	1,673,584	**1,598,510**	1,673,584
Banks	**7,757,235**	9,534,820	**7,356,814**	9,067,762
Corporates	**1,828,915**	2,329,521	**1,828,915**	2,329,521
	11,625,020	13,537,925	**11,224,599**	13,070,867

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	2008 HK$'000	2007 HK$'000
Balance as at 1st January	**13,537,925**	14,708,304
Exchange differences	**(267,359)**	192,060
Additions	**6,888,348**	2,267,776
Change in fair value (Note 34)	**(149,750)**	187,153
Amortised cost of securities redeemed and sold during the year	**(8,270,052)**	(3,705,505)
Investment revaluation reserve realised on disposal (Note 34)	**(41,422)**	(30,644)
Amortisation of premium/discount	**(48,222)**	(52,940)
Others	**(24,448)**	(28,279)
Balance as at 31st December	**11,625,020**	13,537,925

The Bank	2008 HK$'000	2007 HK$'000
Balance as at 1st January	**13,070,867**	14,197,983
Exchange differences	**(267,359)**	192,060
Additions	**6,786,953**	2,107,499
Change in fair value (Note 34)	**(156,478)**	182,131
Amortised cost of securities redeemed and sold during the year	**(8,106,052)**	(3,510,505)
Investment revaluation reserve realised on disposal (Note 34)	**(41,427)**	(30,922)
Amortisation of premium/discount	**(37,788)**	(39,701)
Others	**(24,117)**	(27,678)
Balance as at 31st December	**11,224,599**	13,070,867

22. Held-to-maturity investments

	The Group		The Bank	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Debt securities:				
Listed in Hong Kong	**1,571,559**	1,024,256	**–**	–
Listed outside Hong Kong	**824,688**	1,009,352	**820,640**	1,005,265
Unlisted	**554,273**	1,078,751	**160,986**	371,760
	2,950,520	3,112,359	**981,626**	1,377,025
Market value of listed debt securities	**2,463,733**	2,066,019	**795,544**	994,358
Included within debt securities are:				
Hong Kong Government Exchange Fund Bills	**393,287**	706,992	**–**	–
Treasury bills	**–**	141,516	**–**	141,516
Other government bonds	**1,832,244**	1,142,124	**260,686**	117,868
Other debt securities	**724,989**	1,121,727	**720,940**	1,117,641
	2,950,520	3,112,359	**981,626**	1,377,025
Held-to-maturity investments are analysed by categories of issuers as follows:				
Sovereigns	**2,225,532**	1,990,632	**260,686**	259,384
Public sector entities	**–**	291,683	**–**	291,683
Banks	**643,355**	747,773	**643,356**	747,773
Corporates	**81,633**	82,271	**77,584**	78,185
	2,950,520	3,112,359	**981,626**	1,377,025

As of 31st December 2008, certain of the United States branches have pledged held-to-maturity investments amounting to HK$258,216,000 (2007: HK$257,213,000) 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$1,571,559,000 of Exchange Fund Notes and unlisted debt securities at amortised cost of HK$393,287,000 of Exchange Fund Bills were pledged to the Hong Kong Monetary Authority as at 31st December 2008 (2007: HK$1,023,856,000 and HK$706,992,000 respectively) to facilitate settlement operations with no related liabilities at the year end.

22. Held-to-maturity investments (Continued)

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

The Group	2008 HK$'000	2007 HK$'000
Balance as at 1st January	**3,112,359**	3,382,442
Additions	**1,948,761**	1,399,309
Disposals (sale and redemption)	**(2,108,893)**	(1,695,620)
Amortisation of premium/discount	**1,947**	25,972
Exchange differences	**(5,618)**	4,546
Others	**1,964**	(4,290)
Balance as at 31st December	**2,950,520**	3,112,359

The Bank	2008 HK$'000	2007 HK$'000
Balance as at 1st January	**1,377,025**	1,430,955
Additions	**392,610**	561,240
Disposals (sale and redemption)	**(783,493)**	(616,722)
Amortisation of premium/discount	**1,608**	1,296
Exchange differences	**(5,593)**	4,536
Others	**(531)**	(4,280)
Balance as at 31st December	**981,626**	1,377,025

The Group has not reclassified any financial assets measured at amortised cost, rather than at fair value, during the year (2007: Nil).

The Group disposed certain held-to-maturity debt securities with carrying amount of approximately HK$288 million during the year before maturity, which resulted in an insignificant gain of HK$1,966,000. The Directors considered that the disposal did not trigger the tainting rule as stated in HKAS 39 because such disposal was made due to the significant deterioration in the creditworthiness of the two issuers of these debt securities in the United States. Such circumstances are attributable to an isolated event that is beyond the Group's control, is non-recurring and could not have been reasonably anticipated by the Group.

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

(a) Investments in jointly controlled entities

The Group	2008 HK$'000	2007 HK$'000
Beginning of year	**188,685**	164,774
Share of results	**(80,560)**	78,058
Share of tax	**(2,994)**	(4,334)
Decrease of advances	**(5,267)**	(25,733)
Dividends paid	**(4,130)**	(24,080)
Addition of investment in share capital	**35,000**	–
Share of investment revaluation reserve	**(5,553)**	–
Share of net assets	**125,181**	188,685

The Bank	2008 HK$'000	2007 HK$'000
Unlisted shares, at cost	**116,000**	81,000
Amounts due from jointly controlled entities	**1,300**	6,567
	117,300	87,567

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 2008:

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	420,000,000 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 (2007: 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	2008 HK$'000	2007 HK$'000
Unlisted shares, at cost	130,016	130,093
Loans to subsidiary companies	2,791,767	2,699,467
Amounts due from subsidiary companies	964	831
Amounts due to subsidiary companies	(596,224)	(641,782)
	2,326,523	2,188,609

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 2007			
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
Year ended December 2008			
Opening net book amount	**306,643**	**100,282**	**406,925**
Additions	**–**	**48,993**	**48,993**
Disposals	**–**	**(819)**	**(819)**
Depreciation charge (Note 10)	**(8,943)**	**(41,929)**	**(50,872)**
Exchange rate adjustments	**(11,058)**	**(265)**	**(11,323)**
Closing net book amount	**286,642**	**106,262**	**392,904**
At 31st December 2008			
Cost	**463,387**	**608,630**	**1,072,017**
Accumulated depreciation	**(176,745)**	**(502,368)**	**(679,113)**
Net book amount	**286,642**	**106,262**	**392,904**

24. Property and equipment (Continued)

The Bank	Bank premises HK$'000	Furniture, fittings and equipment HK$'000	Total HK$'000
At 1st January 2007			
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
Year ended December 2008			
Opening net book amount	**261,250**	**113,646**	**374,896**
Additions	**–**	**58,390**	**58,390**
Disposals	**–**	**(777)**	**(777)**
Depreciation charge (Note 10)	**(8,213)**	**(51,040)**	**(59,253)**
Exchange rate adjustments	**(498)**	**(31)**	**(529)**
Closing net book amount	**252,539**	**120,188**	**372,727**
At 31st December 2008			
Cost	**422,511**	**663,577**	**1,086,088**
Accumulated depreciation	**(169,972)**	**(543,389)**	**(713,361)**
Net book amount	**252,539**	**120,188**	**372,727**

25. Investment properties

	The Group		The Bank	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Net book amount at 1st January	**–**	–	**7,523**	7,721
Additions	**62,739**	–	**62,739**	–
Depreciation charge (Note 10)	**(6,274)**	–	**(6,472)**	(198)
Net book amount at 31st December	**56,465**	–	**63,790**	7,523
At 31st December				
Cost	**62,739**	–	**70,658**	7,919
Accumulated depreciation	**(6,274)**	–	**(6,868)**	(396)
Net book amount	**56,465**	–	**63,790**	7,523

The Group's investment property was revalued for a total value of HK$62,739,000, and the Bank's investment properties were revalued for a total value of HK$74,399,000 as at 31st December 2008 by independent, professionally qualified valuers on an open market value basis.

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

The carrying value of investment properties shown above comprise buildings situated in Hong Kong, which are held on long-term leases.

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		
	2008 HK$'000	2007 HK$'000
In Hong Kong held on:		
Leases of over 50 years	**1,478,997**	99,711
Leases of between 10 to 50 years	**169,782**	174,130
	1,648,779	273,841
Opening	**273,841**	278,661
Additions (Note)	**1,381,406**	–
Amortisation of prepaid operating lease payment (Note 10)	**(6,468)**	(4,820)
	1,648,779	273,841

Interests in freehold land outside Hong Kong are included as bank premises in Note 24 amounted to HK$35,466,000 as at 31st December 2008 (2007: HK$42,061,000) for the Group, and HK$18,988,000 (2007: HK$19,110,000) for the Bank.

Note:
The additions made during the year represent the purchase of a commercial property located adjacent to the Group's Head Office building for the purpose of joint redevelopment with the Head Office building. The related building costs of the property are included in Note 25.

27. Other assets

	The Group		The Bank	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Repossessed assets	**47,226**	16,635	**47,226**	16,635
Accounts receivable and prepayments *	**1,785,927**	1,550,908	**1,552,742**	745,028
Others	**84,803**	183,259	**61,259**	60,890
	1,917,956	1,750,802	**1,661,227**	822,553

* As stated in Note 13, there are unamortised carrying cost of investment in special purpose partnerships included in accounts receivable and prepayments. Besides, included in the balances as at 31st December 2008, a tax receivable amounted to HK$272,202,000 (2007: Nil).

28. Deposits from customers

The Group and the Bank 2008

	Corporate customers HK$'000	**Individual customers HK$'000**	**Total HK$'000**
Demand deposits and current accounts	**3,448,377**	**1,560,084**	**5,008,461**
Savings deposits	**8,465,087**	**12,868,930**	**21,334,017**
Time, call and notice deposits	**25,872,402**	**36,928,610**	**62,801,012**
Deposits from Hong Kong Government Exchange Fund	**388,383**	**–**	**388,383**
	38,174,249	**51,357,624**	**89,531,873**

The Group and the Bank 2007

	Corporate customers HK$'000	Individual customers HK$'000	Total 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

29. Certificates of deposit issued

The Group and the Bank

	2008 HK$'000	2007 HK$'000
As stated in balance sheet at amortised cost	**–**	1,251,596

30. Other liabilities

	The Group		The Bank	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Margin deposits	**148,376**	229,034	**148,376**	229,034
Accounts payable and accruals	**851,531**	5,315,882	**610,369**	4,402,916
Others	**416,108**	793,455	**405,725**	784,594
	1,416,015	6,338,371	**1,164,470**	5,416,544

31. Provisions

	The Group		The Bank	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
At 1st January	**128,060**	92,729	**127,358**	91,727
Add: additional accruals	**157,105**	194,907	**154,235**	193,569
Less: written back and payments	**(201,572)**	(159,576)	**(198,588)**	(157,938)
At 31st December	**83,593**	128,060	**83,005**	127,358

Majority of the 2008 and 2007 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 2007	–	(67)	–	–	(67)
Recognised in the profit and loss account	–	(25)	–	–	(25)
At 31st December 2007	–	(92)	–	–	(92)
Recognised in the profit and loss account	**–**	**13**	**–**	**–**	**13**
At 31st December 2008	**–**	**(79)**	**–**	**–**	**(79)**

There were no deferred income tax liabilities for the Bank as at 31st December 2007 and 2008.

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 2007	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
Recognised in the profit and loss account	**35,640**	**(1,938)**	**–**	**(3,981)**	**29,721**
Credited to equity (Note 34)	**–**	**–**	**60,054**	**–**	**60,054**
Reclassification to current income tax liabilities	**–**	**–**	**–**	**886**	**886**
Exchange differences	**(647)**	**(14)**	**–**	**(40)**	**(701)**
At 31st December 2008	**75,486**	**(8,119)**	**91,656**	**1,114**	**160,137**

The deferred taxation credited/(charged) to equity during the year is as follows:

The Group and the Bank

	2008 HK$'000	2007 HK$'000
Reserves in shareholders' equity		
– Available-for-sale investment revaluation reserve/(deficit)	**60,054**	(9,474)

33. Share capital

The Group and the Bank

	2008 HK$'000	2007 HK$'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 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
Realised 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
Balance at 1st January 2008	**262,370**	**63,908**	**7,266,562**	**7,592,840**
Change in fair value of available-for-sale investments (Note 21)	**–**	**(149,750)**	**–**	**(149,750)**
Realised on disposal of available-for-sale investments (Note 21)	**–**	**(41,422)**	**–**	**(41,422)**
Effect of deferred taxation (Note 32)	**–**	**60,054**	**–**	**60,054**
Currency translation differences	**–**	**–**	**790**	**790**
Transfer from retained earnings	**100,000**	**–**	**–**	**100,000**
Share of investment revaluation reserve of jointly controlled entities	**–**	**(5,553)**	**–**	**(5,553)**
Balance at 31st December 2008	**362,370**	**(72,763)**	**7,267,352**	**7,556,959**

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 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
Realised 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
Balance at 1st January 2008	**262,370**	**59,518**	**7,266,587**	**7,588,475**
Change in fair value of available-for-sale investments (Note 21)	**–**	**(156,478)**	**–**	**(156,478)**
Realised on disposal of available-for-sale investments (Note 21)	**–**	**(41,427)**	**–**	**(41,427)**
Effect of deferred taxation (Note 32)	**–**	**60,054**	**–**	**60,054**
Currency translation differences	**–**	**–**	**697**	**697**
Transfer from retained earnings	**100,000**	**–**	**–**	**100,000**
Balance at 31st December 2008	**362,370**	**(78,333)**	**7,267,284**	**7,551,321**

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 deposits that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

	2008 HK$'000	2007 HK$'000
Cash and balances with banks with original maturity within three months	**20,382,906**	29,360,311
Placements with and loans and advances to banks with original maturity within three months	**13,608,579**	8,685,543
Available-for-sale investment with original maturity within three months	**5,006**	–
	33,996,491	38,045,854

Included in cash and balances with banks are HK$6,395,000 (2007: HK$7,964,000) 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	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Property and equipment				
Contracted but not provided for	**4,560**	17,931	**6,668**	21,043
Authorised but not contracted for	**3,457**	24,124	**5,859**	27,673
	8,017	42,055	**12,527**	48,716

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	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
No later than 1 year	**42,186**	38,252	**43,863**	40,588
Later than 1 year and no later than 5 years	**75,775**	55,426	**80,248**	63,993
Later than 5 years	**3,720**	7,660	**3,720**	7,660
	121,681	101,338	**127,831**	112,241

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

	The Group		The Bank	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
No later than 1 year	**24,891**	120	**24,891**	120
Later than 1 year and no later than 5 years	**10,316**	–	**10,316**	–
Later than 5 years	**–**	–	**–**	–
	35,207	120	**35,207**	120

(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		
	2008 HK$'000	2007 HK$'000
Direct credit substitutes	**2,438,594**	1,571,217
Trade-related contingencies	**2,297,650**	3,649,046
Other commitments with an original maturity of:		
– under 1 year	**1,045,142**	1,057,701
– 1 year and over	**2,494,919**	2,829,581
– unconditionally cancellable	**35,990,744**	33,945,770
	44,267,049	43,053,315

The credit risk weighted amount of credit commitments is HK$4,221,601,000 (2007: HK$3,771,402,000).

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	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Aggregate amount outstanding in respect of principal and interest	**705,346**	609,343	**705,346**	613,359

38. Balances with group companies

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

The Group and the Bank	2008 HK$'000	2007 HK$'000
Cash and balances with banks	**100,045**	577
Loans and advances to customers - trade bills	**55**	3,862
Available-for-sale investments	**55,939**	74,221
	156,039	78,660
Collectively assessed impairment allowances	**–**	11
Deposits and balances from banks at 1st January	**387,645**	452,241
Deposits and balances from banks received during the year	**197,327**	33,853
Deposits and balances from banks repaid during the year	**(9,980)**	(98,449)
Deposits and balances from banks at 31st December	**574,992**	387,645
Interest income on deposits placed at and loans to the ultimate holding company	**1,961**	301
Interest expense on deposits from the ultimate holding company	**10,133**	17,786
Contingent liabilities and other commitments	**147,427**	134,447

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

The Group and the Bank	2008 HK$'000	2007 HK$'000
Deposits from customers at 1st January	**596,071**	559,321
Deposits from customers received during the year	**16,598**	39,269
Deposits from customers repaid during the year	**(6,737)**	(2,519)
Deposits from customers at 31st December	**605,932**	596,071
Interest expense on deposits from the subsidiary companies of the ultimate holding company	**7,951**	14,475

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		
	2008 HK$'000	2007 HK$'000
Deposits from customers at 1st January	**156,582**	270,621
Deposits from customers received during the year	**831,630**	21,198
Deposits from customers repaid during the year	**(32,954)**	(135,237)
Deposits from customers at 31st December	**955,258**	156,582
Interest expenses on deposits from the jointly controlled entities	**15,856**	8,728
Contingent liabilities and other commitments	**2,000**	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		
	2008 HK$'000	2007 HK$'000
Loans and advances to customers at 1st January	**169,085**	180,489
Loans and advances to customers granted during the year	**17,088**	9,032
Loans and advances to customers repaid during the year	**(19,033)**	(20,436)
Loans and advances to customers at 31st December	**167,140**	169,085
Collectively assessed impairment allowances	**669**	490
Deposits from customers at 1st January	**167,789**	222,153
Deposits from customers received during the year	**74,039**	27,497
Deposits from customers repaid during the year	**(57,799)**	(81,861)
Deposits from customers at 31st December	**184,029**	167,789
Interest income on loans and advances to the Directors and their relatives	**5,777**	10,320
Interest expenses on deposits from the Directors and their relatives	**5,510**	8,718
Contingent liabilities and other commitments	**68,939**	77,576

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	2008 HK$'000	2007 HK$'000
Loans and advances to customers at 1st January	**482,437**	399,550
Loans and advances to customers granted during the year	**368,741**	184,842
Loans and advances to customers repaid during the year	**(211,107)**	(101,955)
Loans and advances to customers at 31st December	**640,071**	482,437
Collectively assessed impairment allowances	**2,560**	1,399
Deposits from customers at 1st January	**447,787**	649,330
Deposits from customers received during the year	**97,888**	176,894
Deposits from customers repaid during the year	**(163,889)**	(378,437)
Deposits from customers at 31st December	**381,786**	447,787
Interest income on loans and advances to the companies controlled by the Directors and their relatives	**21,533**	31,793
Interest expenses on deposits from the companies controlled by the Directors and their relatives	**12,122**	23,997
Contingent liabilities and other commitments	**477,898**	806,378

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	2008 HK$'000	2007 HK$'000
Loans and advances to customers at 1st January	**28,688**	19,993
Loans and advances to customers granted during the year	**286**	11,123
Loans and advances to customers repaid during the year	**(4,301)**	(2,428)
Loans and advances to customers at 31st December	**24,673**	28,688
Collectively assessed impairment allowances	**99**	83
Deposits from customers at 1st January	**9,361**	10,528
Deposits from customers received during the year	**5,594**	2,458
Deposits from customers repaid during the year	**(2,611)**	(3,625)
Deposits from customers at 31st December	**12,344**	9,361
Interest income on loans and advances to the key management personnel of the Bank and the ultimate holding company and their relatives	**1,115**	1,598
Interest expenses on deposits from the key management personnel of the Bank and the ultimate holding company and their relatives	**236**	317
Contingent liabilities and other commitments	**3,389**	4,626

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	2008 HK$'000	2007 HK$'000
Deposits from customers at 1st January	16,447	17,557
Deposits from customers received during the year	769	1,342
Deposits from customers repaid during the year	(2,612)	(2,452)
Deposits from customers at 31st December	14,604	16,447
Interest expenses on deposits from the companies controlled by the key management personnel of the Bank and the ultimate holding company and their relatives	609	736
The compensation of Directors and key management personnel of the Bank:		
Salaries and other short-term employee benefits	32,119	35,039
Termination benefits	–	60,902
	32,119	95,941

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

40. Ultimate holding company

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

SUPPLEMENTARY FINANCIAL INFORMATION

The following information is disclosed as part of the accompanying information to the financial statements 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. Gordon Che Keung Kwong (Chairman), Mr. Lincoln Chu Kuen Yung, Mr. Johnson Mou Daid Cha 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 at least 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. Francis Wai-choi Cheung, Mr. Paul Kun-kow Wong, Mr. Daniel Kwok-hung Chan, Mr. Burton Chi-shan Cheng and Mr. Wilson Fung-cheung Chan.

(v) Credit Committee

The Credit Committee meets at least 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. Francis Wai-choi Cheung, Mr. Paul Kun-kow Wong, Mr. Daniel Kwok-hung Chan, Mr. Burton Chi-shan Cheng, Mr. Wilson Fung-cheung Chan and Mr. Chun-sum Chan.

(vi) Operational Risk Management Committee

The Operational Risk Management Committee meets at least 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. Francis Wai-choi Cheung, Mr. Daniel Kwok-hung Chan, Mr. Burton Chi-shan Cheng, Mr. Wilson Fung-cheung Chan, Mr. Pui-man Yeung, Mr. Zachary Wing-kwong Kwan, Mr. Danny Kong-keung Tsang, Mr. Eric Kai-chiu Fok, Mr. Kwong-yiu Chong and Ms. Rebecca May-ka Mo.

2. Liquidity ratio

	2008	2007
Liquidity ratio	47%	52%

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.

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 31 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.

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

(a) Capital charge for credit risk

	Capital requirement	
	2008 HK$'000	2007 HK$'000
Sovereign exposures	823	–
Public Sector Entity exposures	25,323	31,182
Bank exposures	977,271	940,251
Securities Firm exposures	25	205
Corporate exposures	2,152,273	1,968,730
Cash items	6,729	2,939
Regulatory Retail exposures	242,504	252,807
Residential Mortgage Loans	602,170	586,716
Other exposures which are not past due exposures	731,054	502,938
Past due exposures	33,115	17,090
Total capital charge for on-balance sheet exposures	4,771,287	4,302,858
Direct credit substitutes	191,901	122,636
Trade-related contingencies	35,985	57,249
Other commitments	109,842	121,827
Exchange rate contracts	2,682	2,956
Interest rate contracts	60	41
Equity contracts	408	24,866
Total capital charge for off-balance sheet exposures	340,878	329,575
Total capital charge for credit risk	5,112,165	4,632,433

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	
	2008 HK$'000	2007 HK$'000
Interest rate exposures (including options)	41,086	30,133
Equity exposures (including options)	10,858	21,074
Foreign exchange exposures (including gold and options)	9,600	4,480
Capital charge for market risk	61,544	55,687

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

	2008 HK$'000	2007 HK$'000
Capital charge for operational risk	**460,028**	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

	2008		2007	
	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	**2,127,198**	**292,724**	1,508,539	223,514
– Property investment	**10,920,365**	**10,245,782**	10,093,071	9,426,516
– Financial concerns	**307,799**	**306,881**	28,667	26,935
– Stockbrokers	**1,630**	**627**	5,105	105
– Wholesale and retail trade	**726,631**	**666,643**	753,975	688,061
– Manufacturing	**1,439,366**	**1,059,157**	1,408,462	1,047,993
– Transport and transport equipment	**875,305**	**336,426**	698,590	357,732
– Information technology - telecommunication	**1,638**	**1,103**	2,392	1,880
– Hotels, boarding houses and catering	**981,260**	**965,846**	982,211	970,507
– Others	**3,731,258**	**1,806,585**	6,450,589	4,671,719
Individuals				
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**432,666**	**426,678**	485,974	481,595
– Loans for the purchase of other residential properties	**4,814,950**	**4,814,950**	4,831,728	4,831,728
– Credit card advances	**302,347**	**–**	313,453	–
– Others	**5,775,881**	**5,599,491**	2,472,776	2,289,944
Trade finance	**5,657,114**	**3,858,115**	5,613,210	3,768,086
Loans for use outside Hong Kong *	**11,061,085**	**10,172,671**	9,368,553	8,623,166
	49,156,493	**40,553,679**	45,017,295	37,409,481

* Included in 'Loans for use outside Hong Kong' were advances to individuals of HK$1,920,034,000 (2007: HK$1,206,922,000).

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

	2008			
	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	**69,757**	**299,211**	**4,563**	**43,402**
Individuals				
– Loans for the purchase of other residential properties	**45,004**	**138,920**	**3,480**	**19,080**
	114,761	**438,131**	**8,043**	**62,482**

	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

4. Loans and advances to customers (Continued)

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

The Group

	2008	
	New provisions HK$'000	Recoveries of advances written off in previous years HK$'000
Industrial, commercial and financial		
– Property investment	**18,109**	**878**
Individuals		
– Loans for the purchase of other residential properties	**8,313**	**1,168**
	26,422	**2,046**

	2007	
	New provisions HK$'000	Recoveries of advances written off in previous years HK$'000
Industrial, commercial and financial		
– Property investment	3,818	5,673
Individuals		
– Loans for the purchase of other residential properties	124	885
	3,942	6,558

There were no loans written off as uncollectible in 2008 and 2007.

(c) Overdue and impaired loans by geographical areas

The Group

	2008		
	Individually assessed to be impaired HK$'000	Individual impairment allowance HK$'000	Collective impairment allowance HK$'000
Hong Kong	**799,042**	**199,630**	**–**
Asia Pacific excluding Hong Kong	**–**	**–**	**–**
North America	**477,031**	**12,138**	**–**
	1,276,073	**211,768**	**–**

	2008		
	Overdue HK$'000	Individual impairment allowance HK$'000	Collective impairment allowance HK$'000
Hong Kong	**1,810,773**	**79,267**	**7,540**
North America	**408,983**	**–**	**1,636**
Western Europe	**36,054**	**–**	**144**
	2,255,810	**79,267**	**9,320**

4. Loans and advances to customers (Continued)

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

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

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 2008

	Banks and other financial institutions HK$'000	Public sector entities HK$'000	Others HK$'000	Total HK$'000
Asia Pacific excluding Hong Kong	**19,015,000**	**–**	**778,000**	**19,793,000**
North America	**6,143,000**	**481,000**	**988,000**	**7,612,000**
Western Europe	**19,239,000**	**–**	**268,000**	**19,507,000**

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

5. Segmental information (Continued)

(b) Non-bank mainland exposures

The Group 2008

	On-balance sheet exposure HK$million	Off-balance sheet exposure HK$million	Total HK$million	Impairment allowances HK$million
Types of counterparties				
Mainland entities	**1,585**	**7**	**1,592**	**–**
Companies and individuals outside Mainland where the credit is granted for use in Mainland	**4,062**	**1,165**	**5,227**	**48**
Other counterparties the exposures to whom are considered by the Group to be non-bank Mainland exposures	**131**	**126**	**257**	**1**
	5,778	**1,298**	**7,076**	**49**

The Group 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

The Group 2008

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	43,068,000	(42,766,000)	5,153,000	(3,083,000)	2,372,000	1,748,000
Pound Sterling	1,627,000	(1,624,000)	43,000	(32,000)	14,000	11,000
Canadian Dollars	1,494,000	(1,506,000)	31,000	(19,000)	–	–
Euro	2,174,000	(2,304,000)	536,000	(473,000)	(67,000)	–
Other currencies and gold	7,619,000	(7,465,000)	258,000	(455,000)	(43,000)	69,000
	55,982,000	(55,665,000)	6,021,000	(4,062,000)	2,276,000	1,828,000

The Group 2007

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

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 each and all classes of credit risk exposures. 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 2008

	Total exposures HK$'000	Exposures after recognised credit risk mitigation		Risk-weighted amounts		Total risk-weighted amounts HK$'000	Total exposure covered by recognised collateral HK$'000	Total exposure covered by recognised guarantees or recognised credit derivative contracts HK$'000
		Rated HK$'000	Unrated HK$'000	Rated HK$'000	Unrated HK$'000			
A. On-balance Sheet								
1 Sovereign	2,754,044	2,754,044	–	10,290	–	10,290	–	–
2 Public Sector Entity	1,582,699	1,582,699	–	316,540	–	316,540	–	–
3 Multilateral Development Bank	400,421	400,421	–	–	–	–	–	–
4 Bank	48,427,519	47,660,277	767,242	11,925,954	289,938	12,215,892	–	–
5 Securities Firm	628	628	–	314	–	314	–	–
6 Corporate	28,628,171	3,732,562	24,895,609	2,007,804	24,895,609	26,903,413	19,355,954	2,010,323
7 Cash Items	244,214	–	1,445,954	–	84,116	84,116	–	–
8 Regulatory Retail	4,041,728	–	4,041,728	–	3,031,296	3,031,296	2,920,033	–
9 Residential Mortgage Loan	11,365,986	–	11,365,986	–	7,527,123	7,527,123	9,249,391	–
10 Other exposures which are not Past Due Exposures	9,138,173	–	9,138,173	–	9,138,173	9,138,173	4,367,282	–
11 Past Due Exposures	374,960	–	374,960	–	413,943	413,943	276,307	–
B. Off-balance Sheet								
1 Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	4,354,612	120,641	4,233,971	51,024	4,170,578	4,221,602	–	111,988
2 OTC derivative transactions	111,304	92,005	19,299	20,469	18,897	39,366	–	–

The Group 2007

	Total exposures HK$'000	Exposures after recognised credit risk mitigation		Risk-weighted amounts		Total risk-weighted amounts HK$'000	Total exposure covered by recognised collateral HK$'000	Total exposure covered by recognised guarantees or recognised credit derivative contracts HK$'000
		Rated HK$'000	Unrated HK$'000	Rated HK$'000	Unrated HK$'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	8,880,789	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	1,354,430	–
9 Residential Mortgage Loan	10,833,548	–	10,819,817	–	7,333,377	7,333,945	7,697,817	–
10 Other exposures which are not Past Due Exposures	6,479,589	–	6,248,791	–	6,470,042	6,479,589	2,283,029	–
11 Past Due Exposures	208,128	–	208,128	–	213,625	213,625	184,487	–
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

	2008	2007
	OTC derivative transactions HK$'000	OTC derivative transactions HK$'000
OTC derivative & credit derivative:		
Gross total positive fair value	**37,252**	37,531
Credit equivalent amount	**111,304**	76,928
Risk weighted amounts	**39,366**	37,466

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

The Group

	2008	2007
	OTC derivative transactions HK$'000	OTC derivative transactions HK$'000
Notional amounts:		
– Banks	**7,006,106**	3,259,557
– Corporates	**323,404**	773,218
– Others	**193,863**	178,041
	7,523,373	4,210,816
Credit equivalent amounts/net credit exposures:		
– Banks	**92,004**	50,186
– Corporates	**11,878**	20,312
– Others	**7,422**	6,430
	111,304	76,928
Risk-weighted amounts:		
– Banks	**20,469**	10,957
– Corporates	**11,754**	20,126
– Others	**7,143**	6,383
	39,366	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.

The Group 2008

Securitization exposures	Outstanding amounts HK$'000	Risk-weighted amount HK$'000	Capital requirements HK$'000	Exposures deducted from its Core Capital HK$'000	Exposures deducted from its Supplementary Capital HK$'000
Traditional securitizations					
– Properties	**88,617**	**17,723**	**–**	**–**	**–**

The Group 2007

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

(c) Equity exposures in banking book

The Group

	2008 HK$'000	2007 HK$'000
Realised gains from disposal	**42,121**	37,097
Unrealised revaluation gains:		
– Amount included in reserves but not through the profit and loss account	**338,522**	32,308
– Amount added to core/supplementary capital	**338,522**	14,538

7. Risk management (Continued)

(d) Interest rate exposures in banking book

The Group 2008

Equivalent in Hong Kong dollars	Currency			
	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	**209,518**	**(1,565)**	**(11,591)**	**196,362**

The Group 2007

Equivalent in Hong Kong dollars	Currency			
	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

For 2008 and 2007, 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