SHANGHAI COMMERCIAL BANK



ANNUAL REPORT

2009

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CORPORATE PROFILE

Established in November 1950, Shanghai Commercial Bank is one of the renowned local Chinese banks in Hong Kong and has a niche market position in the corporate and trade finance sectors.

The Bank has always been pursuing the motto of its founder, Mr. Kwang-pu Chen, to 'Serve the Community'. The Bank's slogan of 'For Personalized Service' and 'All in a Family' denotes the Bank's devotion to providing personalized services to its clients and promoting a harmonious relationship among its staff members.

The Bank offers a comprehensive range of retail and corporate banking services and products including deposits, securities trading, credit cards, wealth management services and corporate and personal loans.

At present, Shanghai Commercial Bank has 43 branches in Hong Kong, 1 branch in Shenzhen, 1 representative office in Shanghai, and 4 overseas branches in London, New York, Los Angeles and San Francisco.

FIVE-YEAR FINANCIAL SUMMARY

	2009	2008	2007	2006	2005
FOR THE YEAR (IN HK$ MILLION)					
Net interest income	1,735	1,966	2,036	1,849	1,682
Other operating income	1,159	958	1,569	1,008	908
Operating expenses	1,264	1,004	973	842	810
Operating profit	1,572	1,547	2,534	1,981	1,785
Profit before other comprehensive income attributable to equity holders	1,336	1,185	2,199	1,662	1,472
Dividend	800	800	1,100	506	460
AT YEAR END (IN HK$ MILLION)					
Shareholders' funds	16,034	14,833	14,886	13,026	11,673
Total assets	112,910	109,749	108,025	93,760	80,702
Total deposits	91,489	89,532	82,113	75,343	64,037
Total loans and advances	44,340	50,168	46,128	38,472	35,600
FINANCIAL RATIOS					
Capital adequacy ratio*	19%	19%	20%	22%	23%
Liquidity ratio	55%	47%	52%	53%	57%
Loan to deposit ratio**	52.03%	58.06%	59.09%	55.79%	61.10%
Dividend to profit before other comprehensive income payout ratio	59.88%	67.49%	50.02%	30.45%	31.25%
Return on average assets	1.20%	1.09%	2.18%	1.90%	1.89%

* 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-ninth 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, 21st April 2010 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 2009;
(2) To declare Dividend in respect of the year 2009;
(3) To elect Directors;
(4) To approve the payment of Directors' fees for the year ended 31st December 2009;
(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, 14th April 2010 to Wednesday, 21st April 2010, both days inclusive.

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

Hong Kong, 27th January 2010

BOARD OF DIRECTORS



Front row from left to right

Mr. David Joseph Zuercher, Mr. Shen Ruolei, Mr. Hung-ching Yung, Mr. Lincoln Chu Kuen Yung, Mr. David Allen Hoyt, Mr. Stephen Ching Yen Lee.

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, Mdm. Ning Li Ming (not pictured here).

BOARD OF DIRECTORS (CONTINUED)

Lincoln Chu Kuen Yung, JP Chairman & Non-executive Director	
David Sek-chi Kwok Chief Executive & Managing Director	
Hung-ching Yung, JP	
Shen Ruolei (Ye Jun, Alternate)	(appointed on 17th July 2009)
* **Dr. Philip Kin Hang Wong, GBS, JP, LLD, DH** (David Ying Kit Wong, Alternate)	(retired on 22nd April 2009) (ceased on 22nd April 2009)
David Joseph Zuercher (Clifford Sterling Lawrence, Alternate)	
* **Dr. Richard Lee**	
* **Johnson Mou Daid Cha** (Dr. Lam Chat Yu, Alternate)	
Fu Jianhua (Zhang Qi, Alternate)	(resigned on 17th July 2009) (ceased on 17th July 2009)
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**	
Ning Li Ming (Li Jian Guo, Alternate)	(appointed on 17th July 2009) (appointed on 27th August 2009)

* 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 Hon-ming Mak Pui-man Yeung	Zachary Wing-kwong Kwan Danny Kong-keung Tsang Francis Yue-cheong Wong
Managers	Albert Tak-wo Leung Vincent Chi-wing Man Thomas Chee-kin Lo Stephen Wing-hing Lai	Wai-chau Tang Eric Kai-chiu Fok Annie Wai-yu Cheung

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 64. 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 Chairman of Paofoong Insurance Company (Hong Kong) Limited, 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 56. 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 87. 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 64. Appointed a Director of the Bank in March 1999. Executive Director of Shanghai United International Investment Limited and Chairman of United MetLife Life Insurance Company Limited. A Director of Bank of Shanghai.

MR. DAVID JOSEPH ZUERCHER

Aged 63. Appointed a Director of the Bank in March 2001 and had served as an Alternate Director of the Bank from January 1999 to March 2001. Executive Vice President & Group Head, International and Insurance Services, Wells Fargo & Company.

DR. RICHARD LEE

Aged 72. 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 58. 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 the Counsel and Finance Committee of The Chinese University of Hong Kong.

MR. STEPHEN CHING YEN LEE

Aged 63. 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 54. 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 54. 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 70. Appointed a Director of the Bank in April 2006 and had served as an Alternate Director of the Bank from June 2004 to April 2006. Resident Managing Director of The Shanghai Commercial & Savings Bank, Ltd.

MR. GORDON CHE KEUNG KWONG

Aged 60. Appointed a Director of the Bank in August 2008. Chairman of the Audit Committee of the Bank since January 2009. A fellow member of the Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Certified Public Accountants. An Independent Non-executive Director of a number of locally listed companies, including NWS Holdings Limited, Henderson Land Development Company Limited, Henderson Investment Limited, COSCO International Holdings Limited.

MDM. NING LI MING

Aged 60. Appointed a Director of the Bank in July 2009. Chairwoman of Bank of Shanghai. Director of Shanghai United International Investment Limited and Shenergy Company Limited.

MR. IGNATIUS WOOI-KEAN CHOONG

Aged 48. Served as an Alternate Director of the Bank since January 1997. 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 58. Appointed an Alternate Director to Mr. Johnson Mou Daid Cha in May 2002. He has more than 30 years of experience in asset management and technology investment in Silicon Valley, California and Asia. He is an Executive Director of Mingly Corporation.

MR. CLIFFORD STERLING LAWRENCE

Aged 61. Appointed an Alternate Director to Mr. David Joseph Zuercher in January 2007. Executive Vice President and Asia Regional Manager, Wells Fargo Bank, N.A.

MR. YI-JEN CHIOU

Aged 52. Appointed an Alternate Director to Mr. Chen Yih Pin in February 2007. Director and President of The Shanghai Commercial & Savings Bank, Ltd.

MR. YE JUN

Aged 37. Appointed an Alternate Director to Mr. Shen Ruolei in July 2009. Director of Bank of Shanghai, Shanghai United International Investment Limited and United MetLife Life Insurance Company Limited.

MR. LI JIAN GUO

Aged 46. Appointed an Alternate Director to Mdm. Ning Li Ming in August 2009. Vice President of Bank of Shanghai. Director of Shanghai United International Investment Limited.

SENIOR MANAGEMENT

MR. DAVID SEK-CHI KWOK

(Biographical details are set out on page 8)

MR. EDWARD KAWAH CHU

(Biographical details are set out on page 9)

MR. FRANCIS WAI-CHOI CHEUNG

Aged 59. Assistant General Manager & Chief of Corporate Banking of the Bank. Joined the Bank in July 1969.

MR. HENRY KOON-MAN TO

Aged 57. Assistant General Manager & Chief Financial Controller of the Bank. Joined the Bank in December 1988.

MR. PAUL KUN-KOW WONG

Aged 58. Assistant General Manager & Chief of Treasury of the Bank. Joined the Bank in February 1974.

MR. DANIEL KWOK-HUNG CHAN

Aged 48. Assistant General Manager of the Bank. Rejoined the Bank in March 2008.

MR. BURTON CHI-SHAN CHENG

Aged 48. Assistant General Manager & Chief of Information Technology & Operations of the Bank. Rejoined the Bank in August 1996.

MR. WILSON FUNG-CHEUNG CHAN

Aged 49. Assistant General Manager & Chief of Investment & Product Development of the Bank. Joined the Bank in January 2009.

MR. PUI-MAN YEUNG

Aged 57. Chief Auditor of the Bank. Rejoined the Bank in May 1982.







三地上銀 一心為您

2009 marked the 10th anniversary of the cross-strait alliance. The Bank continues to enhance collaborations with Bank of Shanghai and The Shanghai Commercial and Savings Bank by leveraging each other's experiences, strengths and knowledge for further business development and growth in the region.

三行聯盟於二零零九年踏入十週年紀念。本銀行將繼續加強與上海銀行及上海商業儲蓄銀行之聯繫，借鑑彼此的豐富經驗、強項及智慧，推動區內業務發展和增長。

Bringing greater value and convenience to customers is always our top priority. In December 2009, the Bank, together with Bank of Shanghai and The Shanghai Commercial and Savings Bank, formed a strategic partnership with Asia Miles to offer credit card cardholders to convert their bonus points to Asia Miles' mileages.

為客戶帶來更大效益及便利服務，向來是本銀行的首要宗旨。本銀行攜手與上海銀行及上海商業儲蓄銀行，於二零零九年十二月與「亞洲萬里通」建立策略性夥伴聯盟，讓銀行信用卡持卡人可以把積分轉換為「亞洲萬里通」里數。





We recognize and value outstanding performances that drive growth and excellence. The Bank was awarded the "Distinguished Bank of the Year" in 2009 by Hong Kong Life.

本銀行表彰及重視傑出員工，以助企業增長及達致卓越表現。本銀行於二零零九年榮獲香港人壽頒發「全年最優秀銀行大獎」。



Our comprehensive and tailor-made solutions enable our SME customers to capture every profitable business opportunities in Hong Kong, Taiwan and China. In December 2009, the Bank participated in the World SME Expo to meet with both existing and potential customers.

本銀行為中小企客戶提供全方位及度身訂造方案，協助客戶把握香港、台灣及中國每個有利商機。本銀行於二零零九年十二月參加中小企國際推廣博覽，接觸現有及富潛質的客戶。



The Bank continued to drive business growth by launching a series of marketing campaigns throughout the year.

本銀行於去年推出多項市場推廣活動，持續推動業務增長。

MESSAGE TO SHAREHOLDERS

In 2009, the global economy showed signs of stabilizing. The Hong Kong economy, especially the property and stock markets, benefited from Mainland China's continued economic growth and low interest rate environment which provided ample liquidity. Nevertheless, market conditions remained uncertain and the substantial increase in property prices became a concern.

Despite this challenging operating environment, Shanghai Commercial Bank (the "Bank") continued to perform satisfactorily. The consolidated profit attributable to shareholders, in 2009, was HK$1,336 million, representing a gain of 12.7 percent. The increase was primarily due to the substantially lower impairment allowances, positive contributions from all the jointly controlled entities, improved fee income from securities related business and treasury operation. The return on average total assets and return on average equity stood at 1.2 percent and 8.7 percent respectively. Capital adequacy ratio remained strong at 19 percent, while the liquidity ratio was 55 percent. The additional compensation made for the Lehman Brothers Minibonds Repurchase Scheme had a negative impact on the Bank's cost-to-income ratio and it increased to 43.7 percent. Excluding the additional compensation, the ratio would have been 34.9 percent; in 2008, it was 34.3 percent.

The Bank has taken major steps to position itself for the coming years. In 2010, we hope to obtain the necessary approval to upgrade our Shanghai representative office to full branch status. Also, the Bank reiterates its commitment to the "Green Channel", a convenient one-stop platform of premium banking services in the Greater China region, for the VIP customers of our Bank, Bank of Shanghai in China and The Shanghai Commercial & Savings Bank in Taiwan. The redevelopment project of the Head Office building, together with the adjacent plot, is proceeding on course. The Bank has engaged the award winning Rocco Design Architects Limited as the project's architectural firm. The general building plan is expected to be finalized some time in 2010 and demolition of the current structures will commence in mid 2011.

On behalf of the Board, we would like to thank the outgoing director, Mr. Fu Jianhua, for his invaluable contribution to the Bank over the past years. We extend our warm welcome to Madam Ning Li Ming, Chairwoman of Bank of Shanghai, who was appointed a director of the Bank on 17 July 2009. We look forward to her wise counsel and advice.

We thank our customers for their patronage, and our staff for their hard work and dedication. Our sincere appreciation goes to the Board for their insights, wisdom and guidance and we look forward to 2010 with confidence.

Lincoln Chu Kuen Yung
Chairman

David Sek-Chi Kwok
Chief Executive & Managing Director

Hong Kong, 25th February 2010

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their report together with the audited financial statements for the year ended 31st December 2009.

Principal activities

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

Profit and appropriations

The Group's profit for the year after taxation and other comprehensive income less non-controlling interests are set out in the consolidated statement of changes in equity on page 26 of the financial statements.

The directors recommend the payment of a final dividend of HK$40 per ordinary share totalling HK$800,000,000.

Other reserves

Movements in the other reserves of the Group and the Bank during the year are set out in Note 35 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$958,000.

Property and equipment

Details of the movements in property and equipment of the Group and the Bank are shown in Note 26 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 (Ye Jun, Alternate)	(appointed on 17th July 2009)
Dr. Philip Kin Hang Wong (David Ying Kit Wong, Alternate)	(retired on 22nd April 2009) (ceased on 22nd April 2009)
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)	(resigned on 17th July 2009) (ceased on 17th July 2009)
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	
Ning Li Ming (Li Jian Guo, Alternate)	(appointed on 17th July 2009) (appointed on 27th August 2009)

In accordance with Article 104(A) of the Bank's Articles of Association, Mr. Lincoln Chu Kuen Yung, Mr. David Joseph Zuercher, Dr. Richard Lee and Mr. Johnson Mou Daid Cha shall retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 95 of the Bank's Articles of Association, Mdm. Ning Li Ming shall retire at the forthcoming Annual General Meeting and, being eligible, offer herself 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 seven 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 and E.2.1.

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 2010

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 20 to 115, which comprise the consolidated and company statements of financial position as at 31st December 2009, the consolidated and company income statements, and the consolidated and company statements of comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows 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 2009 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 2010

CONSOLIDATED INCOME STATEMENT

for the year ended 31st December 2009

	Note	2009 HK$'000	2008 HK$'000
Interest income	6	2,395,306	3,936,222
Interest expense	6	(660,326)	(1,970,558)
Net interest income		1,734,980	1,965,664
Fee and commission income	7	693,512	751,397
Fee and commission expense	7	(38,993)	(43,623)
Net fee and commission income		654,519	707,774
Dividend income	8	19,455	20,509
Net trading income	9	108,670	94,584
Net income/ (losses) from financial instruments designated at fair value through profit or loss		79,027	(57,914)
Net losses from disposal of equipment		(951)	(626)
Net gains from disposal/ redemption of held-to-maturity and available-for-sale investments		186,967	117,675
Other operating income	10	111,121	76,366
Operating expenses	11	(1,263,551)	(1,004,144)
Impairment losses on loans and advances to customers	13	(57,990)	(372,995)
Operating profit		1,572,247	1,546,893
Share of net profits / (losses) of jointly controlled entities		31,152	(83,554)
Profit before income tax		1,603,399	1,463,339
Income tax expense	14	(266,747)	(276,463)
Profit for the year		1,336,652	1,186,876
Attributable to:			
Equity holders of the Bank		1,335,988	1,185,325
Non-controlling interests		664	1,551
		1,336,652	1,186,876
Dividends			
Final dividend proposed after the balance sheet date	16	800,000	800,000

The notes on pages 30 to 115 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31st December 2009

	2009 HK$'000	2008 HK$'000
Profit for the year	**1,336,652**	1,186,876
Exchange differences on translation of foreign operations	**17,601**	(1,840)
Net gains/ (losses) on available-for-sale investments		
Fair value changes taken to/ (from) equity on available-for-sale investments	**1,033,513**	(75,464)
Fair value changes transferred to income statement on disposal and early redemption of the available-for-sale investments for realized net profit	**(186,967)**	(115,708)
Deferred income tax	**(203,989)**	60,054
Share of changes in equity of jointly controlled entities	**4,548**	(5,553)
Total comprehensive income for the year	**2,001,358**	1,048,365
Attributable to:		
Equity holders	**2,000,286**	1,046,814
Non-controlling interests	**1,072**	1,551
	2,001,358	1,048,365

The notes on pages 30 to 115 are an integral part of these consolidated financial statements.

INCOME STATEMENT
for the year ended 31st December 2009

	Note	2009 HK$'000	2008 HK$'000
Interest income	6	2,321,370	3,855,328
Interest expense	6	(660,607)	(1,971,117)
Net interest income		1,660,763	1,884,211
Fee and commission income	7	654,685	707,261
Fee and commission expense	7	(31,074)	(36,998)
Net fee and commission income		623,611	670,263
Dividend income	8	96,083	110,969
Net trading income	9	108,667	94,613
Net income/ (losses) from financial instruments designated at fair value through profit or loss		79,027	(57,914)
Net losses from disposal of equipment		(925)	(584)
Net gains from disposal/ redemption of held-to-maturity and available-for-sale investments		186,967	117,675
Other operating income	10	112,427	95,254
Operating expenses	11	(1,251,548)	(1,000,025)
Impairment losses on loans and advances to customers	13	(57,990)	(372,995)
Profit before income tax		1,557,082	1,541,467
Income tax expense	14	(265,380)	(274,849)
Profit for the year		1,291,702	1,266,618
Dividends			
Final dividend proposed after the balance sheet date	16	800,000	800,000

The notes on pages 30 to 115 are an integral part of these consolidated financial statements.

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31st December 2009

	2009 HK$'000	2008 HK$'000
Profit for the year	**1,291,702**	1,266,618
Exchange differences on translation of foreign operations	**18,336**	(4,411)
Net gains/ (losses) on available-for-sale investments		
Fair value changes taken to/ (from) equity on available-for-sale investments	**1,037,232**	(82,197)
Fair value changes transferred to income statement on disposal of the available-for-sale investments for realized net profit	**(186,967)**	(115,708)
Deferred income tax	**(203,900)**	60,054
Total comprehensive income for the year	**1,956,403**	1,124,356

The notes on pages 30 to 115 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31st December 2009

	Note	2009 HK$'000	2008 HK$'000
ASSETS			
Cash and balances with banks	17	26,215,291	22,565,794
Placements with and loans and advances to banks	18	14,989,607	17,859,712
Financial assets held for trading	19	389,026	310,128
Derivative financial instruments	20	12,448	37,252
Financial assets designated at fair value	21	398,430	341,866
Loans and advances to customers	22(a)	44,025,984	49,756,984
Investment securities:			
- Available-for-sale	23	20,225,698	11,625,020
- Held-to-maturity	24	2,868,942	2,950,520
Investments in jointly controlled entities	25(a)	159,901	125,181
Property and equipment	26	374,196	392,904
Investment property	27	31,370	56,465
Leasehold land and land use rights	28	1,642,311	1,648,779
Deferred income tax assets	33	43,979	160,137
Other assets	29	1,533,001	1,917,956
TOTAL ASSETS		112,910,184	109,748,698
LIABILITIES			
Deposits and balances from banks		3,566,474	3,808,753
Derivative financial instruments	20	31,264	63,021
Deposits from customers	30	91,488,908	89,531,873
Other liabilities	31	1,552,927	1,416,015
Provisions	32	94,500	83,593
Current income tax liabilities		4,397	3,689
Deferred income tax liabilities	33	82,708	79
TOTAL LIABILITIES		96,821,178	94,907,023
EQUITY			
CAPITAL AND RESERVES ATTRIBUTABLE TO THE EQUITY HOLDERS			
Share capital	34	2,000,000	2,000,000
Retained earnings		5,785,596	5,276,236
Other reserves	35	8,247,991	7,556,959
		16,033,587	14,833,195
Non-controlling interests in equity		55,419	8,480
TOTAL EQUITY		16,089,006	14,841,675
TOTAL EQUITY AND LIABILITIES		112,910,184	109,748,698

Approved and authorised for issue by the Board of Directors on 25th February 2010.

Lincoln Chu Kuen Yung
Chairman

Hung-ching Yung
Director

Gordon Che Keung Kwong
Director

David Sek-chi Kwok
Managing Director & Chief Executive

The notes on pages 30 to 115 are an integral part of these consolidated financial statements.

STATEMENT OF FINANCIAL POSITION

as at 31st December 2009

	Note	2009 HK$'000	2008 HK$'000
ASSETS			
Cash and balances with banks	17	26,215,284	22,565,788
Placements with and loans and advances to banks	18	14,989,607	17,859,712
Financial assets held for trading	19	389,026	310,128
Derivative financial instruments	20	12,448	37,252
Financial assets designated at fair value	21	398,430	341,866
Loans and advances to customers	22(a)	44,025,984	49,756,984
Investment securities:			
- Available-for-sale	23	19,879,810	11,224,599
- Held-to-maturity	24	901,715	981,626
Investments in jointly controlled entities	25(a)	117,300	117,300
Investments in and loans to subsidiaries	25(b)	2,203,397	2,326,523
Property and equipment	26	348,489	372,727
Investment properties	27	38,497	63,790
Leasehold land and land use rights	28	1,642,311	1,648,779
Deferred income tax assets	33	43,979	160,137
Other assets	29	1,075,116	1,661,227
TOTAL ASSETS		112,281,393	109,428,438
LIABILITIES			
Deposits and balances from banks		3,566,474	3,808,753
Derivative financial instruments	20	31,264	63,021
Deposits from customers	30	91,488,908	89,531,873
Other liabilities	31	1,083,460	1,164,470
Provisions	32	93,924	83,005
Current income tax liabilities		4,062	2,784
Deferred income tax liabilities	33	82,261	-
TOTAL LIABILITIES		96,350,353	94,653,906
EQUITY			
CAPITAL AND RESERVES ATTRIBUTABLE TO THE EQUITY HOLDERS			
Share capital	34	2,000,000	2,000,000
Retained earnings		5,689,036	5,223,211
Other reserves	35	8,242,004	7,551,321
		15,931,040	14,774,532
TOTAL EQUITY AND LIABILITIES		112,281,393	109,428,438

Approved and authorised for issue by the Board of Directors on 25th February 2010.

Lincoln Chu Kuen Yung
Chairman

Hung-ching Yung
Director

Gordon Che Keung Kwong
Director

David Sek-chi Kwok
Managing Director & Chief Executive

The notes on pages 30 to 115 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31st December 2009

	Note	Attributable to the equity holders			Non-controlling 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
Profit for the year		-	-	1,185,325	1,551	1,186,876
Fair value losses, net of tax:						
- available-for-sale investments	35	-	(15,410)	-	-	(15,410)
Currency translation differences	35	-	790	(2,630)	-	(1,840)
Net income recognised directly in equity		-	(14,620)	(2,630)	-	(17,250)
Share of changes in equity of jointly controlled entities	35	-	(5,553)	-	-	(5,553)
Realised on disposal of available-for-sale investments	35	-	(115,708)	-	-	(115,708)
Other comprehensive income		-	(135,881)	(2,630)	-	(138,511)
Transfer from retained earnings	35	-	100,000	(100,000)	-	-
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

	Note	Attributable to the equity holders			Non-controlling interests	Total equity
		Share capital HK$'000	Other reserves HK$'000	Retained earnings HK$'000	HK$'000	HK$'000
Balance at 1st January 2009		**2,000,000**	**7,556,959**	**5,276,236**	**8,480**	**14,841,675**
Profit for the year		-	-	1,335,988	664	1,336,652
Fair value gains, net of tax:						
- available-for-sale investments	35	-	829,116	-	408	829,524
Currency translation differences	35	-	17,676	(75)	-	17,601
Net income recognised directly in equity		-	846,792	(75)	408	847,125
Share of changes in equity of jointly controlled entities	35	-	4,548	-	-	4,548
Realised on disposal of available-for-sale investments	35	-	(186,967)	-	-	(186,967)
Other comprehensive income		-	664,373	(75)	408	664,706
Transfer from retained earnings	35	-	26,659	(26,553)	-	106
Acquisition of a subsidiary		-	-	-	46,587	46,587
Dividend relating to 2008		-	-	(800,000)	(720)	(800,720)
Balance at 31st December 2009		**2,000,000**	**8,247,991**	**5,785,596**	**55,419**	**16,089,006**

	Year ended 31st December	
	2009 HK$'000	2008 HK$'000
Proposed dividend in retained earnings	**800,000**	800,000

The notes on pages 30 to 115 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31st December 2009

	2009 HK$'000	2008 HK$'000
Cash flows from operating activities		
Profit before income tax	1,603,399	1,463,339
Share of net (profits)/ losses of jointly controlled entities	(31,152)	83,554
Impairment losses on loans and advances to customers	57,990	372,995
Depreciation expenses for property and equipment	68,432	57,146
Amortisation expenses for leasehold land	6,468	6,468
Net loss from disposal of equipment	951	626
Net gain from disposal/ redemption of held-to-maturity and available-for-sale investments	(186,967)	(117,675)
Amortisation of held-to-maturity and available-for-sale investments	64,039	46,275
Interest income on held-to-maturity and available-for-sale investments	(629,175)	(654,894)
Dividend income	(19,455)	(20,509)
Negative goodwill	(7,430)	-
Hong Kong profits tax refunded/ (paid)	204,952	(273,432)
Overseas tax paid	(91,295)	(92,056)
Cash flows from operating activities before changes in operating assets and liabilities	1,040,757	871,837
Changes in operating assets and liabilities:		
- Net increase in cash and balances with banks with original maturity beyond three months	(2,743,722)	(1,966,888)
- Net increase in placements with and loans and advances to banks with original maturity beyond three months	(8,639,203)	(879,957)
- Net increase in financial assets held for trading	(79,243)	(28,571)
- Net (increase)/ decrease in derivative financial instruments	(6,953)	19,323
- Net (increase)/ decrease in financial assets designated at fair value	(56,564)	65,305
- Net decrease/ (increase) in loans and advances to customers	5,672,583	(4,196,752)
- Net increase in other assets	(163,859)	(144,247)
- Net decrease in deposits and balances from banks	(242,279)	(269,254)
- Net increase in deposits from customers	1,957,035	8,670,731
- Net decrease in certificates of deposit issued	-	(1,251,596)
- Net increase/ (decrease) in other liabilities and provisions	136,954	(4,966,823)
Net cash flows from operating activities	(3,124,494)	(4,076,892)

	Note	2009 HK$'000	2008 HK$'000
Cash flows from investing activities			
Acquisition of a subsidiary company, net of cash acquired		27,008	-
Proceeds from disposal of certain interests of a subsidiary		8,200	-
Interest received on held-to-maturity and available-for-sale investments		574,510	677,377
Dividends received on available-for-sale investments		18,035	17,882
Dividends received from jointly controlled entities		980	4,130
Repayment of advances from a jointly controlled entity		-	5,267
Increase in investment in a jointly controlled entity		-	(35,000)
Purchases of equipment		(22,427)	(48,993)
Purchases of leasehold land		-	(1,381,406)
Purchases of an investment property		-	(62,739)
Proceeds from sale of equipment		17	193
Purchases of available-for-sale investments		(22,770,834)	(6,880,716)
Purchases of held-to-maturity investments		(1,203,643)	(1,948,761)
Proceeds from sale and redemption of available-for-sale investments		15,884,566	8,388,976
Proceeds from redemption of held-to-maturity investments		1,266,808	2,110,859
Net cash flows from investing activities		(6,216,780)	847,069
Cash flows from financing activites			
Dividend paid to the equity holders		(800,000)	(1,100,000)
Dividend paid to non-controlling interests		(720)	(719)
Net cash flows from financing activities		(800,720)	(1,100,719)
Net decrease in cash and cash equivalents		(10,141,994)	(4,330,542)
Cash and cash equivalents at beginning of the year		33,996,491	38,045,854
Effect of exchange rate changes on cash and cash equivalents		(466,545)	281,179
Cash and cash equivalents at end of the year	36	23,387,952	33,996,491

The notes on pages 30 to 115 are an integral part of these consolidated 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 1,790 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 2010.

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") 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, financial assets held for trading and derivative financial instruments at fair value.

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. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Group's financial statements therefore present the financial position and results fairly. 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 4.

(a) Standard, amendments and interpretations effective on or after 1st January 2009

Standard/ Interpretation	Content	Applicable for financial years beginning on/ after	Relevant to the Group
HKFRS 2	Share-based payments - Vesting Conditions and Cancellations	1st January 2009	No
HKFRS 7	Improving Disclosures about Financial Instruments	1st January 2009	Yes
HKFRS 8	Operating Segments	1st January 2009	No
HKAS 1	Presentation of Financial Statements	1st January 2009	Yes
HKAS 23	Borrowing Costs	1st January 2009	Yes
HKAS 32 and HKAS 1	Puttable Financial Instruments and Obligations Arising on Liquidation	1st January 2009	No
HK(IFRIC) - Int 13	Customer Loyalty Programmes	1st July 2008	Yes
HK(IFRIC) - Int 15	Agreements for the Construction of Real Estate	1st January 2009	No
HK(IFRIC) - Int 16	Hedges of a Net Investment in a Foreign Operation	1st October 2008	No

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(a) Standard, amendments and interpretations effective on or after 1st January 2009 (Continued)

HKFRS 2 Share-based Payments - Vesting Conditions and Cancellations

The HKICPA published an amendment to HKFRS 2 - Share-based Payments in March 2008. The changes pertain mainly to the definition of vesting conditions and the regulations for the cancellation of a plan by a party other than the company. These changes clarify that vesting conditions are solely service and performance conditions. As a result of the amended definition of vesting conditions, non-vesting conditions are now to be considered when estimating the fair value of the equity instrument granted. Furthermore, the Standard describes the posting type, if the vesting conditions and non-vesting conditions are not fulfilled. This standard does not have an impact on the Group's financial statements.

Amendment to HKFRS 7 Improving Disclosures about Financial Instruments

The HKICPA published amendments to HKFRS 7 in March 2009. The amendments require enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the Group.

HKFRS 8 Operating Segments

HKFRS 8 was issued in March 2007 and excluding early adoption would first be required to be applied to the Group's accounting period beginning on 1st January 2009. The standard replaces HKAS 14 Segment reporting with its requirement to determine primary and secondary reporting segments. Under the requirements of the new standard, the Group's external segmental reporting will be based on the internal reporting to the Group Executive Board (in its function as the chief operating decision maker) which makes decisions on the allocation of resources and assess the performance of the reportable segments. The standard does not have an impact on the Group's financial statements.

HKAS 1 Presentation of Financial Statements

A revised version was issued in December 2007. It prohibits the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also conforms with the revised standard. According to the amendment of HKAS 1, each component of equity, including each item of other comprehensive income, should be reconciled between carrying amount at the beginning and the end of the period. Since the change in accounting policy only impacts presentation aspects, there is no impact on retained earnings.

HKAS 23 Borrowing Costs

A revised version was issued in June 2007. This eliminates the option of immediate recognition of borrowing costs as an expense regarding assets that require a substantial period of time to get ready for their intended use. The application of HKAS 23 Amendment does not have an impact on the consolidated result or balance sheet items.

HKAS 32 and HKAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation

In June 2008, the HKICPA amended HKAS 32 by requiring some financial instruments that meet the definition of a financial liability to be classified as equity. Puttable financial instruments that represent a residual interest in the net assets of the entity are now classified as equity provided that specified conditions are met. Similar to those requirements is the exception to the definition of a financial liability for instruments that entitle the holder to a pro-rata share of the net assets of an entity only on liquidation. The adoption of the amended HKAS 32 does not have an impact on the Group's financial statements.

HK(IFRIC) - Int 13 Customer Loyalty Programmes

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. HK(IFRIC) - Int 13 is relevant to the Group's operation as the Group operates some of the loyalty programmes.

HK(IFRIC) - Int 15 Agreements for the Construction of Real Estate

This interpretation clarifies whether HKAS 18 "Revenue" or HKAS 11 "Construction contracts" should be applied to particular transactions. It is likely to result in HKAS 18 being applied to a wider range of transactions. This interpretation does not have an impact on the Group's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(a) Standard, amendments and interpretations effective on or after 1st January 2009 (Continued)

HK(IFRIC) - Int 16 Hedges of a Net Investment in a Foreign Operation

This interpretation clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. This interpretation does not have an impact on the Group's financial statements.

(b) Standards and Interpretations issued but not yet effective

The following Standards and Interpretations have been issued and are mandatory for the Group's accounting periods beginning on or after 1st July 2009 or later periods:

Standard/ Interpretation	Content	Applicable for financial years beginning on/ after	Relevant to the Group
HKFRS 1 and HKAS 27	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1st July 2009	Yes
HKFRS 3	Business Combinations	1st July 2009	Yes
HKAS 27	Consolidated and Separate Financial Statements	1st July 2009	Yes
HKAS 39	Financial Instruments: Recognition and Measurements - Eligible Hedged Items	1st July 2009	No
HK(IFRIC) - Int 17	Distribution of Non-Cash Assets to Owners	1st July 2009	No
HK(IFRIC) - Int 18	Transfers of Assets from Customers	1st July 2009	No
HKFRS 9	Financial Instruments Part 1: Classification and Measurement	1st January 2013	Yes

HKFRS 1 and HKAS 27 Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
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.

HKFRS 3 Business Combinations
The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For examples, 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 income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1st January 2010.

HKAS 27 Consolidated and Separate Financial Statements
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. In the future, this guidance will also tend to produce higher volatility in equity and/ or earnings in connection with the sale or acquisition of interests by the Group.

HKAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items
The amendment Eligible Hedged Items was issued in November 2008. It provides guidance in two situations: On the designation of a one-sided risk in a hedged item HKAS 39 concludes that a purchased option designated in its entirely as the hedging instrument of a one-sided risk will not be perfectly effective. The designation of inflation as a hedged risk or portion is not permitted unless in particular situations. This will not give rise to any changes to the Group's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(b) Standards and Interpretations issued but not yet effective (Continued)

HK(IFRIC) - Int 17 Distribution of Non-Cash Assets to Owners

HK(IFRIC) - Int 17 was issued in December 2008. It addressed how the non-cash dividends distributed to the shareholders should be measured. A dividend obligation is recognised when dividend was authorised by the appropriate entity and is no longer at the discretion of the entity. This dividend obligation should be recognised at the fair value of the net assets to be distributed. The difference between the dividend paid and the amount carried forward of the net assets distributed should be recognised in profit and loss.

Additional disclosures are to be made if the net assets being held for distribution to owners meet the definition of a discontinued operation. The application of HK(IFRIC) - Int 17 has no impact on the financial statements of the Group.

HK(IFRIC) - Int 18 Transfer of Assets from Customers

HK(IFRIC) - Int 18 was issued in February 2009. It clarifies how to account for transfer of items of property, plant and equipment by entities that receive such transfers from their customers. The interpretation also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment and the entity must then use that item to provide the customer with ongoing access to supply of goods and/ or services. The Group is not impacted by applying HK(IFRIC) - Int 18.

Improvements to HKFRS

"Improvements to HKFRS" contains numerous amendment to HKFRS which the HKICPA consider non-urgent but necessary. "Improvement to HKFRS" comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual HKFRS standards. Most of the amendments are effective for annual periods beginning on or after 1st January 2009 and 1st January 2010 respectively, with earlier application permitted. No material changes to accounting policies are expected as a result of these amendments.

HKFRS 9 Financial Instruments Part 1: Classification and Measurement

HKFRS 9 was issued in November 2009 and replaces those parts of HKAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

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

An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit and loss. For all other equity instruments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit and loss. There is to be no recycling of fair value gains and losses to profit and loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit and loss, as long as they represent a return on investment.

While adoption of HKFRS 9 is mandatory from 1st January 2013, earlier adoption is permitted.

The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

(c) Early adoption of standards

The Group did not early-adopt new or amended standards in 2009.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Bank and all its subsidiaries made up to 31st December 2009.

(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.

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 non-controlling 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 income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the 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 statement of financial position 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) Transactions with non-controlling interests

The Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Group. Disposals to non-controlling interests result in gains and losses to the Group that are recorded in the income statement. Purchases from the non-controlling 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.

(c) 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 income statement included the Group's share of the results of jointly controlled entities, and the consolidated statement of financial position included the Group's share of the net assets of the jointly controlled entities.

In the Bank's statement of financial position, 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 thousands of units of Hong Kong Dollars, which is the Bank's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions that are transactions denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Foreign currency translation (Continued)

(b) Transactions and balances (Continued)

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. If several exchange rates are available, the forward rate is used at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except when deferred in equity as gains or losses from qualifying cash flow hedging instruments or qualifying net investment hedging instruments.

All foreign exchange gains and losses recognised in the income statement are presented net in the consolidated income statement within the corresponding item. Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income within the corresponding item.

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available for sale, a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security.

Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount, except impairment, are recognised in equity.

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

(c) Group companies and overseas branches

The results and financial position of all the Group's 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:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised in other comprehensive income.

Exchange differences arising from the above process are reported in shareholders' equity as "Foreign currency translation differences".

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to "Other comprehensive income". When a foreign operation is disposed of, or partially disposed of, such exchange differences are recognised in the consolidated income statement 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 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 income statement using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Interest income and expense (Continued)

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

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

2.5 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.

2.6 Dividend income

Dividends are recognised in the income statement when the entity's right to receive payment is established.

2.7 Net income from financial instruments designated at fair value through profit or loss

Net income from financial instruments designated at fair value through profit or loss includes fair value change and interest from the financial instrument designated at fair value.

2.8 Leases

(a) Land

Interest in freehold land is stated at cost and included as property and equipment on the statement of financial position.

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 income statement 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 and equipment in the statement of financial position. They are depreciated over their expected useful lives on a basis consistent with similar owned property and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 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 income statement 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. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An 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 (Note 2.22). The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains or losses on disposals are determined by comparing proceeds and the carrying amount of the relevant assets and are recognised in the income statement.

2.10 Financial assets

2.10.1 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 upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing 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. Financial assets held for trading consist of debt instruments, including money-market paper, traded corporate and bank loans, and equity instruments, as well as financial assets with embedded derivatives. They are recognised in the consolidated statement of financial position as "Financial assets held for trading".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets (Continued)

2.10.1 Classification (Continued)

(a) Financial assets at fair value through profit or loss (Continued)

Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to the consolidated income statement. Gains and losses arising from changes in fair value are included directly in the consolidated income statement and are reported as "Net trading income". Interest income and expense and dividend income on financial assets held for trading are included in "Net trading income" or "Dividend income", respectively. The instruments are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognising.

The Group designates certain financial assets upon initial recognition as at fair value through profit and loss (fair value option). This designation cannot subsequently be changed. According to HKAS 39, the fair value option is only applied when the following conditions are met:

- the application on the fair value option reduces or eliminates an accounting mismatch that would otherwise arise; or
- the financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis; or
- the financial assets consists of debt host and an embedded derivatives that must be separated.

To reduce accounting mismatch, the fair value option is applied to certain financial assets that are hedged with interest rate swaps but for which the hedge accounting conditions of HKAS 39 are not fulfilled.

Financial assets for which the fair value option is applied are recognised in the consolidated statement of financial position as "Financial assets designated at fair value". Fair value changes relating to financial assets designated at fair value through profit or loss are recognised in "Net income from financial instruments 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.

Loans and receivables are initially recognised at fair value which is the cash given to originally or purchase the loan including any transaction costs and measured subsequently at amortised cost using the effective interest rate method. Loans and receivables are reported in the consolidated statement of financial position as placements with and loans and advances to banks or customers. Interest on loans is included in the separate consolidated income statement and is reported as net interest income. In the case of an impairment, it is reported as a deduction from the carrying value of the loan and recognized in the separate consolidated income statement as impairment losses on loans and advances to customers.

(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, other than:

(i) those that the Group upon initial recognition designates as at fair value through profit or loss;

(ii) those that the Group designates as available-for-sale; and

(iii) those that meet the definition of loans and receivables.

They are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method. They are derecognised when the rights to receive cash flows have expired.

Interest on held-to-maturity investments are included in the separate consolidated income statement and are reported as net interest income. In the case of an impairment, it has been reported as a deduction from the carrying value of the investment and recognised in the separate consolidated income statement as impairment charges on held-to-maturity investments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets (Continued)

2.10.1 Classification (Continued)

(d) Available-for-sale investments

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets consist mainly of debt and equity investments.

Available-for-sale financial assets are initially recognised at fair value which is the cash given including any transaction costs and measured subsequently at fair value with gains and losses been recognised in reconciliation from result to total comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial assets is derecognised. If an available-for-sale financial asset is determined to be impaired the cumulative gain or loss previously recognised in reconciliation from result of the year to total comprehensive income is recognised in separate consolidated income statement. However, interest is calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the separate consolidated income statement. Dividends on available-for-sale equity instruments are recognised in the separate consolidated income statement in "Dividend income" when the Group's right to receive payment is established.

2.10.2 Reclassification of financial assets

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.

On reclassification of a financial asset out of the "at fair value through profit or loss" category all embedded derivatives are re-assessed and, if necessary, separately accounted for.

2.10.3 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 income statement. 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 income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale investments 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 income statement. 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 income statement.

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, and other valuation techniques commonly used by market participants.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 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.

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 income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an 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)

2.11 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 income statement.

(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 income statement - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. 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 income statement, the impairment loss is reversed through the consolidated income statement.

(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.

2.12 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 income statement.

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 and loss; and

(iii) Financial instruments, such as debt securities issued, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit or loss.

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

(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 income statement over the period of the other financial liabilities using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial liabilities (Continued)

(c) Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges (for example, FTSE, NYSE) and broker quotes from Bloomberg and Reuters.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, volatilities and counterparty spreads) existing at the dates of the consolidated statement of financial position.

The Group uses widely recognised valuation models for determining fair values of non-standardised financial instruments of lower complexity, such as options or interest rate and currency swaps. For these financial instruments, inputs into models are generally market-observable.

For more complex instruments, the Group uses developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models are used primarily to value derivatives transacted in the over-the-counter market, unlisted debt securities (including those with embedded derivatives) and other debt instruments for which markets were or have become illiquid. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

The Group uses its own credit risk spreads in determining the current value for its derivative liabilities and all other liabilities for which it has elected the fair value option. When the Group's credit spreads widen, the Group recognises a gain on these liabilities because the value of the liabilities has decreased. When the Group's credit spread narrow, the Group recognises a loss on these liabilities because the value of the liabilities has increased.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Group holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risks, liquidity risk and counterparty risk. Based on the established fair value model governance policies, and related controls and procedures applied, management believes that these valuation techniques are necessary and appropriate to fairly state the values of financial instruments carried at fair value in the consolidated statement of financial position. Price data and parameters used in the measurement procedures applied are generally reviewed carefully and adjusted, if necessary - particularly in view of the current market developments.

2.13 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 income statement unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Derivative financial instruments (Continued)

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 income statement 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 through profit or loss" (Note 2.7).

2.14 Current and deferred income tax

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

Deferred income tax assets are recognised 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 income statement together with the deferred gain or loss.

2.15 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 income statement.

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 income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries, who value the scheme once every three years.

(b) Employee leave entitlements

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Employee benefits (Continued)

(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.

2.16 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.

2.17 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.

2.18 Intangible assets

Intangible assets comprises separately identifiable intangible items arising from business combinations. Intangible assets are recognised at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Intangible assets with a definite useful life are amortised using the straight-line method over their estimated useful economic life, generally not exceeding 20 years. Intangible assets with an indefinite useful life are no amortised. Generally all identified intangible assets of the Group have a definite useful life. At each balance sheet date, intangible assets are reviewed for indications or impairment or changes in estimated future benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable. An impairment loss is recognised if the carrying amount exceeds the recoverable amount.

The Group chooses to use the cost model for the measurement after recognition.

Intangible assets with indefinite useful life are annually tested for impairment and whenever there is an indication that the asset may be impaired.

(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 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.

Goodwill is tested annually as well as whenever a trigger event has been observed for impairment by comparing the present value of the expected future cash flows from a cash generating unit with the carrying value of its net assets, including attributable goodwill 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.

(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:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Intangible assets (Continued)

(b) Computer software (Continued)

- 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.

2.19 Repossessed assets

Repossessed collateral assets are recorded 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.

2.20 Cash and cash equivalents

For the purposes of the statement of cash flows, 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.

2.21 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.

2.22 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.

2.23 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 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. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with HKAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management. The fee income earned is recognised on a straight-line basis over the life of the guarantee.

Any increase in the liability relating to guarantees is reported in the consolidated income statement within other operating expenses.

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 that represents a concentration in the Group's portfolio, 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.

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.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.2 Impairment and provisioning policies (Continued)

The Group and the Bank	2009		2008	
	Loans and advances (%)	Impairment provision (%)	Loans and advances (%)	Impairment provision (%)
1 – satisfactory	94.18	0.41	93.94	0.41
2 – special monitoring	3.14	0.42	3.51	0.41
3 – sub-standard	2.07	9.23	2.18	17.01
4 – doubtful	0.46	19.65	0.21	20.69
5 – loss	0.15	21.87	0.16	5.73
	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 Group 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 credit review, monitoring and control systems assist 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.

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 judgment and statistical techniques.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

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

The Group

	Maximum exposure	
	2009 HK$'000	2008 HK$'000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Balances with banks	22,923,942	22,240,048
Placements with and loans and advances to banks	14,989,607	17,859,712
Loans and advances to customers:		
Loans to individuals:		
– Overdrafts	445,151	435,683
– Credit cards	284,253	305,121
– Term loans and others	4,153,033	5,611,911
– Mortgages	6,564,419	6,768,656
Loans to corporate entities:		
– Large corporate customers and others	25,874,560	30,975,007
– Small and medium size enterprises (SMEs)	6,704,568	5,660,606
Financial assets held for trading:		
– Debt securities	290,124	240,961
Financial assets designated at fair value:		
– Debt securities	398,430	341,866
Derivative financial instruments	12,448	37,252
Investment securities:		
– Debt securities	21,630,612	13,829,991
Other assets	1,533,001	1,917,956
Credit risk exposures relating to off-balance sheet items are as follows:		
– Financial guarantees	1,919,275	2,447,463
– Loan commitments and other credit related liabilities	42,007,925	41,819,586
At 31st December	149,731,348	150,491,819

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	
	2009 HK$'000	2008 HK$'000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Balances with banks	22,923,942	22,240,048
Placements with and loans and advances to banks	14,989,607	17,859,712
Loans and advances to customers:		
Loans to individuals:		
– Overdrafts	445,151	435,683
– Credit cards	284,253	305,121
– Term loans and others	4,153,033	5,611,911
– Mortgages	6,564,419	6,768,656
Loans to corporate entities:		
– Large corporate customers and others	25,874,560	30,975,007
– Small and medium size enterprises (SMEs)	6,704,568	5,660,606
Financial assets held for trading:		
– Debt securities	290,124	240,961
Financial assets designated at fair value:		
– Debt securities	398,430	341,866
Derivative financial instruments	12,448	37,252
Investment securities:		
– Debt securities	19,336,022	11,460,676
Other assets	1,075,116	1,661,227
Credit risk exposures relating to off-balance sheet items are as follows:		
– Financial guarantees	1,919,275	2,447,463
– Loan commitments and other credit related liabilities	42,007,925	41,819,586
At 31st December	146,978,873	147,865,775

The above table represents a worse case scenario of credit risk exposure to the Group and the Bank at 31st December 2009 and 2008, 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 statement of financial position.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.4 Loans and advances

Loans and advances are summarised as follows:

The Group and the Bank

	31st December 2009		31 st December 2008	
	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	41,785,717	-	47,126,055	83,527
Past due but not impaired	1,372,782	-	1,765,573	-
Impaired	1,181,834	-	1,276,073	-
Gross	44,340,333	-	50,167,701	83,527
Less: allowance for impairment	(314,349)	-	(410,717)	-
Net	44,025,984	-	49,756,984	83,527

The total impairment provision for loans and advances is HK$314,349,000 (2008: HK$410,717,000) of which HK$137,729,000 (2008: HK$211,768,000) represents the individually impaired loans and the remaining amount of HK$176,620,000 (2008:HK$198,949,000) 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 22.

(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 2009

	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	405,571	279,597	3,887,453	6,063,212	23,552,861	6,383,760	40,572,454	-
2 - special monitoring	33,850	2,849	20,201	119,133	822,441	214,789	1,213,263	-
Total	439,421	282,446	3,907,654	6,182,345	24,375,302	6,598,549	41,785,717	-

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

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

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 2009

	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	-	2,492	118,636	312,754	433,882
Past due 30 - 60 days	377	797	6,074	21,041	28,289
Past due 60 - 90 days	242	158	34,891	-	35,291
Past due over 90 days	1,655	-	31,889	2,128	35,672
Total	2,274	3,447	191,490	335,923	533,134
Fair value of collateral	3,870	-	369,479	633,955	1,007,304

	Corporate entities		
	Large corporate customers and others HK$'000	SMEs HK$'000	Total HK$'000
Past due up to 30 days	694,634	39,254	733,888
Past due 30 - 60 days	39,241	3,287	42,528
Past due 60 - 90 days	59,544	1,054	60,598
Past due over 90 days	2,153	481	2,634
Total	795,572	44,076	839,648
Fair value of collateral	2,115,875	198,930	2,314,805

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 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

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

	2009		2008	
	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	39,124	0.09	133,052	0.27
- one year or less but over six months	325,967	0.74	122,746	0.24
- over one year	55,115	0.12	80,287	0.16
	420,206	0.95	336,085	0.67

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.4 Loans and advances (Continued)

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

(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 2009					
Overdue loans and advances on:					
- Customers	420,206	476,282	339,893	80,313	54,858
31st December 2008					
Overdue loans and advances on:					
- Customers	336,085	507,566	236,527	99,558	37,489

Collateral held against such loans mainly include mortgages over properties.

(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$1,181,834,000 (2008: HK$1,276,073,000).

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$'000	% of total loans and advances to customers HK$'000	Impairment allowances HK$'000
31st December 2009									
Individually impaired loans	5,469	6,864	91,467	74,995	893,407	109,632	1,181,834	2.67	137,729
Fair value of collateral	8,178	-	122,770	149,623	1,299,332	153,813	1,733,716		
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		

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.4 Loans and advances (Continued)

(d) Loans and advances individually impaired (Continued)

(ii) Loans and advances to a bank

There were no gross impaired loans and advances to a bank at 31st December 2009 (2008: Nil).

(e) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans that would otherwise be past due or impaired totalled HK$52,952,000 at 31st December 2009 (2008: HK$62,892,000).

The Group and the Bank

	2009 HK$'000	2008 HK$'000
Loans and advances to customers - individuals:		
– Credit cards	3,568	2,469
– Term loans and others	692	5,383
– Mortgages	10,563	20,561
Loans and advances to customers - corporate entities:		
– SMEs	5,803	13,610
– Large corporate customers and others	32,326	20,869
Total	52,952	62,892

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

The Group and the Bank

	2009		2008	
	HK$'000	% of total loans and advances to customers	HK$'000	% of total loans and advances to customers
Loans and advances to customers	105,902	0.24	81,827	0.16

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

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 2009

	Financial assets held for trading HK$'000	Available-for-sale investments HK$'000	Held-to-maturity investments HK$'000	Financial assets designated at fair value HK$'000	Total HK$'000
AAA	158,647	2,719,812	78,096	-	2,956,555
AA- to AA+	-	7,674,983	2,447,748	-	10,122,731
A- to A+	43,495	5,688,456	160,587	-	5,892,538
Lower than A-	417	509,572	-	398,430	908,419
Unrated	87,565	2,168,847	182,511	-	2,438,923
Total	290,124	18,761,670	2,868,942	398,430	22,319,166

The Bank 2009

	Financial assets held for trading HK$'000	Available-for-sale investments HK$'000	Held-to-maturity investments HK$'000	Financial assets designated at fair value HK$'000	Total HK$'000
AAA	158,647	2,468,115	78,096	-	2,704,858
AA- to AA+	-	7,619,372	484,560	-	8,103,932
A- to A+	43,495	5,678,883	156,548	-	5,878,926
Lower than A-	417	509,572	-	398,430	908,419
Unrated	87,565	2,158,365	182,511	-	2,428,441
Total	290,124	18,434,307	901,715	398,430	20,024,576

The Group 2008

	Financial assets held for trading HK$'000	Available-for-sale investments HK$'000	Held-to-maturity investments HK$'000	Financial assets designated at fair value HK$'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

	Financial assets held for trading HK$'000	Available-for-sale investments HK$'000	Held-to-maturity investments HK$'000	Financial assets designated at fair value HK$'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

There were no overdue debt securities in the year of 2009 (2008: 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	
	2009 HK$'000	2008 HK$'000
Nature of assets		
Commercial property	-	1,044
Industrial property	-	8,423
Residential properties	18,038	32,156

At 31st December 2009, the fair value of repossessed assets of the Group and the Bank amounted to HK$26,500,000 (2008: HK$55,040,000).

Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. Repossessed properties are classified in the statement of financial position 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 2009. 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 2009

	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$'000	Total HK$'000
Balances with banks	1,772,240	13,349,302	2,679,895	18	5,122,487	22,923,942
Placements with and loans and advances to banks	150,462	9,246,118	474,361	-	5,118,666	14,989,607
Loans and advances to customers:						
Loans to individuals:						
– Overdrafts	442,023	1,429	1,344	-	355	445,151
– Credit cards	281,315	2,938	-	-	-	284,253
– Term loans and others	2,969,237	194,780	970,030	-	18,986	4,153,033
– Mortgages	5,900,251	217,707	308,041	1,128	137,292	6,564,419
Loans to corporate entities:						
– Large corporate customers and others	17,951,854	530,269	7,189,598	-	202,839	25,874,560
– SMEs	5,739,477	490,781	438,566	-	35,744	6,704,568
Financial assets held for trading - debt securities	37,578	93,899	158,647	-	-	290,124
Financial assets designated at fair value - debt securities	398,430	-	-	-	-	398,430
Derivative financial instruments	6,256	123	44	-	6,025	12,448
Investment securities - debt securities	5,071,582	6,728,779	6,399,646	-	3,430,605	21,630,612
Other assets	1,529,107	164	2,815	-	915	1,533,001
	42,249,812	30,856,289	18,622,987	1,146	14,073,914	105,804,148

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 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$'000	Total HK$'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	9,121,400	1,778	192,817	30,975,007
– SMEs	5,587,947	787	71,872	-	-	5,660,606
Financial assets held for trading - 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	5,313,778	-	1,168,904	13,829,991
Other assets	1,914,742	169	2,131	-	914	1,917,956
	45,726,895	21,258,499	19,368,186	3,190	19,868,000	106,224,770

The Bank As at 31st December 2009

	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$'000	Total HK$'000
Balances with banks	1,772,240	13,349,302	2,679,895	18	5,122,487	22,923,942
Placements with and loans and advances to banks	150,462	9,246,118	474,361	-	5,118,666	14,989,607
Loans and advances to customers:						
Loans to individuals:						
– Overdrafts	442,023	1,429	1,344	-	355	445,151
– Credit cards	281,315	2,938	-	-	-	284,253
– Term loans and others	2,969,237	194,780	970,030	-	18,986	4,153,033
– Mortgages	5,900,251	217,707	308,041	1,128	137,292	6,564,419
Loans to corporate entities:						
– Large corporate customers and others	17,951,854	530,269	7,189,598	-	202,839	25,874,560
– SMEs	5,739,477	490,781	438,566	-	35,744	6,704,568
Financial assets held for trading - debt securities	37,578	93,899	158,647	-	-	290,124
Financial assets designated at fair value - debt securities	398,430	-	-	-	-	398,430
Derivative financial instruments	6,256	123	44	-	6,025	12,448
Investment securities - debt securities	3,093,873	6,689,182	6,206,470	-	3,346,497	19,336,022
Other assets	1,071,222	164	2,815	-	915	1,075,116
	39,814,218	30,816,692	18,429,811	1,146	13,989,806	103,051,673

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

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

(a) Geographical sectors (Continued)

The Bank As at 31st December 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$'000	Total HK$'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	9,121,400	1,778	192,817	30,975,007
– SMEs	5,587,947	787	71,872	-	-	5,660,606
Financial assets held for trading - 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	5,064,969	-	1,017,292	11,460,676
Other assets	1,658,013	169	2,131	-	914	1,661,227
	43,501,272	21,258,499	19,119,377	3,190	19,716,388	103,598,726

(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 the industry analysis of financial assets designated at fair value, refer to Note 21.

For the industry analysis of investment securities - debt securities, refer to Note 23 and 24.

The Group and the Bank As at 31st December 2009

	Financial institutions HK$'000	Manufacturing HK$'000	Real estate HK$'000	Wholesale and retail trade HK$'000	Import & export trade HK$'000	Other industries HK$'000	Individuals HK$'000	Total HK$'000
Balances with banks	22,923,942	-	-	-	-	-	-	22,923,942
Placements with and loans and advances to banks	14,989,607	-	-	-	-	-	-	14,989,607
Loans and advances to customers:								
Loans to individuals:								
– Overdrafts	-	-	-	-	-	-	445,151	445,151
– Credit cards	-	-	-	-	-	-	284,253	284,253
– Term loans and others	-	-	-	-	-	-	4,153,033	4,153,033
– Mortgages	-	-	-	-	-	-	6,564,419	6,564,419
Loans to corporate entities:								
– Large corporate customers and others	-	1,516,331	10,749,235	458,990	2,736,339	10,413,665	-	25,874,560
– SMEs	-	702,795	2,855,843	266,735	759,792	2,119,403	-	6,704,568
	37,913,549	2,219,126	13,605,078	725,725	3,496,131	12,533,068	11,446,856	81,939,533

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	Import & export trade 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	2,214,140	8,409,621	-	30,975,007
– SMEs	-	632,767	3,105,153	254,253	586,072	1,082,361	-	5,660,606
	40,099,760	3,059,841	20,179,516	1,104,062	2,800,212	9,491,982	13,121,371	89,856,744

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk

Market risk is the risk that interest rates, foreign exchange rate, equity or commodity 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 2009 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 management and the Board of Directors.

3.2.2 Market risk sensitivity summary for 2009 and 2008

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 2009, if market interest rates had been 100 basis points (2008: 100 basis points) higher with other variables held constant, profit before tax for the year would have been HK$1,488,000 (2008: HK$90,453,000) 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 financial assets held for trading as a result of revaluation of fixed rate financial instruments. Available-for-sale investment revaluation shown as other comprehensive income would have been an expense of HK$361,453,000 (2008: HK$73,754,000).

Foreign exchange risk

At 31st December 2009, over 90% (2008: 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. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk (Continued)

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.

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

The Group At 31st December 2009

	HK$	US$	EUR	Other	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets					
Cash and balances with banks	10,106,322	10,175,460	901,378	5,032,131	26,215,291
Placements with and loans and advances to banks	3,541,164	8,120,014	653,586	2,674,843	14,989,607
Financial assets held for trading	-	257,549	-	131,477	389,026
Derivative financial instruments	-	656	5,713	6,079	12,448
Financial assets designated at fair value	-	398,430	-	-	398,430
Loans and advances to customers	30,378,318	11,956,156	62,135	1,629,375	44,025,984
Investment securities:					
- Available-for-sale	8,006,243	9,707,759	299,346	2,212,350	20,225,698
- Held-to-maturity	1,963,293	904,989	-	660	2,868,942
Investments in jointly controlled entities	159,901	-	-	-	159,901
Property and equipment	278,450	64,938	-	30,808	374,196
Investment property	31,370	-	-	-	31,370
Leasehold land and land use rights	1,642,311	-	-	-	1,642,311
Deferred income tax assets	-	43,979	-	-	43,979
Other assets	1,493,765	19,139	2,378	17,719	1,533,001
Total assets	57,601,137	41,649,069	1,924,536	11,735,442	112,910,184
Liabilities					
Deposits and balances from banks	1,515,652	1,077,234	19,938	953,650	3,566,474
Derivative financial instruments	-	22,750	3,697	4,817	31,264
Deposits from customers	43,777,221	35,601,205	1,946,746	10,163,736	91,488,908
Other liabilities	864,372	322,181	4,773	361,601	1,552,927
Provisions	88,077	6,321	-	102	94,500
Current income tax liabilities	335	3,414	-	648	4,397
Deferred income tax liabilities	82,708	-	-	-	82,708
Total liabilities	46,328,365	37,033,105	1,975,154	11,484,554	96,821,178
Net on-balance sheet position	11,272,772	4,615,964	(50,618)	250,888	16,089,006
Credit commitments	26,924,648	16,317,938	154,150	530,464	43,927,200

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$	US$	EUR	Other	Total
	HK$'000	HK$'000	HK$'000	HK$'000	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
Financial assets held for trading	-	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

The Bank At 31st December 2009

	HK$	US$	EUR	Other	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets					
Cash and balances with banks	10,106,315	10,175,460	901,378	5,032,131	26,215,284
Placements with and loans and advances to banks	3,541,164	8,120,014	653,586	2,674,843	14,989,607
Financial assets held for trading	-	257,549	-	131,477	389,026
Derivative financial instruments	-	656	5,713	6,079	12,448
Financial assets designated at fair value	-	398,430	-	-	398,430
Loans and advances to customers	30,378,318	11,956,156	62,135	1,629,375	44,025,984
Investment securities:					
- Available-for-sale	7,669,871	9,698,243	299,346	2,212,350	19,879,810
- Held-to-maturity	-	901,055	-	660	901,715
Investments in jointly controlled entities	117,300	-	-	-	117,300
Investments in and loans to subsidiary companies	2,172,927	(5,705)	-	36,175	2,203,397
Property and equipment	282,694	64,938	-	857	348,489
Investment properties	38,497	-	-	-	38,497
Leasehold land and land use rights	1,642,311	-	-	-	1,642,311
Deferred income tax assets	-	43,979	-	-	43,979
Other assets	1,033,466	19,139	2,378	20,133	1,075,116
Total assets	56,982,863	41,629,914	1,924,536	11,744,080	112,281,393
Liabilities					
Deposits and balances from banks	1,515,652	1,077,234	19,938	953,650	3,566,474
Derivative financial instruments	-	22,750	3,697	4,817	31,264
Deposits from customers	43,777,221	35,601,205	1,946,746	10,163,736	91,488,908
Other liabilities	392,982	322,158	4,773	363,547	1,083,460
Provisions	87,501	6,321	-	102	93,924
Current income tax liabilities	-	3,414	-	648	4,062
Deferred income tax liabilities	82,261	-	-	-	82,261
Total liabilities	45,855,617	37,033,082	1,975,154	11,486,500	96,350,353
Net on-balance sheet position	11,127,246	4,596,832	(50,618)	257,580	15,931,040
Credit commitments	26,924,648	16,317,938	154,150	530,464	43,927,200

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 Bank At 31st December 2008

	HK$	US$	EUR	Other	Total
	HK$'000	HK$'000	HK$'000	HK$'000	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
Financial assets held for trading	-	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

3.2.4 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 non-trading book fair value exposure to interest rate risks. It includes the Group's financial instruments at carrying amounts (non-derivatives), categorised by the earlier of contractual re-pricing (for example floating rate notes) or maturity dates.

The Group At 31st December 2009

	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	22,062,742	-	-	-	-	4,152,549	26,215,291
Placements with and loans and advances to banks	-	8,412,264	6,577,343	-	-	-	14,989,607
Financial assets held for trading	355	96,836	71,066	71,706	-	149,063	389,026
Derivative financial instruments	-	-	-	-	-	12,448	12,448
Financial assets designated at fair value	-	-	398,430	-	-	-	398,430
Loans and advances to customers	37,339,903	3,860,785	2,245,463	192,420	-	387,413	44,025,984
Investment securities:							
- Available-for-sale	2,044,966	5,368,116	700,002	8,442,393	2,210,977	1,459,244	20,225,698
- Held-to-maturity	78,003	247,436	132,307	2,351,038	60,158	-	2,868,942
Investments in jointly controlled entities	-	-	-	-	-	159,901	159,901
Property and equipment	-	-	-	-	-	374,196	374,196
Investment property	-	-	-	-	-	31,370	31,370
Leasehold land and land use rights	-	-	-	-	-	1,642,311	1,642,311
Deferred income tax assets	-	-	-	-	-	43,979	43,979
Other assets	-	-	-	-	-	1,533,001	1,533,001
Total financial assets	61,525,969	17,985,437	10,124,611	11,057,557	2,271,135	9,945,475	112,910,184
Liabilities							
Deposits and balances from banks	1,932,975	1,218,626	302,385	-	-	112,488	3,566,474
Derivative financial instruments	-	-	-	-	-	31,264	31,264
Deposits from customers	57,846,645	16,878,433	9,248,413	56,587	-	7,458,830	91,488,908
Other liabilities	286,920	-	-	-	-	1,266,007	1,552,927
Provisions	-	-	-	-	-	94,500	94,500
Current income tax liabilities	-	-	-	-	-	4,397	4,397
Deferred income tax liabilities	-	-	-	-	-	82,708	82,708
Total financial liabilities	60,066,540	18,097,059	9,550,798	56,587	-	9,050,194	96,821,178
Total interest repricing gap	1,459,429	(111,622)	573,813	11,000,970	2,271,135	895,281	16,089,006

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk (Continued)

3.2.4 Interest rate risk (Continued)

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
Financial assets held for trading	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
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

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk (Continued)

3.2.4 Interest rate risk (Continued)

The Bank At 31st December 2009

	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	22,062,741	-	-	-	-	4,152,543	26,215,284
Placements with and loans and advances to banks	-	8,412,264	6,577,343	-	-	-	14,989,607
Financial assets held for trading	355	96,836	71,066	71,706	-	149,063	389,026
Derivative financial instruments	-	-	-	-	-	12,448	12,448
Financial assets designated at fair value	-	-	398,430	-	-	-	398,430
Loans and advances to customers	37,339,903	3,860,785	2,245,463	192,420	-	387,413	44,025,984
Investment securities:							
- Available-for-sale	2,002,345	5,342,244	631,281	8,314,066	2,130,755	1,459,119	19,879,810
- Held-to-maturity	78,362	164,590	31,612	627,151	-	-	901,715
Investments in jointly controlled entities	-	-	-	-	-	117,300	117,300
Investments in and loans to subsidiary companies	-	-	-	-	-	2,203,397	2,203,397
Property and equipment	-	-	-	-	-	348,489	348,489
Investment properties	-	-	-	-	-	38,497	38,497
Leasehold land and land use rights	-	-	-	-	-	1,642,311	1,642,311
Deferred income tax assets	-	-	-	-	-	43,979	43,979
Other assets	-	-	-	-	-	1,075,116	1,075,116
Total financial assets	61,483,706	17,876,719	9,955,195	9,205,343	2,130,755	11,629,675	112,281,393
Liabilities							
Deposits and balances from banks	1,932,975	1,218,626	302,385	-	-	112,488	3,566,474
Derivative financial instruments	-	-	-	-	-	31,264	31,264
Deposits from customers	57,846,645	16,878,433	9,248,413	56,587	-	7,458,830	91,488,908
Other liabilities	286,922	-	-	-	-	796,538	1,083,460
Provisions	-	-	-	-	-	93,924	93,924
Current income tax liabilities	-	-	-	-	-	4,062	4,062
Deferred income tax liabilities	-	-	-	-	-	82,261	82,261
Total financial liabilities	60,066,542	18,097,059	9,550,798	56,587	-	8,579,367	96,350,353
Total interest repricing gap	1,417,164	(220,340)	404,397	9,148,756	2,130,755	3,050,308	15,931,040

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
Financial assets held for trading	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
Other liabilities	136,778	-	-	-	-	1,027,692	1,164,470
Provisions	-	-	-	-	-	83,005	83,005
Current income tax liabilities	-	-	-	-	-	2,784	2,784
Deferred income tax liabilities	-	-	-	-	-	-	-
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

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 fulfill 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. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk (Continued)

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 and the expected collection date of the financial assets (Notes 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 2009

	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	4,264,577	21,950,714	-	-	-	-	-	26,215,291
Placements with and loans and advances to banks	-	-	8,410,927	6,578,680	-	-	-	14,989,607
Financial assets held for trading	-	714	1,010	7,013	204,970	76,417	98,902	389,026
Derivative financial instruments	-	2,224	7,786	2,438	-	-	-	12,448
Financial assets designated at fair value	-	-	-	2,497	-	395,933	-	398,430
Loans and advances to customers	3,977,453	1,878,077	3,857,530	6,236,677	16,023,113	12,053,134	-	44,025,984
Investment securities:								
- Available-for-sale	-	259,798	891,023	1,109,646	12,617,733	3,880,716	1,466,782	20,225,698
- Held-to-maturity	-	79,941	252,094	616,010	1,861,114	59,783	-	2,868,942
Investments in jointly controlled entities	-	-	-	-	-	-	159,901	159,901
Property and equipment	-	-	-	-	93,326	245,392	35,478	374,196
Investment property	-	-	-	-	-	31,370	-	31,370
Leasehold land and land use rights	-	-	-	-	-	1,642,311	-	1,642,311
Deferred income tax assets	-	-	-	-	43,979	-	-	43,979
Other assets	24,523	721,365	22,072	67,745	693,177	2,619	1,500	1,533,001
Total assets	8,266,553	24,892,833	13,442,442	14,620,706	31,537,412	18,387,675	1,762,563	112,910,184
Liabilities								
Deposits and balances from banks	413,417	1,547,910	119,417	690,238	795,492	-	-	3,566,474
Derivative financial instruments	-	2,662	4,385	13,188	11,029	-	-	31,264
Deposits from customers	38,011,919	27,267,672	16,887,349	9,265,381	56,587	-	-	91,488,908
Other liabilities	51,602	1,183,034	58,491	259,800	-	-	-	1,552,927
Provisions	-	86	94,269	-	-	145	-	94,500
Current income tax liabilities	-	-	-	4,397	-	-	-	4,397
Deferred income tax liabilities	-	-	-	-	82,708	-	-	82,708
Total liabilities	38,476,938	30,001,364	17,163,911	10,233,004	945,816	145	-	96,821,178
Net liquidity gap	(30,210,385)	(5,108,531)	(3,721,469)	4,387,702	30,591,596	18,387,530	1,762,563	16,089,006

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk (Continued)

3.3.2 Maturity analysis (Continued)

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
Financial assets held for trading	-	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
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 Bank At 31st December 2009

	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	4,264,571	21,950,713	-	-	-	-	-	26,215,284
Placements with and loans and advances to banks	-	-	8,410,927	6,578,680	-	-	-	14,989,607
Financial assets held for trading	-	714	1,010	7,013	204,970	76,417	98,902	389,026
Derivative financial instruments	-	2,224	7,786	2,438	-	-	-	12,448
Financial assets designated at fair value	-	-	-	2,497	-	395,933	-	398,430
Loans and advances to customers	3,977,453	1,878,077	3,857,530	6,236,677	16,023,113	12,053,134	-	44,025,984
Investment securities:								
- Available-for-sale	-	236,516	865,161	1,038,291	12,410,869	3,880,716	1,448,257	19,879,810
- Held-to-maturity	-	79,941	168,125	512,490	141,159	-	-	901,715
Investments in jointly controlled entities	-	-	-	-	-	-	117,300	117,300
Investments in and loans to subsidiary companies	(838,160)	27,021	186,627	330,064	2,225,849	16,182	255,814	2,203,397
Property and equipment	-	-	-	-	104,095	225,395	18,999	348,489
Investment properties	-	-	-	-	-	38,497	-	38,497
Leasehold land and land use rights	-	-	-	-	-	1,642,311	-	1,642,311
Deferred income tax assets	-	-	-	-	43,979	-	-	43,979
Other assets	24,523	275,105	21,251	62,706	691,531	-	-	1,075,116
Total assets	7,428,387	24,450,311	13,518,417	14,770,856	31,845,565	18,328,585	1,939,272	112,281,393
Liabilities								
Deposits and balances from banks	413,417	1,547,910	119,417	690,238	795,492	-	-	3,566,474
Derivative financial instruments	-	2,662	4,385	13,188	11,029	-	-	31,264
Deposits from customers	38,011,919	27,267,672	16,887,349	9,265,381	56,587	-	-	91,488,908
Other liabilities	51,602	724,041	56,587	251,230	-	-	-	1,083,460
Provisions	-	86	93,838	-	-	-	-	93,924
Current income tax liabilities	-	-	-	4,062	-	-	-	4,062
Deferred income tax liabilities	-	-	-	-	82,261	-	-	82,261
Total liabilities	38,476,938	29,542,371	17,161,576	10,224,099	945,369	-	-	96,350,353
Net liquidity gap	(31,048,551)	(5,092,060)	(3,643,159)	4,546,757	30,900,196	18,328,585	1,939,272	15,931,040

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk (Continued)

3.3.2 Maturity analysis (Continued)

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
Financial assets held for trading	-	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
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
Deferred income tax liabilities	-	-	-	-	-	-	-	-
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

3.3.3 Funding approach

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

3.3.4 Non-derivative financial liabilities and assets held for managing liquidity risk

The table below presents the cash flows payable by the Group under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the date of the consolidated statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flow, whereas the Group manages the liquidity risk based on a different basis, not resulting in a significantly different analysis.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk (Continued)

3.3.4 Non-derivative financial liabilities and assets held for managing liquidity risk (Continued)

The Group At 31st December 2009

	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
Liabilities						
Deposits and balances from banks	1,959,316	121,040	702,084	798,093	-	3,580,533
Deposits from customers	65,291,386	16,903,567	9,294,989	57,691	-	91,547,633
Other liabilities	1,234,636	58,491	259,800	-	-	1,552,927
Provisions	86	94,269	-	-	145	94,500
Current income tax liabilities	-	-	4,397	-	-	4,397
Deferred income tax liabilities	-	-	-	82,708	-	82,708
Total liabilities (contractual maturity)	68,485,424	17,177,367	10,261,270	938,492	145	96,862,698
Assets held for managing liquidity risk (contractual maturity)	33,192,488	13,532,205	15,248,703	33,882,607	26,303,089	122,159,092

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
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
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)	65,554,572	20,634,510	8,104,557	836,147	127	95,129,913
Assets held for managing liquidity risk (contractual maturity)	33,226,336	22,438,275	12,720,980	24,890,399	26,103,745	119,379,735

The Bank At 31st December 2009

	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
Liabilities						
Deposits and balances from banks	1,959,318	121,041	702,085	798,094	-	3,580,538
Deposits from customers	65,291,386	16,903,567	9,294,989	57,691	-	91,547,633
Other liabilities	775,644	56,587	251,229	-	-	1,083,460
Provisions	86	93,838	-	-	-	93,924
Current income tax liabilities	-	-	4,062	-	-	4,062
Total liabilities (contractual maturity)	68,026,434	17,175,033	10,252,365	855,785	-	96,309,617
Assets held for managing liquidity risk (contractual maturity)	31,935,082	13,718,011	15,573,728	36,117,579	26,499,016	123,843,416

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk (Continued)

3.3.4 Non-derivative financial liabilities and assets held for managing liquidity 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$'000	Total HK$'000
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
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)	65,303,383	20,634,362	8,102,983	836,068	-	94,876,796
Assets held for managing liquidity risk (contractual maturity)	32,385,731	22,538,431	13,684,349	26,610,759	26,209,520	121,428,790

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.

3.3.5 Derivative liabilities

(a) Derivatives settled on a net basis

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

- Foreign exchange derivatives: cross-currency interest rate swaps contracts; and
- Interest rate derivatives: interest rate swaps for which net cash flows are exchanged.

The table below analyses the Group's derivative financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the date of the consolidated statement of financial position to the contractual maturity date. Contractual maturities are assessed to be essential for an understanding of all derivatives including derivatives presented in the consolidated statement of financial position as "Derivative financial instruments". Some of the Group's derivatives are subject to collateral requirements. Cash flows for those derivatives could occur earlier than the contractual maturity. The amounts disclosed in the table are the contractual undiscounted cash flows.

The Group and the Bank At 31st December 2009

	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
Derivatives held for trading:						
- Foreign exchange derivatives	(90)	(693)	(2,407)	(1,092)	-	(4,282)
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	(120)	(150)	20,092	4,323	-	24,145
Total	(210)	(843)	17,685	3,231	-	19,863

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk (Continued)

3.3.5 Derivative liabilities (Continued)

(a) Derivatives settled on a net basis (Continued)

The Group and 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
Derivatives held for trading:						
- Foreign exchange derivatives	(84)	(704)	(2,582)	(5,299)	-	(8,669)
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	(1,489)	(1,173)	16,508	17,953	-	31,799
Total	(1,573)	(1,877)	13,926	12,654	-	23,130

(b) Derivatives settled on a gross basis

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

The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the date of the consolidated statement of financial position to the contractual maturity date. Contractual maturities are assessed to be essential for an understanding of the timing of the cashflows on all derivatives. Some of the Group's derivatives are subject to collateral requirements. Cash flows for those derivatives could occur earlier than the contractual maturity. The amounts disclosed in the table are the contractual undiscounted cash flows.

The Group and the Bank At 31st December 2009	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
Derivatives held for trading:						
Foreign exchange derivatives						
- Outflow	228,436	563,030	160,740	-	-	952,206
- Inflow	(228,023)	(566,495)	(161,275)	-	-	(955,793)
Equity derivatives						
- Outflow	-	-	-	-	-	-
- Inflow	-	-	-	-	-	-
Total outflow	228,436	563,030	160,740	-	-	952,206
Total inflow	(228,023)	(566,495)	(161,275)	-	-	(955,793)

The Group and the Bank At 31st December 2008						
Derivatives held for trading:						
Foreign exchange derivatives						
- Outflow	915,591	3,965,650	1,756,128	397,836	-	7,035,205
- Inflow	(909,457)	(3,970,348)	(1,759,635)	(395,251)	-	(7,034,691)
Equity derivatives						
- Outflow	70,809	17,800	-	-	-	88,609
- Inflow	(70,809)	(17,800)	-	-	-	(88,609)
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)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk (Continued)

3.3.6 Off-balance sheet items

(a) Loan and other commitments

The dates of the contractual amounts of the Group's off-balance sheet financial instruments (Note 37(c)) that commit it to extend credit to customers and other facilities, are summarised in the table below.

(b) Acceptances and other financial facilities

Acceptances and other financial facilities, are also included below 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 37(b), are summarised in the table below.

(d) Capital commitments

Capital commitments for the acquisition of equipment (Note 37(a)) are summarised in the table below.

The Group At 31st December 2009

	No later than 1 year HK$'000	1-5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Loan and other commitments	36,176,355	2,999,106	38,931	39,214,392
Guarantees, acceptances and other financial facilities				
- Acceptances	425,407	-	-	425,407
- Guarantees and standby letters of credit	1,650,721	262,912	5,642	1,919,275
- Documentary and commercial letters of credit	2,368,126	-	-	2,368,126
Operating lease commitments	47,509	58,216	2,233	107,958
Capital commitments	45,086	-	-	45,086
Total	40,713,204	3,320,234	46,806	44,080,244

The Group At 31st December 2008

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 2009

	No later than 1 year HK$'000	1-5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Loan and other commitments	36,176,355	2,999,106	38,931	39,214,392
Guarantees, acceptances and other financial facilities				
- Acceptances	425,407	-	-	425,407
- Guarantees and standby letters of credit	1,650,721	262,912	5,642	1,919,275
- Documentary and commercial letters of credit	2,368,126	-	-	2,368,126
Operating lease commitments	49,376	61,328	2,233	112,937
Capital commitments	47,304	-	-	47,304
Total	40,717,289	3,323,346	46,806	44,087,441

The Bank At 31st December 2008

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

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.4 Fair value of financial assets and liabilities

(a) Financial instruments not measured at fair value

The table below summarises the carrying amount and fair values of those financial assets and liabilities not presented on the Group's statement of financial position at their fair value.

The Group

	Carrying value		Fair value	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
Financial assets				
Balances with banks	25,975,978	22,325,248	25,975,978	22,325,248
Placements with and loans and advances to banks	14,989,607	17,859,712	14,989,607	17,859,712
Loans and advances to customers:				
Loans to individuals:				
- Overdrafts	445,151	435,683	445,151	435,683
- Credit cards	284,253	305,121	284,253	305,121
- Term loans and others	4,153,033	5,611,911	4,153,033	5,611,911
- Mortgages	6,564,419	6,768,656	6,564,419	6,768,656
Loans to corporate entities:				
- Large corporate customers and others	25,874,560	30,975,007	25,874,560	30,975,007
- SMEs	6,704,568	5,660,606	6,704,568	5,660,606
Investment securities - Held-to-maturity	2,868,942	2,950,520	2,907,284	3,020,200
Financial liabilities				
Deposits and balances from banks	3,566,474	3,808,753	3,566,474	3,808,753
Deposits from customers	91,488,908	89,531,873	91,488,908	89,531,873

The Bank

	Carrying value		Fair value	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
Financial assets				
Balances with banks	25,975,978	22,325,248	25,975,978	22,325,248
Placements with and loans and advances to banks	14,989,607	17,859,712	14,989,607	17,859,712
Loans and advances to customers:				
Loans to individuals:				
- Overdrafts	445,151	435,683	445,151	435,683
- Credit cards	284,253	305,121	284,253	305,121
- Term loans and others	4,153,033	5,611,911	4,153,033	5,611,911
- Mortgages	6,564,419	6,768,656	6,564,419	6,768,656
Loans to corporate entities:				
- Large corporate customers and others	25,874,560	30,975,007	25,874,560	30,975,007
- SMEs	6,704,568	5,660,606	6,704,568	5,660,606
Investment securities - Held-to-maturity	901,715	981,626	893,830	957,129
Financial liabilities				
Deposits and balances from banks	3,566,474	3,808,753	3,566,474	3,808,753
Deposits from customers	91,488,908	89,531,873	91,488,908	89,531,873

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.4 Fair value of financial assets and liabilities (Continued)

(a) Financial instruments not measured at fair value (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.

(ii) Loans and advances to customers

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(iii) Investment securities

The 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.

(b) Fair value hierarchy

HKFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, London Stock Exchange, Frankfurt Stock Exchange, New York Stock Exchange) and exchanges traded derivatives like futures (for example, Nasdaq, S&P 500).

- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts, traded loans and issued structured debt. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.4 Fair value of financial assets and liabilities (Continued)

(b) Fair value hierarchy (Continued)

Assets and liabilities measured at fair value:

The Group As at 31st December 2009

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Description				
Financial assets at fair value through profit and loss				
Financial assets held for trading				
Debt securities	158,647	131,477	-	290,124
Equity securities	98,902	-	-	98,902
Financial assets designated at fair value				
Debt securities	398,430	-	-	398,430
Derivative financial instruments				
Currency forward exchange contracts	-	12,225	-	12,225
Cross-currency interest rate swaps contracts	-	223	-	223
Available-for-sale financial assets				
Investment securities - debt	2,981,157	15,777,759	2,754	18,761,670
Investment securities - equity	92,445	-	1,371,583	1,464,028
Total Assets	3,729,581	15,921,684	1,374,337	21,025,602
Financial liabilities at fair value through profit and loss				
Derivative financial instruments				
Foreign exchange contracts	-	8,739	-	8,739
Interest rate swaps contracts	-	21,266	-	21,266
Cross-currency interest rate swaps contracts	-	1,259	-	1,259
Total Liabilities	-	31,264	-	31,264

The Bank As at 31st December 2009

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Description				
Financial assets at fair value through profit and loss				
Financial assets held for trading				
Debt securities	158,647	131,477	-	290,124
Equity securities	98,902	-	-	98,902
Financial assets designated at fair value				
Debt securities	398,430	-	-	398,430
Derivative financial instruments				
Currency forward exchange contracts	-	12,225	-	12,225
Cross-currency interest rate swaps contracts	-	223	-	223
Available-for-sale financial assets				
Investment securities - debt	2,971,584	15,459,969	2,754	18,434,307
Investment securities - equity	73,920	-	1,371,583	1,445,503
Total Assets	3,701,483	15,603,894	1,374,337	20,679,714
Financial liabilities at fair value through profit and loss				
Derivative financial instruments				
Foreign exchange contracts	-	8,739	-	8,739
Interest rate swaps contracts	-	21,266	-	21,266
Cross-currency interest rate swaps contracts	-	1,259	-	1,259
Total Liabilities	-	31,264	-	31,264

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.4 Fair value of financial assets and liabilities (Continued)

(b) Fair value hierarchy (Continued)

The movement during the period for the balance of Level 3 fair value measurements is as follows:

The Group and the Bank

	Available-for-sale financial assets		Total assets
	Investment securities - equity HK$'000	Investment securities - debt HK$'000	HK$'000
At 1st January 2009	672,432	2,754	675,186
Total gains			
- Profit or loss	1,412	-	1,412
- Other comprehensive income	552,508	-	552,508
Purchases	265,728	-	265,728
Settlements	(110,413)	-	(110,413)
Exchange differences	365	-	365
Derecognition upon acquisition of a subsidiary	(10,449)	-	(10,449)
At 31st December 2009	1,371,583	2,754	1,374,337
Total gains for the year included in income statement for assets held at 31st December 2009	-	-	-

Total gains or losses for the period included in profit or loss as well as total gains or losses relating to assets/ liabilities held at the end of the reporting period are presented in "Net gain from disposal/ redemption of held-to-maturity and available-for-sale investments" and "Interest income".

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 statement of financial position, 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%. In addition, those individual banking subsidiaries or similar financial institutions not incorporated in Hong Kong are also directly regulated and supervised by their local banking supervisors, which may differ from country to country. 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 regulatory capital requirements are strictly observed when managing economic capital. The Group's regulatory capital is managed by its central Group Treasury and comprises two tiers:

- Core capital: share capital, general reserve, statutory reserve, non-controlling interests arising on consolidation from interests in permanent shareholders' equity, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill is dealt with in arriving at Core capital; and
- Supplementary capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available-for-sale.

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.

	2009	2008
Capital adequacy ratio	19%	19%
Core capital ratio	19%	18%

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

	2009 HK$'000	2008 HK$'000
Core capital:		
Paid up ordinary share capital	2,000,000	2,000,000
Reserves	10,904,409	10,261,150
Income statement	1,291,938	1,266,707
Less: net deferred tax assets	(73,964)	(68,482)
	14,122,383	13,459,375
Other deductions from core capital	(826,846)	(454,924)
Core capital after deductions	13,295,537	13,004,451
Supplementary capital:		
Collective impairment allowances for loans and advances	176,620	198,949
Regulatory reserve	362,370	362,370
Revaluation reserves for available-for-sale investments	309,214	-
	848,204	561,319
Other deductions from supplementary capital	(826,846)	(454,925)
Supplementary capital after deductions	21,358	106,394
Total capital base	13,316,895	13,110,845
Risk-weighted assets:		
On-balance sheet	65,827,555	66,178,473
Off-balance sheet	3,951,666	4,260,967
Total risk-weighted assets	69,779,221	70,439,440

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

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. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

4.1 Critical accounting estimates and assumptions

The Group's financial statements and its financial result are influenced by accounting policies, assumptions, estimates, and management judgement which necessarily have to be made in the course of preparation of the consolidated financial statements.

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.

Accounting policies and management's judgements for certain items are especially critical for the Group's results and financial situation due to their materiality in amount.

(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 income statement, the Group makes judgments 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

4.1 Critical accounting estimates and assumptions (Continued)

(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.

(v) Retirement benefits

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations. The assumptions used in determining the net cost (income) for pensions include the discount rate. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions.

(vi) Amount recoverable from the Lehman Brothers minibonds

On 22nd July 2009, the Group and other distributing banks agreed with the Securities and Futures Commission and the Hong Kong Monetary Authority to make an offer to eligible customers to repurchase their holdings in all outstanding Minibonds subscribed through the Group ("the Repurchase Scheme"). The Group's charge to the income statement in respect of the Lehman Brothers minibonds ("Minibonds") (Note 11) took into account the aggregate amount paid under the Repurchase Scheme and the recoverable amount from the Minibonds.

The recoverable amount of the Minibonds is uncertain and dependent on a number of factors including outcomes of certain legal matters. The Group has made an assessment of the recoverable amount of the Minibonds. Given the existence of these uncertainties, the amount to be recovered by the Group may be higher than that recognized in the income statement of 2009.

4.2 Critical judgements in applying the Group's accounting policies

Distinction between investment properties and owner-occupied properties

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

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services 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.

5. 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 2009

	Retail and corporate banking HK$'000	Bills HK$'000	Treasury HK$'000	Others HK$'000	Total HK$'000
Net interest income	1,178,606	113,754	442,620	-	1,734,980
Net fee and commission income	109,702	122,775	-	422,042	654,519
Net trading income	-	-	108,345	325	108,670
Disposal/ fair value gain on other investments	-	-	265,994	-	265,994
Profit/ (loss) before income tax	840,685	152,331	629,940	(19,557)	1,603,399
Operating assets	42,413,406	3,942,486	65,877,665	676,627	112,910,184
Impairment losses on loans and advances to customers	39,333	18,657	-	-	57,990

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
Disposal/ fair value gain on other investments	-	-	59,761	-	59,761
Profit before income tax	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

5. BUSINESS ACTIVITIES ANALYSIS (CONTINUED)

(b) By geographical activities

The Group At 31st December 2009

	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 income tax HK$'000	Capital expenditure HK$'000
Hong Kong & PRC	101,109,047	85,778,142	42,008,936	2,378,771	1,397,248	22,136
Europe	2,798,815	3,480,802	28,748	22,575	2,519	22
America	9,002,322	7,562,234	1,889,516	306,426	203,632	269
Total	112,910,184	96,821,178	43,927,200	2,707,772	1,603,399	22,427

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 income tax 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

6. NET INTEREST INCOME

Interest income

	The Group		The Bank	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
Cash and balances with banks	453,512	1,225,572	453,512	1,225,572
Investment securities				
- Available-for-sale	477,499	516,573	463,497	483,940
- Held-to-maturity	87,638	92,059	27,327	42,091
Loans and advances				
- To a bank	1,731	3,530	1,731	3,530
- To customers	1,368,533	2,056,484	1,368,911	2,058,191
Others	6,393	42,004	6,392	42,004
	2,395,306	3,936,222	2,321,370	3,855,328

6. NET INTEREST INCOME (CONTINUED)

Interest expense

	The Group		The Bank	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
Deposits and balances from banks	30,322	104,072	30,322	104,072
Deposits from customers	627,727	1,832,873	628,008	1,833,432
Certificates of deposit issued	86	24,939	86	24,939
Others	2,191	8,674	2,191	8,674
	660,326	1,970,558	660,607	1,971,117

Included within interest income

	The Group		The Bank	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
Interest income on listed investments	197,760	285,076	139,128	235,108
Interest income on unlisted investments	367,377	323,556	351,696	290,923
Interest income accrued on impaired financial assets	24,827	25,344	24,827	25,344

7. NET FEE AND COMMISSION INCOME

Fee and commission income

	The Group		The Bank	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
Commissions from bills	114,685	147,337	114,685	147,337
Nominees, custodian and securities brokerage commissions	305,998	269,607	270,706	234,810
Commissions from wealth management products	45,043	87,947	45,043	87,947
Commissions from remittance	50,593	54,625	50,593	54,625
Facility fees	63,589	60,606	63,589	60,606
Fees from credit cards	40,070	44,038	40,070	44,038
Commissions from retail banking	41,312	45,410	36,608	41,198
Commissions from insurance	28,658	35,957	29,827	30,830
Other fees	3,564	5,870	3,564	5,870
	693,512	751,397	654,685	707,261

Fee and commission expense

	The Group		The Bank	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
Commissions on bills	2,927	2,778	2,927	2,778
Nominees, custodian and securities brokerage commissions paid	17,168	16,098	10,443	10,418
Commissions on retail banking	18,642	24,436	17,448	23,491
Fees on credit cards	159	195	159	195
Other fees paid	97	116	97	116
	38,993	43,623	31,074	36,998

7. NET FEE AND COMMISSION INCOME (CONTINUED)

	The Group		The Bank	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
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	221,908	257,851	221,908	257,851
- fee expense	3,086	2,973	3,086	2,973
Net fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers				
- fee income	17,335	17,899	16,693	17,368

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.

8. DIVIDEND INCOME

	The Group		The Bank	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
Dividend income from investment in securities				
- listed investments	3,237	2,737	3,055	2,737
- unlisted investments	16,218	17,772	16,218	17,772
	19,455	20,509	19,273	20,509
Dividend income from jointly controlled entities				
- unlisted investments	-	-	980	4,130
Dividend income from subsidiary companies				
- unlisted investments	-	-	75,830	86,330
	19,455	20,509	96,083	110,969

9. NET TRADING INCOME

	The Group		The Bank	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
Foreign exchange	73,917	121,636	73,914	121,665
Interest rate instruments	14,349	(3,923)	14,349	(3,923)
Equities	20,404	(23,129)	20,404	(23,129)
	108,670	94,584	108,667	94,613

"Foreign exchange" net trading income includes gains and losses from spot and forward contracts, swaps and translated foreign currency assets and liabilities, which are not designated as qualifying hedging relationship. "Interest rate instruments" includes the results of making markets in instruments in government securities, corporate debt securities and money market instruments. "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, which are held for risk management purposes but not forming part of qualifying hedging relationships.

10. OTHER OPERATING INCOME

	The Group		The Bank	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
Gross rental income from investment properties	33,612	7,708	35,172	9,091
Others	77,509	68,658	77,255	86,163
	111,121	76,366	112,427	95,254

The Group's direct operating expenses of HK$4,089,000 (2008: HK$774,000) arising from an investment property that generated rental income were included in operating expenses.

The Bank's direct operating expenses of HK$4,382,000 (2008: HK$1,003,000) arising from investment properties that generated rental income were included in operating expenses.

11. OPERATING EXPENSES

	The Group		The Bank	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
Auditors' remuneration (Note a)	6,943	7,569	6,384	7,267
Advertising costs	9,635	14,304	9,418	14,274
Depreciation and amortisation expenses				
Amortisation expenses for leasehold land (Note 28)	6,468	6,468	6,468	6,468
Depreciation expenses for property and equipment (Note 26 and 27)	68,432	57,146	76,577	65,725
Direct operating expenses arising from an investment property that did not generate rental income	268	-	268	-
Employee benefit expenses				
Wages and salaries and other costs (Note b)	596,021	584,350	578,281	569,529
Pension costs - defined contribution schemes	32,138	29,999	31,476	29,341
Pension costs - defined benefit schemes	39	125	39	125
Premises and equipment expense, excluding depreciation				
Rental of premises	52,180	49,477	54,255	51,345
Building expenses	13,672	10,095	13,672	10,095
Building management fee	5,776	5,701	5,523	5,510
Other operating expenses				
Computer rental and licence	12,250	9,828	10,826	9,529
Credit card business promotion	13,398	13,474	13,398	13,474
Credit card service fee	8,873	10,084	8,873	10,084
Insurance	15,517	10,147	15,304	9,916
Legal and consultancy	26,615	12,296	27,227	12,526
Postage	12,888	14,075	12,852	14,035
Printing and stationery	8,820	8,350	8,443	8,296
Repair and maintenance	16,567	18,315	22,137	22,539
Telephone	24,422	24,238	24,327	24,146
Travelling and transportation	4,057	4,946	3,926	4,840
Water, heat and light	12,766	13,558	12,545	13,310
Others (Note c)	315,806	99,599	309,329	97,651
	1,263,551	1,004,144	1,251,548	1,000,025

11. OPERATING EXPENSES (CONTINUED)

(Note a)

The amounts of auditors' remuneration comprised of audit fee for Hong Kong office of HK$3,671,000 (2008: HK$3,986,000) and that for overseas branches of HK$2,713,000 (2008: HK$3,281,000) together with HK$559,000 (2008: HK$302,000) for subsidiary companies.

(Note b)

Employee benefit expenses include directors' emoluments (Note 12). The average number of persons employed by the Group during the year was 1,790 (2008: 1,809).

(Note c)

Expenses incurred on Lehman Brothers related products of HK$254,000,000 were primarily in relation to the Lehman Brothers minibonds repurchase arrangements announced on 22nd July 2009 as described in Note 4.1(vi).

12. DIRECTORS' EMOLUMENTS

The Group and the Bank

	2009 HK$'000	2008 HK$'000
Fees	2,010	1,730
Basic salaries, allowances and bonus	19,668	18,990
Contributions to pension schemes	621	606
	22,299	21,326

13. IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS

The Group and the Bank

	2009 HK$'000	2008 HK$'000
Trade bills	1,275	1,220
Loans and advances to customers	56,715	371,775
	57,990	372,995
Net charge/ (reversal) of impairment losses on loans and advances to customers		
- Individually assessed (Note 22)	80,726	304,979
- Collectively assessed (Note 22)	(22,736)	68,016
	57,990	372,995
Of which		
- new allowances	139,991	411,118
- releases	(61,690)	(18,939)
- recoveries	(20,311)	(19,184)
Net charge to income statement	57,990	372,995

14. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) 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	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
Current income tax:				
- Hong Kong profits tax	174,720	227,260	173,387	225,537
- Overseas taxation	92,312	74,190	92,312	74,286
- Adjustments in respect of prior years	4,049	4,747	4,000	4,747
Total current income tax	271,081	306,197	269,699	304,570
Deferred income tax:				
- Hong Kong deferred tax	18,599	(24,423)	18,614	(24,410)
- Overseas deferred tax	(22,933)	(5,311)	(22,933)	(5,311)
Total deferred income tax	(4,334)	(29,734)	(4,319)	(29,721)
Income tax expense	266,747	276,463	265,380	274,849

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

	The Group		The Bank	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
Profit before tax	1,603,399	1,463,339	1,557,082	1,541,467
Tax calculated at domestic tax rates applicable to profits in the respective countries	298,616	241,451	290,974	254,342
Tax effects of:				
Income not subject to tax	(35,955)	(28,917)	(36,226)	(43,392)
Expenses not deductible for tax purposes	10,080	67,439	16,675	67,409
Net effect of investments in partnerships	(10,043)	(8,257)	(10,043)	(8,257)
Adjustment in respect of prior years	4,049	4,747	4,000	4,747
Tax expense	266,747	276,463	265,380	274,849

The income tax rate applicable to the majority of the Group and its subsidiaries' 2009 income is 16.5% (2008: 16.5%).

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 2009, the unamortised carrying cost of the investments in such partnerships, which was included in "Other assets", amounted to HK$892,785,000 (2008: HK$1,138,761,000). The Bank's investments in these special purpose partnerships are amortised over the life of the individual partnerships.

15. INCOME TAX EFFECTS RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME

	2009			2008		
	Before-tax amount HK$'000	Tax (expense) / benefit HK$'000	Net-of-tax amount HK$'000	Before-tax amount HK$'000	Tax (expense) / benefit HK$'000	Net-of-tax amount HK$'000
Foreign currency translation differences	17,601	-	17,601	(1,840)	-	(1,840)
Fair value gains/ (losses) on available-for-sale financial assets	846,546	(203,989)	642,557	(191,172)	60,054	(131,118)
Share of changes in equity of jointly controlled entities	4,548	-	4,548	(5,553)	-	(5,553)
Other comprehensive income for the year (net presentation)	868,695	(203,989)	664,706	(198,565)	60,054	(138,511)

16. DIVIDEND

The dividends paid during the year ended 2009 and 2008 were HK$800,000,000 (HK$40 per share) and HK$1,100,000,000 (HK$55 per share) respectively. A dividend in respect of 2009 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 21st April 2010. These financial statements do not reflect this dividend payable.

The Group		
	2009 HK$'000	2008 HK$'000
Dividends payable to equity holders of the Bank attributable to the year		
Proposed final dividend of HK$40 (2008: HK$40) per ordinary share	800,000	800,000

17. CASH AND BALANCES WITH BANKS

	The Group		The Bank	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
Cash in hand	239,313	240,546	239,306	240,540
Balances with central banks and Hong Kong Monetary Authority	3,052,036	85,200	3,052,036	85,200
Balances with banks	22,923,942	22,240,048	22,923,942	22,240,048
	26,215,291	22,565,794	26,215,284	22,565,788

As at 31st December 2009, there was HK$1,500,000 (2008: 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.

As at 31st December 2009, there were HK$23,557,000 (2008: HK$39,862,000) 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.

18. PLACEMENTS WITH AND LOANS AND ADVANCES TO BANKS

The Group and the Bank		
	2009 HK$'000	2008 HK$'000
Placements with banks maturing between one and twelve months	14,989,607	17,776,185
Gross loans and advances to a bank	-	83,527
	14,989,607	17,859,712

As of 31st December 2009, HK$90,408,000 (2008: HK$90,314,000) 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.

19. FINANCIAL ASSETS HELD FOR TRADING

The Group and the Bank	2009 HK$'000	2008 HK$'000
Debt securities		
Government bonds	236,254	53,317
Other debt securities	53,870	187,644
Total debt securities	290,124	240,961
Equity securities		
Listed outside Hong Kong	98,902	69,167
Total equity securities	98,902	69,167
Total assets held for trading	389,026	310,128
Market value of listed debt and equity securities	256,246	176,241

20. DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses the following derivative instruments for non-hedging purposes:

Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. **Foreign currency and interest rate futures** are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures contract value are settled daily with the exchange. **Forward rate agreements** are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below.

20. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

At 31st December 2009

	Contract amount HK$'000	The Group and the Bank Fair values	
		Assets HK$'000	Liabilities HK$'000
(i) Derivatives held for trading			
Foreign exchange derivatives			
Currency forward exchange contracts	956,740	12,225	(8,739)
Cross-currency interest rate swaps contracts	783,230	223	(1,259)
Total derivative assets/ (liabilities) held for trading	1,739,970	12,448	(9,998)
(ii) 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 swaps contracts	399,370	-	(21,266)
Total derivative assets/ (liabilities) not qualified as hedges	399,370	-	(21,266)
Total recognised derivative financial assets/ (liabilities)	2,139,340	12,448	(31,264)

At 31st December 2008

	Contract amount HK$'000	The Group and the Bank Fair values	
		Assets HK$'000	Liabilities HK$'000
(i) Derivatives held for trading			
a) Foreign exchange derivatives			
Currency forward exchange contracts	6,640,387	17,919	(12,381)
Cross-currency interest rate swaps contracts	395,251	-	(235)
b) 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)
(ii) 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 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)

Note: The contract amount as at 31st December 2008 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. There was no outstanding contract amount at 31st December 2009.

20. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The Group and the Bank

	Credit risk weighted amount	
	2009 HK$'000	2008 HK$'000
Exchange rate contracts	15,099	33,519
Interest rate swaps contracts	748	748
Equity derivatives	-	5,099
	15,847	39,366

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 2009 and 2008 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.

The Group uses the following derivative strategies:

- Trading purposes (customer needs)

The Group offers its customers derivatives in connection with their risk-management actions to transfer, modify or reduce their interest rate, foreign exchange and other market/credit risks or for their own trading purposes. As part of this process, the Group considers the customers' suitability for the risk involved, and the business purpose for the transaction. The Group also manages its derivative-risk positions through offsetting trade activities, controls focused on price verification, and daily reporting of positions to senior managers.

- Trading purposes (own account)

The Group trades derivatives for its own account. These derivatives entered into in order to take proprietary long positions. Trading limits and price verification controls are key aspects of this activity.

21. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE

The Group and the Bank

	2009 HK$'000	2008 HK$'000
Debt securities (at market value)		
Listed in Hong Kong	398,430	341,866

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

22. LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis of loans and advances to customers

The Group and the Bank	2009 HK$'000	2008 HK$'000
Loans and advances to individuals		
- Overdrafts	447,164	438,436
- Credit cards	292,757	313,331
- Term loans and others	4,190,611	5,689,118
- Mortgages	6,593,263	6,804,993
Loans and advances to corporate entities		
- Large corporate customers and others	26,064,281	31,223,748
- SMEs	6,752,257	5,698,075
Gross loans and advances to customers	44,340,333	50,167,701
Less: impairment allowances		
- Individually assessed	(137,729)	(211,768)
- Collectively assessed	(176,620)	(198,949)
	44,025,984	49,756,984
Gross trade bills and other eligible bills, included within loans and advances to customers	1,619,946	1,011,208
Less: impairment allowances on trade bills		
- Collectively assessed	(5,621)	(4,346)
	1,614,325	1,006,862

The Group accepted listed securities at fair value of HK$2,599,690,000 (2008: HK$1,998,254,000) 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 2009, certain of our branches in the United States have pledged their real estate loans of HK$67,319,000 (2008: HK$69,742,000) to the State of California and with the Comptroller of the Currency in compliance with the regulatory requirements.

22. 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 2009	399	2,354	54,338	9,201	66,292
Impairment losses (Note 13)	(1,379)	7,757	46,827	(6,858)	46,347
Loans written off as uncollectible	(566)	(9,028)	(80,788)	-	(90,382)
Recoveries of advances written off in previous years	1,808	1,219	972	557	4,556
At 31st December 2009	262	2,302	21,349	2,900	26,813
Balance at 1st January 2008	251	3,226	7,076	-	10,553
Impairment losses (Note 13)	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 2009	132,335	13,141	145,476
Impairment losses (Note 13)	11,085	23,294	34,379
Loans written off as uncollectible	(68,133)	(16,581)	(84,714)
Recoveries of advances written off in previous years	14,306	1,449	15,755
Exchange and other adjustments	20	-	20
At 31st December 2009	89,613	21,303	110,916
Balance at 1st January 2008	42,763	10,673	53,436
Impairment losses (Note 13)	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

22. 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 - 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 2009	2,354	5,856	22,869	27,136	58,215
Impairment losses (Note 13)	(603)	346	(6,653)	(1,311)	(8,221)
Exchange and other adjustments	-	-	13	119	132
At 31st December 2009	1,751	6,202	16,229	25,944	50,126
Balance at 1st January 2008	1,390	978	13,699	16,599	32,666
Impairment losses (Note 13)	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 2009	116,406	24,328	140,734
Impairment losses (Note 13)	(16,535)	2,020	(14,515)
Exchange and other adjustments	237	38	275
At 31st December 2009	100,108	26,386	126,494
Balance at 1st January 2008	85,194	15,014	100,208
Impairment losses (Note 13)	32,565	9,314	41,879
Exchange and other adjustments	(1,353)	-	(1,353)
At 31st December 2008	116,406	24,328	140,734

23. AVAILABLE-FOR-SALE INVESTMENTS

	The Group		The Bank	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
Debt securities:				
Listed in Hong Kong	760,691	884,736	760,691	884,736
Listed outside Hong Kong	1,808,152	3,793,887	1,798,579	3,793,887
Unlisted	16,192,827	6,200,848	15,875,037	5,800,427
	18,761,670	10,879,471	18,434,307	10,479,050
Equity securities:				
Listed in Hong Kong	86,867	43,013	68,342	43,013
Listed outside Hong Kong	35,159	30,103	35,159	30,103
Unlisted	1,342,002	672,433	1,342,002	672,433
	1,464,028	745,549	1,445,503	745,549
	20,225,698	11,625,020	19,879,810	11,224,599
Market value of listed debt and equity securities	2,690,869	4,751,739	2,662,771	4,751,739
Included within debt securities are:				
Certificates of deposit held	356,450	99,634	345,968	99,634
Other debt securities	17,992,906	10,339,477	17,676,025	9,939,056
Government bond	412,314	440,360	412,314	440,360
	18,761,670	10,879,471	18,434,307	10,479,050
Available-for-sale investments are analysed by categories of issuers as follows:				
Sovereigns	412,314	440,360	412,314	440,360
Public sector entities	1,274,019	1,598,510	1,270,028	1,598,510
Banks	15,268,665	7,757,235	14,932,599	7,356,814
Corporates	3,270,700	1,828,915	3,264,869	1,828,915
	20,225,698	11,625,020	19,879,810	11,224,599

All debt securities have fixed coupons.

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

The Group

	2009 HK$'000	2008 HK$'000
Balance as at 1st January	11,625,020	13,537,925
Exchange differences	480,589	(267,359)
Additions	22,978,158	6,888,348
Change in fair value (Note 35)	1,033,513	(75,464)
Amortised cost of securities redeemed and sold during the year	(15,700,561)	(8,270,052)
Investment revaluation reserve realised on disposal (Note 35)	(186,967)	(115,708)
Amortisation of premium/ discount	(45,088)	(48,222)
Others	41,034	(24,448)
Balance as at 31st December	20,225,698	11,625,020

23. AVAILABLE-FOR-SALE INVESTMENTS (CONTINUED)

The Bank	2009 HK$'000	2008 HK$'000
Balance as at 1st January	11,224,599	13,070,867
Exchange differences	480,589	(267,359)
Additions	22,873,647	6,786,953
Change in fair value (Note 35)	1,037,232	(82,197)
Amortised cost of securities redeemed and sold during the year	(15,556,011)	(8,106,052)
Investment revaluation reserve realised on disposal (Note 35)	(186,967)	(115,708)
Amortisation of premium/ discount	(35,022)	(37,788)
Others	41,743	(24,117)
Balance as at 31st December	19,879,810	11,224,599

24. HELD-TO-MATURITY INVESTMENTS

	The Group		The Bank	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
Debt securities:				
Listed in Hong Kong	1,922,435	1,571,559	39,167	-
Listed outside Hong Kong	866,587	824,688	862,548	820,640
Unlisted	79,920	554,273	-	160,986
	2,868,942	2,950,520	901,715	981,626
Market value of listed debt securities	2,826,514	2,463,733	893,830	795,544
Included within debt securities are:				
Hong Kong Government Exchange Fund Bills	79,920	393,287	-	-
Other government bonds	2,143,876	1,832,244	260,608	260,686
Other debt securities	645,146	724,989	641,107	720,940
	2,868,942	2,950,520	901,715	981,626
Held-to-maturity investments are analysed by categories of issuers as follows:				
Sovereigns	2,223,796	2,225,532	260,608	260,686
Public sector entities	39,166	-	39,166	-
Banks	523,637	643,355	523,637	643,356
Corporates	82,343	81,633	78,304	77,584
	2,868,942	2,950,520	901,715	981,626

As of 31st December 2009, certain of the United States branches have pledged held-to-maturity investments amounting to HK$180,226,000 (2008: HK$258,216,000) 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$1,883,268,000 of Exchange Fund Notes and unlisted debt securities at amortised cost of HK$79,920,000 of Exchange Fund Bills were pledged to the Hong Kong Monetary Authority as at 31st December 2009 (2008: HK$1,571,559,000 and HK$393,287,000 respectively) to facilitate settlement operations with no related liabilities at the year end.

24. HELD-TO-MATURITY INVESTMENTS (CONTINUED)

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

The Group

	2009 HK$'000	2008 HK$'000
Balance as at 1st January	2,950,520	3,112,359
Additions	1,203,643	1,948,761
Disposals (sale and redemption)	(1,266,808)	(2,108,893)
Amortisation of premium/ discount	(18,951)	1,947
Exchange differences	566	(5,618)
Others	(28)	1,964
Balance as at 31st December	2,868,942	2,950,520

The Bank

	2009 HK$'000	2008 HK$'000
Balance as at 1st January	981,626	1,377,025
Additions	365,901	392,610
Disposals (sale and redemption)	(441,808)	(783,493)
Amortisation of premium/ discount	(1,530)	1,608
Exchange differences	564	(5,593)
Others	(3,038)	(531)
Balance as at 31st December	901,715	981,626

The Group has not reclassified any financial assets measured at amortised cost, rather than at fair value, during the year (2008: Nil).

25. INVESTMENTS IN AND LOANS TO JOINTLY CONTROLLED ENTITIES AND SUBSIDIARY COMPANIES

(a) Investments in jointly controlled entities

The Group

	2009 HK$'000	2008 HK$'000
Beginning of year	125,181	188,685
Share of results	34,736	(80,560)
Share of tax	(3,584)	(2,994)
Decrease of advances	-	(5,267)
Dividends paid	(980)	(4,130)
Addition of investment in share capital	-	35,000
Share of investment revaluation reserve	4,548	(5,553)
Share of net assets	159,901	125,181

The Bank

	2009 HK$'000	2008 HK$'000
Unlisted shares, at cost	116,000	116,000
Amounts due from jointly controlled entities	1,300	1,300
	117,300	117,300

25. 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 2009:

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 (2008: 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	2009 HK$'000	2008 HK$'000
Unlisted shares, at cost (Note)	193,166	130,016
Loans to subsidiary companies	2,896,995	2,791,767
Amounts due from subsidiary companies	462	964
Amounts due to subsidiary companies	(887,226)	(596,224)
	2,203,397	2,326,523

25. 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%
Paofoong Insurance Company (Hong Kong) Limited	Insurance	Hong Kong	500,000 ordinary shares of HK$100 each	60%

All subsidiary companies are held directly by the Bank.

Note: The Group acquired net additional 126,000 number of shares (or 48% of shareholding) in Paofoong Insurance Company (Hong Kong) Limited for a consideration of HK$33,000,000 turning it to become a subsidiary company during the year.

26. PROPERTY AND EQUIPMENT

The Group

	Bank premises HK$'000	Furniture, fittings and equipment HK$'000	Total HK$'000
At 1st January 2008			
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 11)	(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
Year ended December 2009			
Opening net book amount	286,642	106,262	392,904
Additions	-	22,427	22,427
Disposals	-	(968)	(968)
Depreciation charge (Note 11)	(8,850)	(34,487)	(43,337)
Exchange rate adjustments	3,078	92	3,170
Closing net book amount	280,870	93,326	374,196
At 31st December 2009			
Cost	467,222	610,769	1,077,991
Accumulated depreciation	(186,352)	(517,443)	(703,795)
Net book amount	280,870	93,326	374,196

26. PROPERTY AND EQUIPMENT (CONTINUED)

The Bank

	Bank premises HK$'000	Furniture, fittings and equipment HK$'000	Total HK$'000
At 1st January 2008			
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 11)	(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
Year ended December 2009			
Opening net book amount	252,539	120,188	372,727
Additions	-	27,902	27,902
Disposals	-	(941)	(941)
Depreciation charge (Note 11)	(8,204)	(43,080)	(51,284)
Exchange rate adjustments	59	26	85
Closing net book amount	244,394	104,095	348,489
At 31st December 2009			
Cost	422,618	671,058	1,093,676
Accumulated depreciation	(178,224)	(566,963)	(745,187)
Net book amount	244,394	104,095	348,489

27. INVESTMENT PROPERTIES

	The Group		The Bank	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
Net book amount at 1st January	56,465	-	63,790	7,523
Additions	-	62,739	-	62,739
Depreciation charge (Note 11)	(25,095)	(6,274)	(25,293)	(6,472)
Net book amount at 31st December	31,370	56,465	38,497	63,790
At 31st December				
Cost	62,739	62,739	70,658	70,658
Accumulated depreciation	(31,369)	(6,274)	(32,161)	(6,868)
Net book amount	31,370	56,465	38,497	63,790

As at 31st December 2009, the Group's investment property and the Bank's investment properties were valued at HK$31,370,000 (2008: HK$62,739,000), and HK$41,490,000 (2008: HK$74,399,000) respectively by the directors with reference to reports of independent and 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.

28. 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

	2009 HK$'000	2008 HK$'000
In Hong Kong held on:		
Leases of over 50 years	1,476,876	1,478,997
Leases of between 10 to 50 years	165,435	169,782
	1,642,311	1,648,779
Opening	1,648,779	273,841
Additions	-	1,381,406
Amortisation of prepaid operating lease payment (Note 11)	(6,468)	(6,468)
	1,642,311	1,648,779

Interests in freehold land outside Hong Kong are included as bank premises in Note 26 amounted to HK$37,342,000 as at 31st December 2009 (2008: HK$35,466,000) for the Group, and HK$18,999,000 (2008: HK$18,988,000) for the Bank.

29. OTHER ASSETS

	The Group		The Bank	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
Repossessed assets	22,365	47,226	22,365	47,226
Accounts receivable and prepayments *	1,467,087	1,785,927	1,016,918	1,552,742
Others	43,549	84,803	35,833	61,259
	1,533,001	1,917,956	1,075,116	1,661,227

* As stated in Note 14, 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 2009, a tax receivable amounted to HK$45,266,000 (2008: HK$272,202,000) for the Group, and HK$43,921,000 (2008: HK$272,190,000) for the Bank.

30. DEPOSITS FROM CUSTOMERS

The Group and the Bank

	2009			
	Corporate Customers HK$'000	SME Customers HK$'000	Individual Customers HK$'000	Total HK$'000
Demand deposits and current accounts	3,594,132	1,317,976	2,540,107	7,452,215
Savings deposits	9,391,108	1,978,784	18,098,757	29,468,649
Time, call and notice deposits	21,355,966	1,171,232	31,652,893	54,180,091
Deposits from Hong Kong Government Exchange Fund	387,953	-	-	387,953
	34,729,159	4,467,992	52,291,757	91,488,908

The Group and the Bank

	2008			
	Corporate Customers HK$'000	SME Customers HK$'000	Individual Customers HK$'000	Total HK$'000
Demand deposits and current accounts	2,540,349	908,028	1,560,084	5,008,461
Savings deposits	7,087,281	1,377,806	12,868,930	21,334,017
Time, call and notice deposits	24,661,591	1,210,811	36,928,610	62,801,012
Deposits from Hong Kong Government Exchange Fund	388,383	-	-	388,383
	34,677,604	3,496,645	51,357,624	89,531,873

31. OTHER LIABILITIES

	The Group		The Bank	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
Margin deposits	299,064	148,376	299,064	148,376
Accounts payable and accruals	943,870	851,531	502,881	610,369
Others	309,993	416,108	281,515	405,725
	1,552,927	1,416,015	1,083,460	1,164,470

32. PROVISIONS

	The Group		The Bank	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
At 1st January	83,593	128,060	83,005	127,358
Additional provisions charged to income statement	167,416	157,105	165,945	154,235
Utilized during the year	(156,509)	(201,572)	(155,026)	(198,588)
At 31st December	94,500	83,593	93,924	83,005
Current	94,355	83,466	93,924	83,005
Non-current	145	127	-	-

Majority of the 2009 and 2008 balances represents provision for staff gratuity.

33. 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 gains HK$'000	Others HK$'000	Total HK$'000
At 1st January 2008	-	(92)	-	-	(92)
Credited to the income statement	-	13	-	-	13
At 31st December 2008	-	(79)	-	-	(79)
Credited/ (charged) to the income statement	-	18	(3)	-	15
Charged to equity	-	-	(89)	-	(89)
Acquisition of a subsidiary	-	-	(294)	-	(294)
Reclassification from deferred income tax assets	36,011	(3,605)	(112,244)	(2,423)	(82,261)
At 31st December 2009	36,011	(3,666)	(112,630)	(2,423)	(82,708)

Deferred income tax liabilities

	The Bank				
	Impairment allowances HK$'000	Accelerated tax depreciation HK$'000	Fair value gains HK$'000	Others HK$'000	Total HK$'000
At 1st January 2008 and 31st December 2008	-	-	-	-	-
Reclassification from deferred income tax assets	36,011	(3,605)	(112,244)	(2,423)	(82,261)
At 31st December 2009	36,011	(3,605)	(112,244)	(2,423)	(82,261)

33. 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 2008	40,493	(6,167)	31,602	4,249	70,177
Credited/ (charged) to the income statement	35,640	(1,938)	-	(3,981)	29,721
Credited to equity (Note 35)	-	-	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
(Charged)/ credited to the income statement	(7,990)	3,282	-	9,027	4,319
Credited/ (charged) to equity (Note 35)	115	-	(203,900)	-	(203,785)
Reclassification to current income tax liabilities	-	-	-	900	900
Exchange differences	135	8	-	4	147
Reclassification to deferred income tax liabilities	(36,011)	3,605	112,244	2,423	82,261
At 31st December 2009	31,735	(1,224)	-	13,468	43,979

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

The Group and the Bank

	2009 HK$'000	2008 HK$'000
Available-for-sale investment revaluation (deficit)/ reserve		
- Reserves in shareholders' equity (Note 35)	(203,909)	60,054
- Reserves in non-controlling interests	(80)	-
	(203,989)	60,054

34. SHARE CAPITAL

The Group and the Bank

	2009 HK$'000	2008 HK$'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

35. 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 2008	262,370	63,908	7,266,562	7,592,840
Change in fair value of available-for-sale investments (Note 23)	-	(75,464)	-	(75,464)
Realised on disposal of available-for-sale investments (Note 23)	-	(115,708)	-	(115,708)
Effect of deferred taxation (Note 33)	-	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
Balance at 1st January 2009	362,370	(72,763)	7,267,352	7,556,959
Change in fair value of available-for-sale investments (Note 23)	-	1,033,025	-	1,033,025
Realised on disposal of available-for-sale investments (Note 23)	-	(186,967)	-	(186,967)
Effect of deferred taxation (Note 33)	-	(203,909)	-	(203,909)
Currency translation differences	-	-	17,676	17,676
Transfer from retained earnings	-	-	26,659	26,659
Share of investment revaluation reserve of jointly controlled entities	-	4,548	-	4,548
Balance at 31st December 2009	362,370	573,934	7,311,687	8,247,991

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 2008	262,370	59,518	7,266,587	7,588,475
Change in fair value of available-for-sale investments (Note 23)	-	(82,197)	-	(82,197)
Realised on disposal of available-for-sale investments (Note 23)	-	(115,708)	-	(115,708)
Effect of deferred taxation (Note 33)	-	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
Balance at 1st January 2009	362,370	(78,333)	7,267,284	7,551,321
Change in fair value of available-for-sale investments (Note 23)	-	1,037,232	-	1,037,232
Realised on disposal of available-for-sale investments (Note 23)	-	(186,967)	-	(186,967)
Effect of deferred taxation (Note 33)	-	(203,900)	-	(203,900)
Currency translation differences	-	-	17,659	17,659
Transfer from retained earnings	-	-	26,659	26,659
Balance at 31st December 2009	362,370	568,032	7,311,602	8,242,004

35. 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 2.10 and Note 2.11)

(c) General reserve

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

36. CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, 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.

	2009 HK$'000	2008 HK$'000
Cash and balances with banks	21,288,681	20,382,906
Placements with and loans and advances to banks	2,099,271	13,608,579
Available-for-sale investment	-	5,006
	23,387,952	33,996,491

37. 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	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
Property and equipment				
Contracted but not provided for	42,946	4,560	44,435	6,668
Authorised but not contracted for	2,140	3,457	2,869	5,859
	45,086	8,017	47,304	12,527

(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	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
No later than 1 year	47,509	42,186	49,376	43,863
Later than 1 year and no later than 5 years	58,216	75,775	61,328	80,248
Later than 5 years	2,233	3,720	2,233	3,720
	107,958	121,681	112,937	127,831

37. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

(b) Operating lease commitments (Continued)

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	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
No later than 1 year	16,999	24,891	16,999	24,891
Later than 1 year and no later than 5 years	2,109	10,316	2,109	10,316
Later than 5 years	-	-	-	-
	19,108	35,207	19,108	35,207

(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		
	2009 HK$'000	2008 HK$'000
Direct credit substitutes	1,912,441	2,438,594
Trade-related contingencies	2,800,367	2,297,650
Other commitments with an original maturity of:		
- under 1 year	906,513	1,045,142
- 1 year and over	3,038,037	2,494,919
- unconditionally cancellable	35,269,842	35,990,744
	43,927,200	44,267,049

The credit risk weighted amount of credit commitments is HK$3,935,819,000 (2008: HK$4,221,601,000).

(d) Other contingent liabilities

The Group is involved in legal actions which are in relation to its normal business operations. No material provision was made for those actions against the Group because the management believes that the Group has defences against the claimants or the amounts involved in those actions are not expected to be material.

38. 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	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
Aggregate amount outstanding in respect of principal and interest	576,267	705,346	714,224	705,346

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 the ultimate holding company:

The Group and the Bank

	2009 HK$'000	2008 HK$'000
Cash and balances with banks	144,860	100,045
Loans and advances to customers - trade bills	38,247	55
Available-for-sale investments	78,211	55,939
	261,318	156,039
Collectively assessed impairment allowances	153	-
Deposits and balances from banks at 1st January	574,992	387,645
Deposits and balances from banks received during the year	3,821	197,327
Deposits and balances from banks repaid during the year	(124,256)	(9,980)
Deposits and balances from banks at 31st December	454,557	574,992
Interest income on deposits placed at and loans to the ultimate holding company	2,745	1,961
Interest expense on deposits from the ultimate holding company	3,816	10,133
Contingent liabilities and other commitments	121,177	147,427

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

The Group and the Bank

	2009 HK$'000	2008 HK$'000
Deposits from customers at 1st January	605,932	596,071
Deposits from customers received during the year	3,375	16,598
Deposits from customers repaid during the year	(304,431)	(6,737)
Deposits from customers at 31st December	304,876	605,932
Interest expense on deposits from the subsidiary companies of the ultimate holding company	2,439	7,951

39. RELATED PARTY TRANSACTIONS (CONTINUED)

Included in the following balance sheet captions are balances with other shareholders:

The Group and the Bank	2009 HK$'000	2008 HK$'000
Loans and advances to customers at 1st January	1,478	3,861
Loans and advances to customers granted during the year	-	-
Loans and advances to customers repaid during the year	(52)	(2,383)
Loans and advances to customers at 31st December	1,426	1,478
Collectively assessed impairment allowances	6	6
Deposits from customers at 1st January	26,481	37,269
Deposits from customers received during the year	110,410	54
Deposits from customers repaid during the year	(4,997)	(10,842)
Deposits from customers at 31st December	131,894	26,481
Interest income on loans and advances to other shareholders	7,566	9,614
Interest expenses on deposits from other shareholders	647	4,505

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

The Group and the Bank	2009 HK$'000	2008 HK$'000
Deposits from customers at 1st January	955,258	156,582
Deposits from customers received during the year	83,190	831,630
Deposits from customers repaid during the year	(786,987)	(32,954)
Deposits from customers at 31st December	251,461	955,258
Interest expenses on deposits from the jointly controlled entities	5,074	15,856
Contingent liabilities and other commitments	2,000	2,000

Amounts due from/ (to) subsidiary companies are included in Note 25(b) and amounts due from jointly controlled entities are included in Note 25(a).

39. RELATED PARTY TRANSACTIONS (CONTINUED)

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

The Group and the Bank

	2009 HK$'000	2008 HK$'000
Loans and advances to customers at 1st January	167,140	169,085
Loans and advances to customers granted during the year	148,802	17,088
Loans and advances to customers repaid during the year	(22,411)	(19,033)
Loans and advances to customers at 31st December	293,531	167,140
Collectively assessed impairment allowances	1,174	669
Deposits from customers at 1st January	184,029	167,789
Deposits from customers received during the year	58,414	74,039
Deposits from customers repaid during the year	(96,032)	(57,799)
Deposits from customers at 31st December	146,411	184,029
Interest income on loans and advances to the Directors and their relatives	5,938	5,777
Interest expenses on deposits from the Directors and their relatives	1,300	5,510
Contingent liabilities and other commitments	79,717	68,939

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

The Group and the Bank

	2009 HK$'000	2008 HK$'000
Loans and advances to customers at 1st January	640,071	482,437
Loans and advances to customers granted during the year	101,853	368,741
Loans and advances to customers repaid during the year	(332,581)	(211,107)
Loans and advances to customers at 31st December	409,343	640,071
Collectively assessed impairment allowances	1,637	2,560
Deposits from customers at 1st January	381,786	447,787
Deposits from customers received during the year	546,736	97,888
Deposits from customers repaid during the year	(187,490)	(163,889)
Deposits from customers at 31st December	741,032	381,786
Interest income on loans and advances to the companies controlled by the Directors and their relatives	16,682	21,533
Interest expenses on deposits from the companies controlled by the Directors and their relatives	2,791	12,122
Contingent liabilities and other commitments	721,752	477,898

39. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	2009 HK$'000	2008 HK$'000
Loans and advances to customers at 1st January	24,673	28,688
Loans and advances to customers granted during the year	1,935	286
Loans and advances to customers repaid during the year	(11,688)	(4,301)
Loans and advances to customers at 31st December	14,920	24,673
Collectively assessed impairment allowances	60	99
Deposits from customers at 1st January	12,344	9,361
Deposits from customers received during the year	11,557	5,594
Deposits from customers repaid during the year	(9,905)	(2,611)
Deposits from customers at 31st December	13,996	12,344
Interest income on loans and advances to the key management personnel of the Bank and the ultimate holding company and their relatives	717	1,115
Interest expenses on deposits from the key management personnel of the Bank and the ultimate holding company and their relatives	98	236
Contingent liabilities and other commitments	4,578	3,389

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

	2009 HK$'000	2008 HK$'000
Deposits from customers at 1st January	14,604	16,447
Deposits from customers received during the year	341	769
Deposits from customers repaid during the year	(3,104)	(2,612)
Deposits from customers at 31st December	11,841	14,604
Interest expenses on deposits from the companies controlled by the key management personnel of the Bank and the ultimate holding company and their relatives	149	609
The compensation of Directors and key management personnel of the Bank: Salaries and other short-term employee benefits	40,551	32,119

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.

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. Richard Lee and Mr. Johnson Mou Daid Cha.

(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

	2009	2008
Liquidity ratio	55%	47%

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 31st December computed in accordance with the Banking (Capital) Rules. For accounting purposes, the basis of consolidation is described in Note 2.2 to the financial statements.

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

(a) Capital charge for credit risk

Capital requirement

	2009 HK$'000	2008 HK$'000
Sovereign exposures	444	823
Public Sector Entity exposures	20,856	25,323
Bank exposures	1,385,985	977,271
Securities Firm exposures	1	25
Corporate exposures	1,897,555	2,152,273
Cash items	5,182	6,729
Regulatory Retail exposures	231,889	242,504
Residential Mortgage Loans	582,706	602,170
Other exposures which are not past due exposures	574,800	731,054
Past due exposures	42,420	33,115
Total capital charge for on-balance sheet exposures	4,741,838	4,771,287
Direct credit substitutes	150,234	191,901
Trade-related contingencies	44,104	35,985
Other commitments	120,527	109,842
Exchange rate contracts	1,208	2,682
Interest rate contracts	60	60
Equity contracts	-	408
Total capital charge for off-balance sheet exposures	316,133	340,878
Total capital charge for credit risk	5,057,971	5,112,165

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".

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

(b) Capital charge for market risk

Capital charge

	2009 HK$'000	2008 HK$'000
Interest rate exposures (including options)	42,748	41,086
Equity exposures (including options)	15,356	10,858
Foreign exchange exposures (including gold and options)	11,920	9,600
Capital charge for market risk	70,024	61,544

The Bank uses the Standardized Approach for calculating market risk.

(c) Capital charge for operational risk

	2009 HK$'000	2008 HK$'000
Capital charge for operational risk	452,921	460,028

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

	2009		2008	
	Gross advances HK$'000	Amount covered by collateral / other security HK$'000	Gross advances HK$'000	Amount covered by collateral / other security HK$'000
Loans for use in Hong Kong				
Industrial, commercial and financial				
- Property development	1,566,075	558,066	2,127,198	292,724
- Property investment	10,743,049	9,922,766	10,920,365	10,245,782
- Financial concerns	85,951	85,353	307,799	306,881
- Stockbrokers	29	29	1,630	627
- Wholesale and retail trade	838,079	601,753	726,631	666,643
- Manufacturing	1,126,480	798,880	1,439,366	1,059,157
- Transport and transport equipment	783,467	268,422	875,305	336,426
- Information technology - telecommunication	2,294	873	1,638	1,103
- Hotels, boarding houses and catering	676,919	650,340	981,260	965,846
- Others	2,244,402	1,028,567	3,731,258	1,806,585
Individuals				
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	371,051	367,191	432,666	426,678
- Loans for the purchase of other residential properties	4,631,092	4,631,092	4,814,950	4,814,950
- Credit card advances	279,061	386	302,347	-
- Others	4,307,761	4,195,747	5,775,881	5,599,491
Trade finance	4,353,347	3,035,182	5,657,114	3,858,115
Loans for use outside Hong Kong*	10,711,330	10,108,833	11,061,085	10,172,671
	42,720,387	36,253,480	49,156,493	40,553,679

* Included in "Loans for use outside Hong Kong" were advances to individuals of HK$1,934,830,000 (2008: HK$1,920,034,000).

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

	2009			
	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	72,293	292,303	2,372	42,683
Individuals				
- Loans for the purchase of other residential properties	46,785	128,777	1,464	18,337
	119,078	421,080	3,836	61,020

	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

The Group

	2009	
	New provisions HK$'000	Recoveries of advances written off in previous years HK$'000
Industrial, commercial and financial		
- Property investment	2,372	937
Individuals		
- Loans for the purchase of other residential properties	509	557
	2,881	1,494

	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

There were no loans written off as uncollectible in 2009 and 2008.

4. Loans and advances to customers (Continued)

(c) Overdue and impaired loans by geographical areas

The Group

	2009		
	Individually assessed to be impaired HK$'000	Individual impairment allowance HK$'000	Collective impairment allowance HK$'000
Hong Kong	602,733	95,049	-
North America	579,101	42,680	-
	1,181,834	137,729	-

	2009		
	Overdue HK$'000	Individual impairment allowance HK$'000	Collective impairment allowance HK$'000
Hong Kong	1,150,637	61,029	3,329
North America	726,804	28,499	1,982
Western Europe	33,596	-	134
	1,911,037	89,528	5,445

	2008		
	Individually assessed to be impaired HK$'000	Individual impairment allowance HK$'000	Collective impairment allowance HK$'000
Hong Kong	799,042	199,630	-
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

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

	2009			
	Banks and other financial institutions HK$'000	Public sector entities HK$'000	Others HK$'000	Total HK$'000
Asia Pacific excluding Hong Kong	29,699,000	77,000	681,000	30,457,000
North America	5,784,000	566,000	1,006,000	7,356,000
Western Europe	13,482,000	77,000	167,000	13,726,000

	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

(b) Non-bank mainland exposures

The Group

	2009			
	On-balance sheet exposure HK$ million	Off-balance sheet exposure HK$ million	Total HK$ million	Impairment allowances HK$ million
Types of counterparties				
Mainland entities	1,157	3	1,160	4
Companies and individuals outside Mainland where the credit is granted for use in Mainland	2,990	1,296	4,286	22
Other counterparties the exposures to whom are considered by the Group to be non-bank Mainland exposures	168	194	362	-
	4,315	1,493	5,808	26

	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

6. Currency concentrations

The Group

Equivalent in Hong Kong dollars	Spot assets HK$'000	Spot liabilities HK$'000	Forward purchases HK$'000	Forward sales HK$'000	Net long/ (short) position HK$'000	Net structural position HK$'000
	2009					
US Dollars	44,230,000	(41,583,000)	1,398,000	(639,000)	3,406,000	2,015,000
Pound Sterling	1,740,000	(1,720,000)	27,000	(30,000)	17,000	2,000
Canadian Dollars	1,594,000	(1,592,000)	29,000	(18,000)	13,000	-
Euro	2,094,000	(2,148,000)	291,000	(258,000)	(21,000)	-
Other currencies and gold	9,351,000	(9,323,000)	330,000	(301,000)	57,000	53,000
	59,009,000	(56,366,000)	2,075,000	(1,246,000)	3,472,000	2,070,000
	2008					
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

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, Fitch Ratings and Rating and Investment, Inc. are the ECAIs that the institution has used in relation to each and all classes of credit risk exposures below. The process it used to map ECAI issuer ratings to exposures booked in its banking book is a process as prescribed in Part 4 of the Banking (Capital) Rules.

The Group 2009

	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	5,686,637	5,686,637	-	5,554	-	5,554	-	-
2 Public Sector Entity	1,303,516	1,303,516	-	260,703	-	260,703	-	-
3 Multilateral Development Bank	251,696	251,696	-	-	-	-	-	-
4 Bank	53,523,942	50,766,756	2,757,186	16,110,325	1,214,487	17,324,812	-	-
5 Securities Firm	29	29	-	15	-	15	-	-
6 Corporate	25,755,217	4,013,277	21,741,940	1,977,494	21,741,940	23,719,434	16,267,038	1,000,440
7 Cash Items	241,595	-	1,069,619	-	64,771	64,771	-	-
8 Regulatory Retail	3,864,817	-	3,864,817	-	2,898,613	2,898,613	3,461,142	-
9 Residential Mortgage Loan	11,109,860	-	11,109,860	-	7,283,820	7,283,820	9,337,053	-
10 Other exposures which are not Past Due Exposures	7,184,994	-	7,184,994	-	7,184,994	7,184,994	3,476,594	-
11 Past Due Exposures	493,682	-	493,682	-	530,253	530,253	404,918	-
B. Off-balance Sheet								
1 Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	4,172,836	320,044	3,852,792	151,821	3,783,998	3,935,819	-	292,708
2 OTC derivative transactions	47,519	40,044	7,475	8,591	7,256	15,847	-	-

7. Risk management (Continued)

(a) Credit risk (Continued)

(i) Credit risk exposures (Continued)

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	-	-

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	2009 OTC derivative transactions HK$'000	2008 OTC derivative transactions HK$'000
OTC derivative:		
Gross total positive fair value	12,448	37,252
Credit equivalent amount	47,519	111,304
Risk weighted amounts	15,847	39,366

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

The Group	2009 OTC derivative transactions HK$'000	2008 OTC derivative transactions HK$'000
Notional amounts:		
- Banks	1,796,826	7,006,106
- Corporates	259,799	323,404
- Others	82,715	193,863
	2,139,340	7,523,373
Credit equivalent amounts / net credit exposures:		
- Banks	40,044	92,004
- Corporates	5,242	11,878
- Others	2,233	7,422
	47,519	111,304
Risk-weighted amounts:		
- Banks	8,591	20,469
- Corporates	5,081	11,754
- Others	2,175	7,143
	15,847	39,366

(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, Fitch Ratings and Rating and Investment, Inc. are the ECAIs that the institution has used in relation to the each and all classes of securitization exposures below.

7. Risk management (Continued)

(b) Asset securitization (Continued)

The Group 2009

	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
Securitization exposures					
Traditional securitizations					
- Properties	88,867	17,773	-	-	-

The Group 2008

	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
Securitization exposures					
Traditional securitizations					
- Properties	88,617	17,723	-	-	-

(c) Equity exposures in banking book

The Group

	2009 HK$'000	2008 HK$'000
Realised gains from sales	12,764	42,121
Unrealised revaluation gains:		
- Amount included in reserves but not through income statement	931,361	338,522
- Amount added to core/ supplementary capital	419,357	338,522

(d) Interest rate exposures in banking book

The Group 2009

	Currency			
Equivalent in Hong Kong dollars	Hong Kong Dollars HK$'000	US Dollars HK$'000	Other currencies HK$'000	Total HK$'000
Interest rate risk shock (200 basis points upward)				
Increase/ (decline) in earnings	87,646	(41,689)	(29,524)	16,433

The Group 2008

	Currency			
Equivalent in Hong Kong dollars	Hong Kong Dollars HK$'000	US Dollars HK$'000	Other currencies HK$'000	Total HK$'000
Interest rate risk shock (200 basis points upward)				
Increase/ (decline) in earnings	209,518	(1,565)	(11,591)	196,362

For 2009 and 2008, 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

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SWIFT: SCBK HK HH
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Hong Kong Island Branches

Aberdeen Branch	118 Aberdeen Main Road, Aberdeen
Causeway Bay Branch	18 Pennington Street, Causeway Bay
Hennessy Road Branch	Shop LG16, C. C. Wu Building, 302 Hennessy Road, Wanchai
North Point Branch	486 King's Road, North Point
President Theatre Branch	Shop A, G/F., 517 Jaffe Road, Causeway Bay
Shaukiwan Branch	136 Shaukiwan Main Street East, Shaukiwan
Sheung Wan Branch	19-25 Jervois Street, Sheung Wan
Siu Sai Wan Branch	Shop 9, G/F, Harmony Garden, 9 Siu Sai Wan Road, Chai Wan
Taikoo Shing Branch	G502 Tai Yue Avenue., Taikoo Shing, Quarry Bay
Victoria Centre Branch	G7 Victoria Centre, 15 Watson Road, Causeway Bay
Wanchai Branch	19-21 Hennessy Road, Wanchai
West Point Branch	47 Catchick Street, West Point

Kowloon Branches

Jordan Road Branch	Shop 2, G/F., Sino Cheer Plaza, 23 Jordan Road, Jordan
Kowloon Bay Branch	Telford House, 16 Wang Hoi Road, Kowloon Bay
Kowloon Tong Branch	G28 Franki Centre, 320 Junction Road, Kowloon Tong
Kwun Tong Branch	57-61 Hong Ning Road, Kwun Tong
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, Laichikok
Mei Foo Sun Chuen (Stage 4) Branch	83B Broadway, Mei Foo Sun Chuen, Laichikok
Mongkok Branch	666 Nathan Road, Mongkok
Ping Shek Estate Branch	115 Tsuen Shek House, Ping Shek Estate, Ngau Chi Wan
Sanpokong Branch	28 Hong Keung Street, Sanpokong
Sham Shui Po Branch	141 Cheung Sha Wan Road, Sham Shui Po
Tokwawan Branch	60 Tokwawan Road, Tokwawan
Tsimshatsui Branch	7 Hankow Road, Tsimshatsui
Tsimshatsui East Branch	G27 Houston Centre, 63 Mody Road, Tsimshatsui East
Waterloo Road Branch	84K Waterloo Road, Homantin
Whampoa Garden Branch	Shop 9, Palm Mansions, Whampoa Garden, Site 4, Hunghom
Wong Tai Sin Branch	Shop LG4, Lung Cheung Plaza, 136 Lung Cheung Road, Wong Tai Sin

New Territories and Outlying Island Branches

Kingswood Villa Branch	Shop G08, G/F., Phase 2, Kingswood Ginza, 18 Tin Yan Road, Tin Shui Wai
Kwai Chung Branch	Shop 3, Hutchison Estate, 482 Castle Peak Road, Kwai Chung
Ma On Shan Branch	Shop 308, Level 3, Ma On Shan Plaza, 608 Sai Sha Road, Ma On Shan
Shatin Branch	Shop 70B, Level 3, Shatin Centre, Wang Pok Street, Shatin
Sheung Shui Branch	82 San Fung Avenue, Sheung Shui
Tai Po Branch	Shop 54, Level 1, Uptown Plaza, 9 Nam Wan Road, Tai Po
Texaco Road Branch	Shops B128-131, East Asia Commercial Centre, 36-60 Texaco Road, Tsuen Wan
Tseung Kwan O Branch	Shops G1-2, G/F., Metro City Plaza III, The Metropolis, 8 Mau Yip Road, Tseung Kwan O
Tsuen Wan Branch	405 Castle Peak Road, Tsuen Wan
Tuen Mun Branch	Shop 2183, 2/F., Tuen Mun Town Plaza Phase 1, 1 Tuen Shing Street, Tuen Mun
Tung Chung Branch	Shops 1-2, Block 5, Tung Chung Crescent, Tung Chung, Lantau
TVB Office	2/F., Workshop Block, TVB City, 77 Chun Choi Street, Tseung Kwan O Industrial Estate
Yuen Long Branch	17 Hong Lok Road, Yuen Long

Overseas Branches

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